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Belize Public Expenditure and Financial Accountability (PEFA) Assessment

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Belize Public Expenditure and Financial Accountability (PEFA) Assessment

by

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Submitted by

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ACRONYMS AND ABBREVIATIONS

BZ$	Belize dollar, 1 BZ$= US$ 0.5
CARTAC	Caribbean Technical Assistance Center managed by the IMF
CDB	Caribbean Development Bank
COFOG	Classification of Functions of Government
COPE	Control of Public Expenditures Handbook
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
EC	European Commission
FY	Fiscal year
GDDS	General Data Dissemination System established by the IMF
GDP	Gross domestic product
GFS	Government Finance Statistics
GFSM 1986	The IMF Government Finance Statistic Manual published in 1986
GST	General Sales Tax
IADB	Inter-American Development Bank
IMF	International Monetary Fund
KHM	Karl Heusner Memorial (Hospital)
MDAs	Ministries, departments and agencies
MED	Ministry of Economic Development
MLG	Ministry of Labor, Local Governments and Rural Development
MoF	Ministry of Finance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PFM-PR	Public Financial Management Performance Report
PSIP	Public Sector Development Program

Summary Assessment

This Public Expenditure and Financial Accountability (PEFA) assessment has been undertaken as a joint exercise together with the Government of Belize. The process has been fully participatory and interactive. The scores for the PEFA PFM performance indicators were agreed by the joint team. This assessment is particularly timely since a new government assumed office in February 2008 and donors are in contact with the government to develop new initiatives to support structural PFM reforms.

The team that carried out this PEFA assessment wishes to especially thank Mr. Joseph Waight (MoF Financial Secretary) and Mr. Artemio Osorio (MoF Budget Director) for their coordinating and leading role as well as for providing extensive assistance and information throughout the evaluation. The team also wishes to extend their gratitude to all the other officials who participated in the assessment for fully engaging during meetings and for providing any information requested promptly. Additionally, the team extends their appreciation to the PEFA Secretariat in Washington D.C. for providing timely feedback and to the Inter-American Development Bank for their assistance during the preparation phase of the mission.

The purpose of this evaluation has been to assess the current status of the Belize Public Financial Management (PFM) system in order to set a baseline that can assist the government in designing PFM reform plans and set a common platform for dialogue between the government and donors, and among donors. This PEFA assessment was sponsored by the European Commission as part of the analysis being undertaken to determine the potential eligibility of Belize to European Commission budget support, which requires an assessment of Belize's public financial management.

I. INTEGRATED ASSESSMENT OF PFM PERFORMANCE

The assessment is based on the PEFA PFM Performance Measurement Framework which is an integrated monitoring framework that allows measurement of a country PFM performance over time. The framework identifies six critical dimensions of performance of an open and orderly PFM system. These core dimensions have been determined on the basis of what is both desirable and feasible to measure, and define the nature and quality of the key elements of a PFM system. Against the six core dimensions of PFM performance, a set of high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of a country central government, legislature, and external audit.

Table 1 presents the scores for the high-level performance indicators and their sub-components. Measured against the six core PFM dimensions or objectives examined by the assessment, it is clear that the system is not working reasonably well in Belize. Taking a C as the average level, 24 out of all 31 indicators were ranked below this level (i.e. C, D or D+). Thus, overall, the PFM system is performing below an average standard and in some areas performance is well below the standard. A summary assessment of the extent to which PFM systems, processes, and institutions measured by the high-level indicators meet the six core dimensions of PFM performance follows.

A. PFM OUTTURNS

1. Credibility of the Budget

Aggregate expenditure and revenue outturns have broadly matched budget plans over the past three years. However, the credibility of the budget is adversely affected by significant individual variances across ministries. These variances indicate that the budget is not realistic and implemented as intended. They reflect weaknesses in budget formulation, execution, and monitoring. This is corroborated by the low scores of the performance indicators measuring the operational performance of the budget process (i.e., indicators under the heading of "C. The Budget Process" in Table 1).

The narrow fiscal space in Belize and the high non-discretionary component of the budget explain by and large the small deviation between budgeted and actual primary expenditure. Wages and pensions represent 50 percent of primary expenditure. Thus, it is the rigidity of the budget to a large degree what explains the good score of the aggregate expenditure indicator. The rigidity of the budget has also contributed to a decoupling between budget planning and budget execution, and between cash planning and budget execution.

The low score related to the stock and monitoring of expenditure payment arrears results from the lack of reliable and complete information on the stock of arrears. There has been no comprehensive exercise to determine the value for arrears in the last two years. An ad hoc exercise was conducted in 2008 in response to the request of arrears data by the PEFA mission, but the exercise was not comprehensive. Only expenditure arrears related to the purchase of land by the Ministry of Natural Resources and the Environment were identified. They constitute arrears to private individuals and organizations for purchases of land for infrastructure work not yet cleared. While expenditure arrears are not monitored, the MoF believes that additional arrears do not exist. However, this is unclear since data on commitments are not available and capital expenditure domestically financed exceeded budgeted amount by 50 percent in FY 2006/07 and 45 percent in FY 2007/08.

Finally, the conservative planning of revenues has not helped prevent the build-up of arrears. While aggregate revenue outturn has surpassed budgeted amounts due to conservative revenue targets, tax arrears have been increasing at a time when access to external financing is closed. The high level of tax arrears and low collection ratio point to underlying problems with tax administration issues. All this undermines budget credibility.

B. KEY CROSS-CUTTING ISSUES

2. Comprehensiveness and Transparency

The comprehensiveness of the budget has several deficiencies and, thus, some activities and operations of the central government take place outside of the fiscal policy framework and are not subject to adequate budget management and reporting arrangements. The planning, execution and reporting of the central government's budget exclude the social security fund, many autonomous government agencies, special funds and a large extent of unreported budget transactions, which have proliferated in recent years. Broadly speaking, budget formulation and execution is based on an economic and administrative classification that can produce consistent information consistent with GFSM 1986 standards.

The budget document is only made available on the internet a year later. In general, public access to information is deficient and seriously undermines fiscal transparency. The budget documentation available to the National Assembly at the time of examining the budget proposal is quite detailed, but lacks some relevant data and a medium-term perspective to decision making. Information on financing is not presented in detail in budget documentation and is not monitored by the MoF. Information relative to external loans and grants is not properly recorded, maintained, and monitored. Economic and financial information on externally-funded projects are not readily available for purposes of fiscal analysis and planning. It takes a long time to obtain financial reports that provide the relevant information. Consolidation of central government accounts is not done on a regular basis.

The central government does not monitor the aggregate fiscal risk associated with the non-financial public sector. Also, although the local governments know in advance the value of funds that the central government will transfer to them, there are a number of transfers that diminish the transparency of intergovernmental relations. There is no rules-based system for any horizontal allocation of transfers from central government to local governments in Belize.

C. THE BUDGET CYCLE

3. Policy based budgeting

The annual budget cycle has been established by tradition and is adhered to, but no explicit timetable or deadlines are set in any legislation or in the budget circular. The budget circular does not include spending ceilings to guide the budget preparation of ministries, departments, and agencies (MDAs). Also the budget preparation for recurrent and capital expenditures is not unified and centralized under the MoF. The Ministry of Economic Development is in charge of the capital expenditure budget.

The budget is not prepared with due regard to government policy. There is no policy-based budgeting process that enables the government to plan the use of resources in line with a fiscal policy and national strategy. Also, the lack of a medium-term perspective undermines allocative decisions.

Likewise, sector strategies have not been prepared and the government has never done a costing of capital and recurrent expenditures. Thus, investments are not selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations.

4. Predictability and control in budget execution

All tax revenue is paid in directly into accounts controlled by the Treasury or transfers to the Treasury are made without delay. Also, revenue collection has been robust and close enough to the budgeted amount, but the debt collection ratio for total arrears was only 5 percent in FY 2007/08, well below 60%. The total amount of tax arrears is significant and equivalent to 17 percent of total tax collection.

A number of factors undermine budget allocation discipline. Data on commitments are not recorded and, thus, commitment control systems are absent. Monthly cash flow planning and monitoring are not undertaken by the Office of the Accountant General or any unit at the MoF in part because of reliance on overdrafts from the Central Bank of Belize. MDAs are provided with no reliable indication of actual resource availability for expenditure commitment. Cash flows are characterized by fund requests rather than by an explicit expenditure profile element. Significant in-year budget adjustments of MDAs are frequent and not made in a transparent manner. This is facilitated by the lack of internal audit offices in the ministries. Also, internal control rules and procedures aim primarily at processing and recording transactions. This lack of predictability undermines the effectiveness of controls in the budget execution.

Cash balances in central government bank accounts are difficult to identify and consolidate periodically. Calculation and consolidation of budgetary central government cash balances and bank accounts reconciliation take place on a monthly basis, inclusive of check payments cleared. A large portion of unreported funds, mainly donor-funded projects equivalent to 2.5 percent of GDP in FY 2007/2008, is not consolidated in the cash balance sheet.

Payroll and personnel data are linked for permanent staff; personnel records are being updated on a timely basis; and the authority to change personnel records and the payroll is restricted. However, no payroll audits have been undertaken within the last three years.

Procurement is a weak area. Procurement regulations do not include all of the requirements of a sound public procurement system including efficiency, fairness, and transparency. Subjective criteria in the application of selective tendering, a widely applied procurement method, undermine the objective of promoting competition.

5. Accounting, recording and reporting

Bank reconciliation for all Treasury managed bank accounts takes place once a month, at aggregate and detailed levels. Reconciliation and clearance of suspense accounts and advances have not taken place at all. No comprehensive data have been collected on the availability of resources to service delivery units through line ministries.

The Smart Stream system allows for the availability of timely budget execution data, both at an aggregate and MDAs level. However, in-year budget reports are not generated or analyzed on a routine basis, but on request. Budget execution reports include some items that have not been reconciled and, thus, the accuracy and completeness of the monthly information has raised some concern. Information is captured at the payment stage and, thus, is on a cash basis. Commitments are not registered.

A consolidated government statement is prepared only annually. Information on revenue, expenditure, bank account balances, and the stock of other assets and liabilities is generally incomplete with omissions being a major concern. The production and submission of the final accounts and financial statements to the General Auditor has fallen seriously behind schedule. International accounting standards are not been fully applied.

6. External scrutiny and audit

External oversight is currently a weak area. Unresolved problems with past financial statements undermine the Auditor General's function and the capacity of the National Assembly to scrutinize the budget execution of previous fiscal years. The Office of the Auditor General had not published audited financial statements or sent them to the National Assembly since FY 1988/89. In November 2007, the audited statements for FY 2002/03 were published, but excluded a statement for assets/liabilities due to unresolved problems. A backlog of financial statements to be audited is pending. Audits comprise transaction level testing.

Also, the National Assembly does not take an active role in scrutinizing the budget, as the Assembly receives the budget proposal when it has been virtually finalized. The Committee of Supply, which is part of the House of Representatives and is responsible for reviewing the budget proposal, has been inactive for years. The National Assembly usually discusses the budget proposal in 2-3 days.

II. ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

Overall, this assessment indicates that while progress has been made, the existing PFM system in Belize is not adequately supporting the achievement of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery, which characterize an open and orderly PFM system. Weaknesses in the Belize PFM system constrain the achievement of greater budgetary outcomes.

Public financial management concerns the efficiency and effectiveness of the use of public resources. The interdependence of the components of the budget cycle mean that weaknesses in one part can adversely affect other parts and can constrain the achievement of better budgetary outcomes. At the same time, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms.

The current budget process in Belize seriously undermines fiscal discipline, the strategic allocation of resources, and efficient service delivery. The macroeconomic framework in which the budget is set is only partially articulated during the budget speech and there appears to be an absence of an overall strategic plan for the government's policies that will allow prioritization between sectors. Inadequate knowledge of macroeconomic constraints leads to a bottom-up approach where the budget is determined more by spending-agency requests which generally lead to overspending, which undermine fiscal discipline. In additions, the lack of a medium-term perspective undermines the strategic allocation of resources, as the timespan of an annual budget is too short to introduce significant changes in expenditure allocations. The lack of planning also affects the ability to plan adequately the recurrent component of capital spending.

Government priorities are not systematically formulated and translated into policy-based budgeting. This affects the ability of the government to plan the use of resources in line with its fiscal policy, which affect the strategic allocation of resources. It is usually left to the line ministries to formulate the stated government policies in their annual programmes, but the limited participation of line ministries in meaningful budget discussions with the MoF promotes ad-hoc decisions that end up requiring the reallocation of planned resources or the request of supplementary allocations during the fiscal year, all of which affect fiscal discipline and the strategic allocation of resources.

The lack of orderliness in budget execution, such as poor synchronization of cash inflows and outflows due to lack of cash planning, undermine fiscal management and make it difficult to undertake an appropriate in-year adjustment to the budget totals, as information is inadequate and not properly monitored. The lack of predictability in resource flows also undermines the ability of front-line service delivery units to plan and use those resources in a timely and efficient manner. The disorderly execution of the budget also leads to unplanned reallocations that affect any strategic allocation of resources. Also, the non-observance of competitive tendering process practices for the procurement of goods and services are likely to limit the efficiency of existing programs by increasing the costs of procuring the goods or leading to supply of goods of inadequate quality.

The existing deficiencies in the accounting, recording, and reporting systems also undermine aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. Under-targeting of revenues prevent greater resources from being available to direct to public services. The lack of information on the cost of programs and use of resources undermines the ability to allocate resources to government priorities. Also, the lack of regular monitoring of budget execution does not facilitate identification of problems which may lead to significant changes in the executed budget and, thus, affect the strategic allocation of resources. Lack of information on how resources have been provided and used for service delivery undermines the planning and management of services. In addition, inadequate information and records undermines the capacity to undertake effective audit and oversight of the use of funds and could provide the opportunity for leakages, corrupt procurement practices or use of resources in unintended manner.

Severe deficiencies in external scrutiny and audit also affect aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. Lack of scrutiny of fiscal policy and its implementation reduces pressure on government to consider long-term fiscal sustainability issues and to respect targets, which affect aggregate fiscal discipline. Lack of scrutiny also reduces the pressure on government to allocate and execute the budget in line with its stated policies. In addition, lack of scrutiny reduces the extent to which government is held accountable for the efficient and rule-based management of resources. Finally, the non-performance of external audits on the government financial statements means that the accounting and use of funds is not subject to detailed review and verification.

III. PROSPECTS FOR REFORM PLANNING AND IMPLEMENTATION

Some progress has been made in recent years to reform the PFM system by undertaking a number of measures, although important challenges remain. A comprehensive and integrated government reform plan is non-existent at this point. The PEFA analysis in this report should assist with addressing the reform programme as a whole, i.e. across all components. It can also assist in guiding the prioritization and sequencing of such reform measures. The areas where the PFM system shows the greatest room for improvement are those which have scored a D or a D+.

The government intends to continue reforming the PFM system with assistance from the CDB, the IADB, and the IMF CARTAC. The measures introduced in past years include:

- A stronger legislative/regulatory framework, including the revision of the Constitution (2000), the Income and Business Tax Act (2000), the Customs Duty Act (2000), the Customs Regulation Act (2000), the Finance and Audit Act (2005), the GST Act (2006), and the GST Regulations (2006).
- More comprehensive information provided in the budget document.
- Publication of a comprehensive Public Sector Development Program for the first time in 2006.
- A database for project documentation and information is being developed at the Ministry of Economic Development.
- Improvements in tax administration and efforts to modernize the Customs Department.
- Linking the payroll to the computerized personnel data system for permanent staff.
- Clearing the backlog of external audit reports has been initiated with the publication of the report of November 2007, the first one since FY 1988/89.
- Improvements in expenditure control.

Building on these measures, the government is currently working to strengthen further tax administration by introducing risk-based audits with technical assistance from the IMF CARTAC; introducing a computerized system for Customs control and clearance based on ASYCUDA World; strengthening the Office of the Auditor General with IADB technical assistance and training; establishing a Debt Unit at the MoF to enhance the institutional framework for debt management and developing the capacity for debt sustainability analysis; continue developing a database for project information; introducing multi-year programme budgeting with IADB technical assistance; hiring a consultant with CDB financing to receive recommendations on an appropriate institutional framework for conducting macroeconomic management; and hiring a consultant with CDB financing to receive recommendations on updating PFM regulations that date back to mid-1960.

Institutionally, the reform measures are directed by the MoF. As the reforms continue, it will be important for the government to ensure that sufficient analytical capacities exist to lead and manage the reform process.

Table 1. Summary of Performance Indicators

	PFM Performance Indicator	Overall Rating	Scoring Method [1]/	Dimension Ratings[2]/			
				i.	ii.	iii	iv
	A. PFM OUT-TURNS: I. CREDIBILITY OF THE BUDGET						
PI-1	Aggregate expenditure out-turn compared to original approved budget	**B**	M1	B			
PI-2	Composition of expenditure out-turn compared to original approved budget	**A**	M1	A			
PI-3	Aggregate revenue out-turn compared to original approved budget	**A**	M1	A			
PI-4	Stock and monitoring of expenditure payment arrears	**D**	M1	D	D		
PI-5	Classification of the budget	**C**	M1	C			
PI-6	Comprehensiveness of information included in budget documentation	**C**	M1	C			
PI-7	Extent of unreported government operations	**D+**	M1	D	C		
PI-8	Transparency of inter-governmental fiscal relations	**D**	M2	D	D	D	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**D**	M1	D	D		
PI-10	Public access to key fiscal information	**C**	M1	C			
	C. THE BUDGET PROCESS						
	III. POLICY-BASED BUDGETING						
PI-11	Orderliness and participation in the annual budget process	**B**	M2	A	D	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	M2	D	B	D	D
	IV. PREDICTABILITY AND CONTROL						
PI-13	Transparency of taxpayer obligations and liabilities	**C+**	M2	C	A	D	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**C**	M2	C	C	C	
PI-15	Effectiveness in collection of tax payments	**D+**	M1	D	A	D	
PI-16	Predictability in the availability of funds for commitment of expenditures	**D**	M1	D	D	D	
PI-17	Recording and management of cash balances, debt and guarantees	**C+**	M2	B	C	C	
PI-18	Effectiveness of payroll controls	**D+**	M1	A	A	A	D
PI-19	Competition, value for money and controls in procurement	**D**	M2	D	D	D	
PI-20	Effectiveness of internal controls for non-salary expenditure	**D+**	M1	D	C	D	
PI-21	Effectiveness of internal audit	**D**	M1	D	C	D	
	V. ACCOUNTING, RECORDING AND REPORTING						
PI-22	Timeliness and regularity of accounts reconciliation	**C**	M2	B	D		
PI-23	Availability of information on resources received by service delivery units	**D**	M1	D			
PI-24	Quality and timeliness of in-year budget reports	**D+**	M1	C	C	D	
PI-25	Quality and timeliness of annual financial statements	**D+**	M1	D	D	C	
	VI. EXTERNAL SCRUTINY AND AUDIT						
PI-26	Scope, nature and follow-up of external audit	**D**	M1	D	D	D	
PI-27	Legislative scrutiny of the annual budget law	**D+**	M1	C	B	D	
PI-28	Legislative scrutiny of external audit reports	**D**	M1	D	D	D	
	ASSESSMENT OF DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	**C+**	M1	C	A		
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**D**	M1	D	D		
D-3	Proportion of aid that is managed by use of national procedures	**D**	M1	D			

[1] Scoring method 1 (M1) is used for indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance of other dimensions of the same indicator. Scoring method 2 (M2) is used where a low score on one dimension of the indicator does not necessary undermine the impact of a high score on another dimension of the same indicator.

[2] Each indicator includes one or more dimensions. A separate score is given for each dimension. Where there is more than one dimension, the overall score for the indicator is arrived at by combining the dimension ratings according to the prescribed methodology (M1 or M2) for the indicator.

1. INTRODUCTION

1.1. Objective of the Public Financial Management Performance Report (PFM-PR)

The purpose of this evaluation has been to assess the current status of the Belize Public Financial Management (PFM) system in order to set a baseline that can assist the government in designing PFM reform plans and set a common platform for dialogue between the government and donors, and among donors. This Public Expenditure and Financial Accountability (PEFA) assessment was sponsored by the European Commission as part of the analysis being undertaken to determine the potential eligibility of Belize to European Commission budget support, which requires an assessment of Belize's public financial management system. In general, any country needs to comply with the following eligibility conditions to qualify for EC budget support: (i) a well defined national (or sector) policy and strategy is in place or under implementation; (ii) a stability-oriented macroeconomic policy is in place or under implementation; and (iii) a credible and relevant programme to improve PFM is in place or under implementation.

The PEFA Public Financial Management (PFM) Performance Measurement Framework is one of the elements of a Strengthened Approach to supporting PFM reforms. The Strengthened Approach has three components: (i) a country led PFM reform strategy and action plan, (ii) a coordinated international financial institutions-donor integrated, multi-year program of PFM work that supports and is aligned with the government's PFM reform strategy and, (iii) a shared information pool. The PEFA PFM Performance Measurement Framework is a tool for achieving the third objective. Thus, the results of this assessment will also provide a basis for supporting a Strengthened Approach to PFM reform efforts in Belize.

It should be stressed that the PEFA Performance Measurement Framework does not involve fiscal or expenditure policy analysis. The framework rather focuses on assessing the capacity of the PFM systems to deliver on policy and enable policy outcomes, irrespective of its merit. Thus, this report does not articulate specific recommendations for PFM reform or an action plan. It is anticipated, however, that the results and the narrative herein presented shall assist the government to define its PFM reform priorities and subsequent reform activity sequencing and pacing schedule. Also, the objective of the assessment has not been to evaluate and score the performance of specific institutions or government officials, but rather to assess the performance of the PFM systems themselves.

This PEFA assessment is quite timely since a new government took office in February 2008 and has continued the dialogue with international financial institutions that are willing to support rapid progress in fiscal structural reforms in Belize. These institutions include the Caribbean Development Bank (CDB), the Inter-American Development Bank (IADB), and the International Monetary Fund (IMF). The IADB and the World Bank have been waiting for the results of the PEFA assessment to initiate dialogue on new initiatives with the government of Belize. The IADB plans to discuss a country-led agenda taking advantage of the PEFA diagnostic work and a coordinated program of support, including next steps with international cooperation partners.

1.2. Process of preparing the PFM-PR

This Public Expenditure and Financial Accountability (PEFA) assessment has been undertaken as a joint exercise together with the Government of Belize. The Ministry of Economic Development (MED) and in particular the EU National Authorizing Office took care of all the logistical arrangements, including those related to two training workshops presented on the first day of mission and one on the final report presented at the end of the evaluation process.

The MoF was involved in the assessment process since the beginning when the team started the desk phase. Mr. Joseph Waight (Financial Secretary) and Mr. Artemio Osorio (Director of the Budget Department) provided a leading role and assumed the responsibilities of coordinators throughout the assignment. Prior to the mission, they provided vast information that included several legal documents, the annual budget laws for the past three years, other budget related documents, and various excel files with detailed government finance statistics. In addition, the Financial Secretary and the Director of the Budget Department drafted answers to the two questionnaires sent by the evaluation team during the preparatory phase. During the mission, they also drafted certain parts of the assessment, provided additional documents and statistical information, and discussed the PEFA report with the team.

Extensive and open consultations were also held with MED, the Office of the Auditor General, the Senior Economic Advisor to the Prime Minister and Minister of Finance (Dr. Carla Barnett), the Office of the Accountant General, the Department of General Sales Tax, the Department of Income Tax, the Office of Local Governments and Rural Development at the Ministry of Labor, the Ministry of Health, the Ministry of Education, the Ministry of Works, the Central Bank of Belize, and the Office of Human Resources Management Information System at the Ministry of Public Services. The cooperation from all government officials was excellent. Officials were fully engaging during meetings and any information requested was provided promptly.

A draft of the report in the form of the summary assessment, and the detailed analysis and scores for the indicators was circulated during the last week of the mission. During and at the end of the mission, the evaluation team discussed the findings and scores of the PEFA PFM performance indicators with government officials who agreed with them. The draft report was circulated to all stakeholders. The PEFA Secretariat provided comments on the draft report (see Annex 6). This final report has taken into account the government and the PEFA Secretariat comments.

The PEFA assessment for Belize was financed by the EC and performed in close contact with the IADB and the World Bank. The World Bank has not been involved in Belize for some years but is planning to do so now and, thus, was very interested in the PEFA assessment. The evaluation team held a meeting with World Bank officials in Washington DC. The IADB provided several country reports and background information to the evaluation team during the preparation phase of the mission. Two IADB representatives from the Washington DC office and one from the Belize office participated in the two workshops on the strengthened approach to supporting PFM reforms and the PEFA framework which were presented on the first day of the mission in Belize. A CDB representative also participated in these workshops. Two World Bank staff and the task manager at the EC assisted to the workshop on the final report at the end of the mission.

1.3. The methodology for the preparation of the report

The assessment was prepared on the basis of the PFM Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005. The PFM Performance Measurement Framework is an integrated monitoring framework that was developed as a tool to provide reliable information on the performance of PFM systems, processes and institutions. The framework relies on a set of high level performance indicators. Thus, the approach has been to assess the current status of Belize PFM system based on the PEFA indicators, which comprise a set of 28 high level performance indicators that measure the central government's PFM systems plus 3 high level performance indicators that measure the performance of donors involved in the government's budgetary processes. The performance indicators, which are scored on a rating system from A to D, are presented along with a narrative to provide a brief description of PFM processes and procedures adopted by the government, and also to support and explain the scorings. In addition to the performance indicators, the PFM performance report reviews the country context in which such PFM is carried out.

The PEFA evaluation has been carried out in two phases: a desk study was carried out first followed by the field study. Both of which are described below.

The Desk Study: this phase of the PEFA evaluation was carried out between mid-August to end-September 2008. It included a briefing mission to the European Commission headquarters in Brussels in September. The result was a preliminary assessment of a more comprehensive evaluation performed on-site in Belize in October 2008. The evaluation was carried out by a team of two consultants. The desk study PEFA evaluation involved: (i) reviewing existing country diagnostics and studies prepared by the IADB, the European Commission, the IMF, and the CDB; (ii) liaisoning with government officials identified as counterparts for the PEFA assessment; (iii) liaisoning with IADB and World Bank staff; (iv) preparing questionnaires to request the relevant documentation and data from the government; (v) analyzing budgetary and expenditure documentation, legislation, and data provided by the Budget Department at the MoF; (vi) preparing a draft on the analysis of some performance indicators; and (vii) assessing the requirements for further analysis and evaluation of PFM practices in Belize to refine the work plan and unambiguously assign scoring to the indicators.

The Field Study: this phase was carried out in October 2008. It formed the primary basis for a more comprehensive evaluation. The field study for the PEFA evaluation involved: (i) two training workshops on the strengthened approach and the PEFA framework; (ii) interviews with government officials; (iii) quantitative analysis of official financial and budgetary data; (iv) reviews and assessment of legal and regulatory documentation; (v) assessments of PFM procedures and systems; and (v) completing the main part of the draft report and discussing it with government officials. An important consideration in developing PEFA indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the quality of the financial data upon which they were calculated. The consultants therefore emphasized the completeness and quality of financial data in assessing the PEFA indicators.

1.4. The scope of the assessment as provided by the PFM-PR

Consistent with PEFA guidelines, the assessment of Belize's PFM concentrates on the operations of the budgetary central government, which comprises government units covered in the budget. The budgetary central government includes the Office of the Governor General, the Office of the Prime Minister and the Cabinet, the Legislature, the Director of Public Prosecution, the Office of the Auditor General, and 17 ministries. This definition of central government excludes autonomous government agencies and the Social Security Board, which are also part of the central government but for which no data are collected.

The financial statements of the autonomous government agencies have never been compiled and their monitoring remains largely fragmented amongst various portfolio ministries. These agencies have never been integrated into the budget process. While the autonomous government agencies are currently not covered in the budget, they receive subventions from the central government that were equivalent to almost 5 percent of total expenditures in FY 2007/08; subventions have more than doubled since FY 2005/06.

Local governments, which are part of the general government and not the central government, comprise 2 city councils, 7 town councils, and several village councils. Their expenditures represented about 5 percent of total public expenditures in FY 2007/08.

Quantitative PEFA indicators require data for three years as the basement for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Belize covers fiscal years 2005/2006, 2006/2007, and 2007/2008. Fiscal years in Belize start on April 1 and close on March 31.

The structure of the rest of the evaluation report is as follows. Section 2 provides background information on the economic, fiscal, legal and institutional context for the evaluation. Section 3 explains the scores for the 31 individual performance indicators. Section 4 describes the government's reform programme. A series of annexes provide more detailed reference information, including a summary of the scoring of the performance indicators (Annex 1), data used for the quantitative indicators (Annex 2), the list of people consulted (Annex 3), the list of documents consulted (Annex 4), the ToR for the evaluation (Annex 5), and the comments by the PEFA Secretariat (Annex 6).

2. COUNTRY BACKGROUND INFORMATION

2.1. DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

Belize is the only Anglophone country in Central America. It is small and ethnically diverse, with a sparsely distributed population of 310,000, and is nestled between the Mexican Yucatan peninsula and Guatemala (see Table 2.1. below). The population is too small to provide a robust market for local production. On the other hand, vast land space provides abundant natural resources for the establishment of export agriculture, tourism development, and marine resources to support a vibrant fisheries industry.

Table 2.1. Selected Macroeconomic Indicators

	2003	2004	2005	2006	2007
	(Annual percentage change, unless otherwise indicated)				
Population and employment					
Population (Thousands)	271.1	281.1	289.9	299.8	309.8
Population growth	3.2	3.7	3.1	3.4	3.3
Employed labor force (Thousands)	89.2	95.9	98.6	102.2	111.8
Unemployment rate (%)	12.9	11.6	11.0	9.4	8.5
National income and prices					
GDP at constant 2000 prices	9.3	4.6	3.0	5.3	1.6
Gross domestic investment 1/ 2/	21.5	19.0	22.7	19.6	18.0
Gross national savings 1/	3.3	4.2	8.3	17.3	14.1
Consumer prices (end of period)	2.3	3.1	4.2	3.0	3.0
Real effective exchange rate	-2.5	-2.4	-1.3	0.4	…
Money and credit					
Credit to the private sector	13.2	9.6	11.3	13.1	13.9
Money and quasi-money (M2)	4.7	7.5	5.9	17.3	22.5
	(In percent of GDP)				
External sector					
External current account 3/	-18.2	-14.8	-14.4	-2.2	-4.0
Overall balance of payments (US$ millions)	-30.1	-31.2	18.3	49.9	22.5
Gross usable official reserves (US$ millions)	58.3	27.1	36.0	85.7	108.2
In months of imports	1.1	0.3	0.6	1.3	1.6
Public sector debt					
Public and publicly guaranteed debt	102.3	100.2	98.4	92.1	90.2
Domestic debt	5.7	9.0	7.3	8.3	9.1
Foreign debt	96.6	91.2	91.1	83.8	81.1
Nominal GDP (US$ mn)	988	1,055	1,115	1,214	1,267

Sources: Ministry of Finance, Statistical Institute of Belize, Central Bank of Belize, and IMF staff estimates.

1/ In percent of GDP.
2/ Includes inventory accumulation.
3/ Includes foreign grants.

Belize faces major development challenges. Based on the Country Poverty Assessment conducted in 2002, it was estimated that about 33 percent of the population remained below the poverty line, most of which lived in the southern rural district of Toledo. The poor are comprised mostly of indigenous Mayans, refugees and migrant agricultural workers from neighbouring

Central American countries, as well as small farmers. Like other countries in the Caribbean, poverty was more prevalent in rural areas than in urban settlements. However, pockets of poverty are also self-evident and potentially explosive in urban centres.

The causes of poverty are predominantly economic, stemming primarily from unemployment, low productivity and low earnings. Poor people in Belize typically have low or lower levels of education, poor health, insecure access to natural resources (land, aquatic resources and forest) and inadequate access to financial services, while facing high costs of transportation and public utilities relative to their income.

The Government of Belize has undertaken measures to update and strengthen its national strategy for poverty reduction which was first developed for the period 1998-2003. The updated strategy, known as the National Poverty Elimination Strategy and Action Plan 2007-2011, contains specific poverty reduction targets for Belize that emulate the Millennium Development Goals, to which Belize is a signatory. The primary target is to reduce the level of indigence by half by the year 2015. The approach to the new strategy was grounded in participatory methods involving broad consultation with key public, private and civil society stakeholders, and with rural and urban communities.

Regarding economic developments, Belize followed highly expansionary macroeconomic policies during 1999–2004, in part in response to the damage from two major hurricanes. As a result, external current accounts widened sharply, public debt soared, and international reserves declined substantially. From 2005 on, the authorities took steps to correct serious macroeconomic imbalances in the context of a “home-grown” adjustment strategy. As a result, the primary balance improved from a small deficit in FY 2004/05 to a surplus of 3 percent of GDP in FY 2005/06. However, the adjustment efforts were not sufficient to bring the economy back onto a sustainable path, and, therefore, Belize engaged with its external private creditors in 2006 to achieve a cooperative debt restructuring.

Debt restructuring was completed in February 2007. Holders of eligible debt exchanged their claims for a new 22-year bond, repayable in semi-annual instalments starting in 2019. It is estimated that the restructuring will provide Belize with a 21 percent debt reduction in net present value terms, largely realized by 2013. This provided significant liquidity relief for the government. Nevertheless, Belize’s debt burden remains high at 90 percent of GDP and results in no access to external commercial loans.

After several years of booming growth as a result of expansionary fiscal policies, the economy is experiencing a slowdown. Real GDP growth increased by only 1.6 percent in 2007, reflecting also in great part the impact of Hurricane Dean (August 2007). Belize’s economy is highly vulnerable to natural disasters and other external shocks. Hurricanes and tropical depressions destroy road infrastructure and severely affect tourism and agricultural production. Vulnerability also results from the country’s relatively undiversified export base.

Oil was discovered in Belize in late 2005. The volume of extracted oil reached almost 800,000 barrels in 2006, the first year of production, and exceeded one million barrels in 2007. According to industry estimates, oil resources will be exhausted in 2019. Belize’s oil is fully exported as there are no local refining facilities. In 2007, oil exports reached US$ 64 million (equivalent to 5 percent of GDP), but imports of gasoline and other refined products reached US$ 133 million.

The structure of the Belize economy has changed only slightly in recent years. During 2000-2007, primary activities declined from 17 to 15 percent of GDP, secondary activities increased from 21 to 22 percent of GDP, and services increased from 62 to 63 percent of GDP. In Belize the bulk of manufacturing arises from processing of primary products, particularly sugar, shrimps, and citrus. The decline in the participation of primary activities in total GDP is explained by the decline of agricultural production, which accounted for 9.5 percent of GDP in 2007, down from 12.5 percent in 2000.

Belize is a small open economy with exports of goods and services accounting for 65 percent of GDP in 2007. The major exports of goods in 2007 were petroleum, citrus juices, sugar, and marine products in this same order. They accounted for 45 percent of total merchandise exports. Tourism is, however, the major foreign exchange earning and growth driving sector. It accounted for 73 percent of exports of services, 35 percent of total exports and 23 percent of GDP in 2007.

2.2. DESCRIPTION OF BUDGETARY OUTCOMES

2.2.1. Fiscal performance

Fiscal deficits had averaged well over nine percent of GDP during FY 1999/2000 to FY 2004/05 and the official external debt reached around 100 percent of GDP as a result of unsustainable levels of public investment. Since then, the Government of Belize has embarked on an adjustment process aimed at stabilizing the fiscal and external debt situation and placing public sector finances on a sustainable path into the medium term. The adjustment program was endorsed by the IMF, the IADB and the CDB, and included a major donor-orchestrated external debt restructuring operation, which took place in early 2007.

The government has succeeded in reducing the fiscal deficit and turning it into a surplus mainly through a substantial increase in revenues and grants equivalent to 7.5 percent of GDP between FY 2004/05 and FY 2007/08. For the same period, non-interest expenditure declined by slightly over ½ percent of GDP at the expense of capital expenditure, since purchases of goods and services, and subventions to local governments and to a growing number of autonomous agencies increased. But interest payments were reduced by almost 50 percent to 4.4 percent of GDP in FY 2007/08, which explains the reduction in total expenditure of over 3 percent of GDP for the same period. The central government continues to have a relatively large budget with total expenditures of around 30 percent of GDP, excluding social security and autonomous government agencies.

On the other hand, tax collections increased markedly as a result of rate increases for the business tax, sales tax and excise duties in February 2005, the introduction of the general sales tax (GST) in July 2006, and windfall oil revenues since 2006. The combination of higher revenues and lower expenditures resulted in a substantial improvement in the overall and primary balances, both of which turned around from deficits in FY 2004/05 to surplus balances in FY 2007/08 (see Table 2.2). The fiscal situation, however, remains precarious in the medium term, given the little fiscal space for weathering and cushioning against the effects of adverse global conditions (i.e., decline in prices of primary exports) and natural disasters, and the need to increase expenditure on infrastructure and social services to reduce poverty levels. In addition, as a result of the debt overhang, Belize has no access to external commercial loans.

Table 2.2. Out-turn of budgetary central government operations (In percent of GDP)

	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
Total revenues and grants	**22.9**	**25.1**	**26.0**	**30.4**
Current revenue	22.2	23.8	24.5	27.5
Of which: tax revenue	19.8	21.3	21.9	23.3
Grants	0.7	1.2	1.5	2.9
Total expenditure	**32.4**	**28.3**	**29.5**	**29.2**
Non-interest expenditure	24.1	21.4	22.6	24.8
Of which:				
Personal emoluments	10.1	10.0	9.0	9.2
Purchases of goods and services	3.7	4.3	4.8	5.5
Pensions payments	1.5	1.8	1.6	1.7
Grants and transfers to public entities	1.6	1.5	2.4	2.9
Capital expenditure	7.2	3.8	4.7	5.4
Interest payments	8.3	6.9	6.9	4.4
Overall balance 1/	**-9.5**	**-3.2**	**-3.4**	**1.2**
Primary balance 2/	-1.2	3.7	3.5	5.6
Net financing	**9.5**	**3.2**	**3.4**	**-1.2**
Memo item: GDP (in BZ$ millions)	2,110.4	2,229.6	2,427.3	2,534.0

Source: Ministry of Finance.

1/ Includes foreign grants.
2/ Excludes interest payments.

2.2.2. Allocation of budgetary resources

In recent years, allocation of public resources concentrated mainly on social services in an effort to alleviate poverty. The gradual reduction of interest obligations allowed for a sharp increase of spending in social programs, most notably health, education and housing. Participation of health in total expenditure doubled from around 5 percent of total expenditure in FY 2004/05 to almost 11 percent in FY 2007/08. Education increased its participation in total expenditure from almost 19 percent in FY 2004/05 to 22 percent in FY 2007/08. And housing and urban development reached 2.4 percent of total expenditure in FY 2007/08 (Table 2.3). The available budget for upgrading the conditions of roads and other key economic infrastructure, in turn, remained practically unchanged at levels not adequate for improving access primarily for the poor population to diversifying and global economic opportunities and thus enable sustained broad-based economic growth and poverty reduction in a phased manner.

The government launched various measures in recent years aimed at reforming key functions at the MoF such as payroll, procurement and the treasury. The Finance and Audit Act was revised in 2005 in part to address malpractice in procuring official contracts and sales, and to establish sanctions against financial officers for not complying with budget rules and regulations. Personnel records have been linked to the payroll system. Treasury accounting and payments were centralized when Smart Stream was introduced in FY 2004/05. Nonetheless, some important PFM issues have not been address, such as the creation of central procurement, financial internal control and internal audit systems, and the establishment of rules and procedures, since no regulations were prepared after the enactment of the Finance and Audit Act.

Table 2.3. Actual budgetary allocations by ministry
(In percent of total)

	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
General services	**15.6**	**16.9**	**14.1**	**15.0**
Ministry of the Public Service and Governance	1.0	1.0	0.5	0.6
Ministry of Foreign Affairs and Foreign Trade	1.5	1.6	1.4	1.4
Ministry of National Security	8.6	9.9	10.0	10.9
Ministry of Attorney General	0.4	0.4	0.4	0.3
Others 1/	4.1	4.0	1.8	1.8
Social services	**26.7**	**31.6**	**31.8**	**37.7**
Ministry of Health	5.3	6.0	8.4	10.8
Ministry of Education	18.8	23.1	21.0	22.1
Ministry of Human Development & Social Transform.	0.7	0.7	0.8	0.8
Ministry of Housing and Urban Development	0.6	0.3	0.3	2.4
Ministry of Labor, Local Govt. & Rural Development	1.1	1.2	1.0	1.1
Ministry of Youth, Sports and Culture	0.2	0.3	0.3	0.5
Economic services	**10.2**	**7.2**	**7.9**	**11.1**
Ministry Public Utilities, Transport & Communications	0.9	1.1	1.1	1.7
Ministry of Agriculture and Fisheries	1.2	1.4	1.2	1.3
Ministry of Works	5.0	2.8	3.1	5.1
Ministry of Econ. Development, Commerce & Industry	2.3	1.8	2.4	2.8
Ministry of Tourism and Civil Aviation	0.8	0.1	0.1	0.2
Financial services (Ministry of Finance) 2/	**45.7**	**42.6**	**43.7**	**34.0**
Environment protection (Ministry of Natural Resources & the Environment)	**1.8**	**1.7**	**2.4**	**2.1**
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance

1/ Includes the Office of the Governor General, the Office of the Prime Minister, the Judiciary, the Legislative, the Director of Public Prosecutions, and the Office of the Auditor General.
2/ Includes domestic and foreign interest payments, and pension payments.

No efforts have been made to improve the economic composition of central government expenditure and, thus, recurrent expenditure account for over 80 percent of the budget, with salaries (personal emoluments) and pensions taking almost 40 percent and maintaining rigidity in the budget composition. Purchases of goods and services, and unconditional grants to local governments and a myriad of autonomous agencies were rampant. Thus, the participation of goods and services in total expenditure increased from 11.5 percent in FY 2004/05 to 19 percent in FY 2007/08. Grants and other transfers more than doubled to 10 percent of total expenditures in FY 2007/08, up from 5 percent in FY 2004/05 (see Table 2.4).

Table 2.4. Actual budgetary allocations by economic classification
(In percent of total)

	FY2004/05	FY2005/06	FY2006/07	FY2007/08
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**
Recurrent expenditure	**77.9**	**86.6**	**84.0**	**81.4**
Personal emoluments	31.1	35.4	30.7	31.7
Goods and services	11.5	15.1	16.2	19.0
Pensions	4.7	6.4	5.6	5.7
Interest payments	25.7	24.4	23.4	15.0
Domestic	2.6	3.2	3.4	3.5
Foreign	23.0	21.1	20.0	11.4
Grants and other transfers	4.9	5.4	8.1	10.0
Capital expenditure	**22.1**	**13.4**	**16.0**	**18.6**
Capital II expenditure	7.5	8.7	11.3	9.8
Capital III expenditure	14.6	4.2	4.3	8.4
Net lending	0.0	0.5	0.4	0.4

Source: Ministry of Finance.

2.3. Legal and Institutional Framework for Public Financial Management

2.3.1. Legal Framework

The Constitution. The Belize Constitution Act, Revised Edition 2000, provides the legal foundation for public financial management in Belize.

Chapter VIII on Public Services, Sections 105-106, creates and establishes the general membership of the Public Services Commission, the relationship with the Belize Advisory Council and the rules under which members of this committee can be removed. One salient feature constitutes the legal powers delegated to the Public Services Commission for setting the appropriate rules and procedures for appointment and removal of public officers, determining the code of conduct, salaries and social benefits, the underlying principles for promotion and transfer, measures to ensure discipline and effective management and control of public officers, among others. Public workers of various public agencies are exempted from this legal provision, which included those of the Judiciary and Legal Services, the Office of the Auditor General, the Office of Director of Public Prosecutions, the Police Department, the Superintendency of Prisons, and members of the armed forces and the security and military intelligence service.

Section 109 of the Constitution lays down the procedures for appointing the Auditor General and the circumstances that authorize the removal of the Auditor General. The duties and responsibilities of the Office of the Auditor General are specified in Section 120. The Constitution grants autonomy to the Office of the Auditor General in the exercise of its functions and requires him/her to report only to the House of Representatives. In such capacity, the Auditor General is required to: (i) ensure that all public monies that were appropriated by law and charged to the Consolidated Revenue Fund applied in conformity to the purposes authorized by the National Assembly; and (ii) perform an external audit and inform to the National Assembly every year on the final accounts of the Government of Belize, for which the Auditor

General is gained with access to all books, records, and other relating information and official reports.

Chapter IX of the Constitution, Sections 114-120, covers issues that are more relevant to public financial management, including the Consolidated Revenue Fund. The Constitution supports the establishment of this Fund as a first major step towards centralization of the treasury accounting and reporting function. Article 115 states that the Minister of Finance is required to present to the National Assembly the annual budget for the next financial year. Specifically, the topics covered by Sections 114-120 are the following:

114. Establishment of the Consolidated Revenue Fund
115. Authorization of expenditure from the Consolidated Revenue Fund
116. Authorization of expenditure in advance of appropriation
117. Contingencies Fund
118. Remuneration of certain key officers
119. Public debt
120. Audit of public accounts

The Constitution enters into plenty of detail on payments to and from the Consolidated Revenue Fund, the preparation of the draft revenue and expenditure estimates (i.e., the annual budget) and their submission to the National Assembly for approval, the administrative classification in the Appropriation Bill, the preparation of a bill requesting supplementary appropriations and authorization of expenditure in advance of appropriation, among others. These provisions are usually addressed in a law and implementation regulations that specify the functioning of a centralized treasury office and internal controls for the use of such a Fund. These provisions are reverberated in the Finance and Audit (Reform) Act of 2005, which amended the Finance and Audit Act, Revised Edition 2000-2003.

The Finance and Audit (Reform) Act of 2005 provides for new and amended provisions regulating public revenue, expenditure and contracts, and clarifies the legal status of the Financial Orders of 1965 and Stores Orders of 1962, which were declared administrative instructions for guiding activities specified in the Act. The Act, however, does not provide yet for regulations.

Part II of the Act refers to Finance. In conformity with the Constitution, this part provides authorization for the creation of a Consolidated Revenue Fund and the use of monies thereof. It stipulates that an Appropriation Act is needed to use moneys from the Fund and there is a provision for the MoF to provide authorization for use of money from the Fund before an appropriation act (advances) by way of a (temporary) warrant of maximum four months. Likewise, it provides for special warrants for the purposes of unforeseen and urgent events and which cannot be postponed until the next meeting of the House of Representatives for consideration of supplementary estimates. Special warrants cannot exceed in the aggregate an amount equivalent to 10 percent of the amount voted for the respective ministry of the approved expenditure estimates for the year. It also enables the creation of Special Funds (e.g., Sugar Funds) and the separation of these accounts from the Consolidated Revenue Fund. This part of the Act also sets out rules for approval of government loans and requires a resolution of the National Assembly for all loans above BZ$ 10 million.

Part III of the Act refers to the Audit and Public Accounts. This part authorizes the Auditor General to conduct audits and establishes provisions regulating powers of auditors, the duties and powers of the Auditor General, cases of observed fraud and public losses, annual accounts, and annual certificates and reports of the Auditor General, among others.

Part IV of the Act refers to Government Procurement and Sale Contracts. Very important in this part is the introduction of the capacity of the government to enter into contracts and the powers of the Contractor General (introduced by Chapter 3 of the Laws of Belize) to peruse contracts to ensure that procedure and laws were adhered to. This part also provides details of the open, selective and limited tendering procedures and the instances when each can be used. For example, the Contractor General's policy is that all contracts above $100,000 must be submitted to the Contractor General for his perusal before the contract is signed. Other topics in this part of the Finance and Audit (Reform) Act include the disposal of public assets, status of the Financial Orders and Store Orders, and powers of the Services Commission to surcharge public officers.

The Financial Orders of 1965 and Stores Orders of 1962 provide regulations on the proper use of funds, the issue of receipts and realization of payments, among others. The Financial Orders provide a chapter on Tender Procedure but it is very inadequate as it really only provides for the establishment of a Main Tenders Committee. The chapter, however, provides no direction. The Financial Orders and Stores Orders are outdated, and need to be updated and supplemented.

The Control of Public Expenditure Handbook of December 1966 provides clear guidelines on the budget process which are still followed, although the handbook also needs updating. The handbook provides instructions for the compilation of budget estimates, and the responsibilities of Accounting Officers and Finance Officers. Accounting Officers are currently the Chief Executive Officers in ministries, who were formerly addressed as Permanent Secretaries.

Others. Other relevant laws to PFM are the General Sales Tax (GST) Act (2006) and the GST Regulations (2006), the Income and Business Tax Act (revised edition 2000), the Customs Duty Act (revised edition 2000) and the Customs Regulation Act (revised edition 2000) which set out the mandate of the administration of the GST, personal income and business taxes, and import duties, revenue replacement duties, and excise taxes. The collection of Stamp Duties and the applicable rates are set out in the Stamp Duties Act, Chapter 64 of the Laws of Belize.

2.3.2. The Institutional Framework for PFM

Belize was a crown colony of England from 1832 to 1981 when it attained its independence. Belize is a member of the British Commonwealth of Nations and recognizes Her Majesty the Queen of England as head of State, represented in Belize by a Governor General (Chapter IV of the Constitution). The State is divided into the executive, the legislature and the judiciary (Chapter V of the Constitution).

The Executive. The Prime Minister, who is also the Minister of Finance, is chosen from the party with the most seats in the House of Representatives. He/She is the head of the Government with the power to establish a Cabinet of Ministers. The Prime Minister and the Ministers form the Cabinet which is the Executive arm of the State. The central government comprises the following ministries:

1. Ministry of the Public Service, Governance Improvement and Elections and Boundaries
2. Ministry of Finance
3. Ministry of Health
4. Ministry of Foreign Affairs and Foreign Trade
5. Ministry of Education
6. Ministry of Agriculture and Fisheries
7. Ministry of Natural Resources and the Environment
8. Ministry of Tourism and Civil Aviation
9. Ministry of Public Utilities, Transport and Communications
10. Ministry of Human Development and Social Transformation
11. Ministry of Works
12. Ministry of National Security
13. Ministry of the Attorney General
14. Ministry of Economic Development, Commerce, Industry and Consumer Protection
15. Ministry of Housing and Urban Development
16. Ministry of Labor, Local Government and Rural Development
17. Ministry of Youth, Sports and Culture

The Legislature is made of the National Assembly which comprises the House of Representatives and the Senate. The National Assembly is empowered to make laws for the peace, order and good of the Government of Belize.

The Judiciary is composed of the Supreme Court and the Court of Appeals. The Judiciary is constitutionally independent from the other two branches of government. The judges to the Supreme Court are appointed by the Governor General on advice from the Prime Minister.

The Ministry of Finance is responsible for formulating and monitoring fiscal policy. The Minister of Finance is responsible to the National Assembly for ensuring compliance with the rules and regulations set forth in the Finance and Audit (Reform) Act of 2005. In terms of budget management, the MoF is the government agency legally responsible for the preparation and implementation of the budget and as such, remains accountable to the National Assembly. The MoF prepares the Annual (Budget) Estimates of Revenue and Expenditure, the Appropriations Bill and releases on a monthly basis one twelfth of the recurrent budget and also the capital budgets. The MoF is also responsible for managing the public debt.

The Budget Department at the MoF is responsible for providing financial services to the government agencies executing programs and activities for which the National Assembly has authorized appropriations. The MoF is vested with powers and responsibilities to ensure that government agencies manage public resources in an effective, efficient and transparent manner. Consequently, the MoF has been assigned the role to draft financial laws and regulations and provide technical guidance in the preparation, execution, control, and monitoring of the annual budget.

The Office of the Accountant General is responsible for the maintenance of the government's unified treasury payments, accounting and reporting system across the country. Presently, it consists of a central administration unit and six sub-treasury district offices. The Office of the Accountant General has instituted the use of the Smart Stream system as the general ledger tool for recording and reporting all the payments clearing to and from the Consolidated Revenue Fund. This Fund is one major bank account managed by the Office of the Accountant General. All revenue collections go to this Fund and all disbursements to bank sub-accounts of the ministries and departments are made from the Fund.

Accounting Officers supplement the duties of the Accountant General and are ultimately responsible to the National Assembly's Public Accounts Committee for ensuring that the approved system of assessment and collection is carried out, that the approved revenue registers are kept and promptly posted, that appropriate action is taken in cases of arrears, and that gross revenue receipts are duly paid to the treasury. Measures against violations of the financial rules and procedures lack specific sanctions and clarification of whom and how these administrative actions would be undertaken, if any.

Box 2.1: Responsibilities of the Accountant General

The Accounting General is the responsible officer for the Ministry of Finance for the accounting arrangements in all ministries and departments, their duties supported in large extent by those of the accounting officers. His general duties are, *inter alia*:

- To see that a proper system of account is established in every ministry and department of the Government;
- To see that proper arrangements are made for the safe keeping of all public moneys, stamps, securities and valuable documents;
- In case of an apparent extravagance or any defect in the provision for a charge owing to the exhaustion or absence of a vote, to call the attention of the Ministry of Finance in writing to the matter;
- To exercise general supervision over the receipt of public revenue and as far as possible to ensure its punctual collection; and to exercise general supervision over the expenditure and other disbursements of Government.

His/her particular duties are, inter alia:

- To bring promptly to account, under the proper heads and sub-heads of accounts, all money, whether revenue or other receipts, paid into the Treasury or accounted for to hi/her;
- To exercise supervision over all the officers of his department and entrusted with the receipt or expenditure of public money, and over the sub-accountants, and to take precautions, by the maintenance of efficient checks, including surprise inspections, against the occurrence fraud, embezzlement, or carelessness;
- In regard to payments made by him/her, to take care that no payment is made which is not covered by proper authority expressed or referred to on the voucher relating to it;
- Promptly to charge in his accounts under the proper heads and sub-heads and accounts all disbursements of the Government, whether expenditure or other payments; and
- To render the accounts for audit and to prepare the Financial Statements and Returns.

Source: Control of Public Expenditures (COPE) Handbook.

Tax Departments under the MoF consist of the following units (each one consisting of a central administration and de-concentrated district units in major cities and towns): the Income Tax Department, the Customs and Excise Department, and the Department of General Sales Tax. There is another tax department (land tax department) though this unit operates outside the scope of the MoF. It belongs to the organization of the Ministry of Natural Resources and the Environment.

The Ministry of Economic Development provided with the role of developing a Public Sector Development Program (PSIP) and drafting the capital expenditure II and III budget estimates for the MoF. Separate budgeting processes for recurrent and capital budgets are followed. As a result, the MoF has difficulties in consolidating the budget. Since capital expenditure include some recurrent expenditure that is not possible to identify, it is impossible to consolidate the recurrent component of capital expenditure with other recurrent expenditure. This complicated the analysis by economic and administrative classification.

Line Ministries play various key PFM responsibilities. Executive Officers and the Finance Officers in each agency are held responsible mostly for ensuring that the budgetary resources allocated to the various departments and service units produce the outcomes and outputs established according to plans ("value for money" performance audits).

Box 2.2: Responsibilities of Accounting Officers

The Accounting Officer exercises its accounting and financial management roles in ministries and departments and is responsible:

- For the authorizing of all payments from the votes or funds under his/her control;
- For furnishing his ministry, the Accountant General, the Ministry of Finance, and the Auditor General with any information called for concerning finance, accounts, and stores;
- For ensuring that the work of his/her department or office is carried on within the framework of approved policy, without waste.
- For maintaining his/her departmental accounts and financial records in accordance with the detailed instructions issued by the MoF;
- For producing his financial, accounting and stores records for audit;
- For arranging a system of internal checks and internal control covering all aspects of revenue and expenditure (including below-the-line transactions), cash, stores, and government property within his/her departmental or office and for ensuring that it is adhered to rigidly.

Source: Control of Public Expenditures (COPE) Handbook.

Box 2.3: Responsibilities of Finance Officers

The Finance Officer is appointed to each of the main departments to serve the Accounting Officers relieving them of much of the routine work, whilst at the same time keeping in close liaison with the Ministry of Finance's Financial Secretary: Their duties are the following

- To be financial advisers to their Accounting Officers;
- To take charge of and organize the finance divisions of their departments;
- To ensure the correct funding of departmental policy with all safeguards against waste and loss.
- To ensure that public revenue is collected promptly and properly accounted for;
- To ensure that all financial regulations are observed and that directives from MOF are implemented;
- To be responsible for the maintenance of proper systems of accounts and to make supplementary regulations for control purposes;
- To supervise all officers of their departments entrusted with the receipt or expenditure of public money;
- To ensure that the accounts are properly kept by making personal checks and arranging other checks, including surprise inspections, to guard against irregularity.

Source: Control of Public Expenditures (COPE) Handbook.

Chief Executive Officers, formerly Permanent Secretaries, of individual ministries are appointed as the accounting officer or administrative head of a ministry. They are responsible for ensuring compliance with the Finance and Audit Act, the Financial Orders, the Store Orders and the Control of Public Expenditure in carrying out their duties. Finance officers of line ministries are required to follow through the administrative instructions of the MoF and provide technical guidance to subordinate units and departments in the preparation, execution and control and monitoring of the budget. Finance officers (budget officers, accountants, internal auditors and finance offices) report both functionally and administratively to the Chief Executive Officer who is the accounting officer for that ministry.

Ministers and subordinate accounting and finance officers are held accountable to the MoF in the use of public resources. Line ministries are permitted to reallocate within budget items and cost centers and headquarter offices but require permission from the MoF to reallocate from cost centre to centre and from budget item to another. Since the MoF has to release the funds, several elements of centralization still prevail. The National Assembly authorizes budget appropriations for the line ministries by programs and activities. Line ministries do not have the budgeting tools (i.e., cost accounting, monitoring and evaluation) that would enable them to better formulate their budgets and manage their operations.

The Office of the Contractor General mandate comes from the Contractor General Act (1993). The office is responsible for procurement monitoring and investigations. The Contractor General is appointed by a resolution of the National Assembly. The Contractor General has to publish an annual report informing of any investigations that are being carried out. The Contractor General is empowered to request information about any contract signed through any ministry. Any contractor, supplier or member of the public who believes that irregularities took place (bribes, collation, extortion) in the issue of any contract may bring his concerns to the Contractor General who may request information from any ministry in regard to such a contract. If any irregularities are found, the terms of the contract may need to be amended or the contract cancelled.

The Office of the Auditor General derives from the Finance and Audit (Reform) Act of 2005. The Auditor General is appointed by a resolution of the National Assembly for specific lengths of time. The Auditor General must retire at the age of 60 years or at such later age as determined by the National Assembly. Funds for the operations of the Auditor General are provided in the budget estimates.

Autonomous government agencies. There are various statutory bodies that act as autonomous regulatory bodies. These bodies are governed by a Board of Directors. Some of these bodies have their own revenue funds and do not require government subvention. These bodies include the following:

- Belize Tourist Board collects the hotel tax;
- Protected Areas Conservation Trust collects departure fee to tourists and receives a percentage of head tax from cruise tourism passengers;
- Belize Airports Authority collects Landing and Parking Fees from aircraft;
- Belize Social Security Board collects social security contributions;
- Belize Port Authority collects license fees from boats and other marine vessels;
- Central Bank of Belize collects interest on overdrafts provided to the central government and a margin for foreign exchange operations.

There are other bodies that are autonomous and which receive a subvention from the central government. The amounts are included in the budget estimates of line ministries. These autonomous government agencies include the following:

- Belize Agricultural and Health Authority
- University of Belize
- Karl Heusner Memorial Hospital
- National Institute of Culture and History
- Belize Marketing Board

Local Governments include city, town and village councils, all of which receive a subvention from the MoF through the Ministry of Labor, Local Governments, and Rural Development. They also collect their own revenues to finance local services other than those primary services managed directly by the line ministries. The role of local accounting and finance officers is uncertain.

2.3.3. Distribution of Staff Resources to PFM Activities

Staff resources remain severely constrained by limited staff assigned to PFM activities versus staff assigned to administrative and other clerical activities. This is especially so within MoF Departments and the Office of the Auditor General. At the total MoF level only one fourth of total employees (119 out of 476) are occupied in duties related directly to PFM duties (i.e., budget, accounting, etc.). At the Office of the Auditor General and the Ministry of Public Service this ratio is even smaller (see Table 2.5). In addition, the distribution of staff performing PFM activities among the different government agencies shown in the table below indicate that

Table 2.5. Distribution of Staff Resources by Main Occupation at the MoF and other relevant Agencies: FY 2008/09

	Number of employees 1/				Percentage of total employees 1/			
Ministry/Department	**Total**	**PFM-related 2/**	**Tech. & Admin. Support 3/**	**Others 4/**	**Total**	**PFM-related 2/**	**Tech. & Admin. Support 3/**	**Others 4/**
Ministry of Finance	476	119	53	304	100.0%	25.0%	11.1%	63.9%
1. General Administration	41	15	5	21	100.0%	36.6%	12.2%	51.2%
2. Supervisor of Insurance	6	3	2	1	100.0%	50.0%	33.3%	16.7%
3. Central Information Technology Office	12	10	1	1	100.0%	83.3%	8.3%	8.3%
4. Treasury System	83	13	4	66	100.0%	15.7%	4.8%	79.5%
5. Customs and Excise Administration	188	44	13	131	100.0%	23.4%	6.9%	69.7%
6. General Sales Tax Administration	53	27	1	25	100.0%	50.9%	1.9%	47.2%
7. Income Tax Administration	93	7	27	59	100.0%	7.5%	29.0%	63.4%
Ministry of Economic Development	40	20	3	17	100.0%	50.0%	7.5%	42.5%
1. General Administration	27	17	2	8	100.0%	63.0%	7.4%	29.6%
2. Bureau of Standards	13	3	1	9	100.0%	23.1%	7.7%	69.2%
Auditor General's Office	39	9	10	20	100.0%	23.1%	25.6%	51.3%
1. General Administration	31	8	8	15	100.0%	25.8%	25.8%	48.4%
2. Belmopan Administration	8	1	2	5	100.0%	12.5%	25.0%	62.5%
Ministry of Public Service	132	24	35	73	100.0%	18.2%	26.5%	55.3%
1. General Administration	26	10	4	12	100.0%	38.5%	15.4%	46.2%
2. Establishment Training	43	9	15	19	100.0%	20.9%	34.9%	44.2%
3. Public Service Commission	1	1	0	0	100.0%	100.0%	0.0%	0.0%
4. Elections and Boundaries	52	3	14	35	100.0%	5.8%	26.9%	67.3%
5. HRMIS	10	1	2	7	100.0%	10.0%	20.0%	70.0%

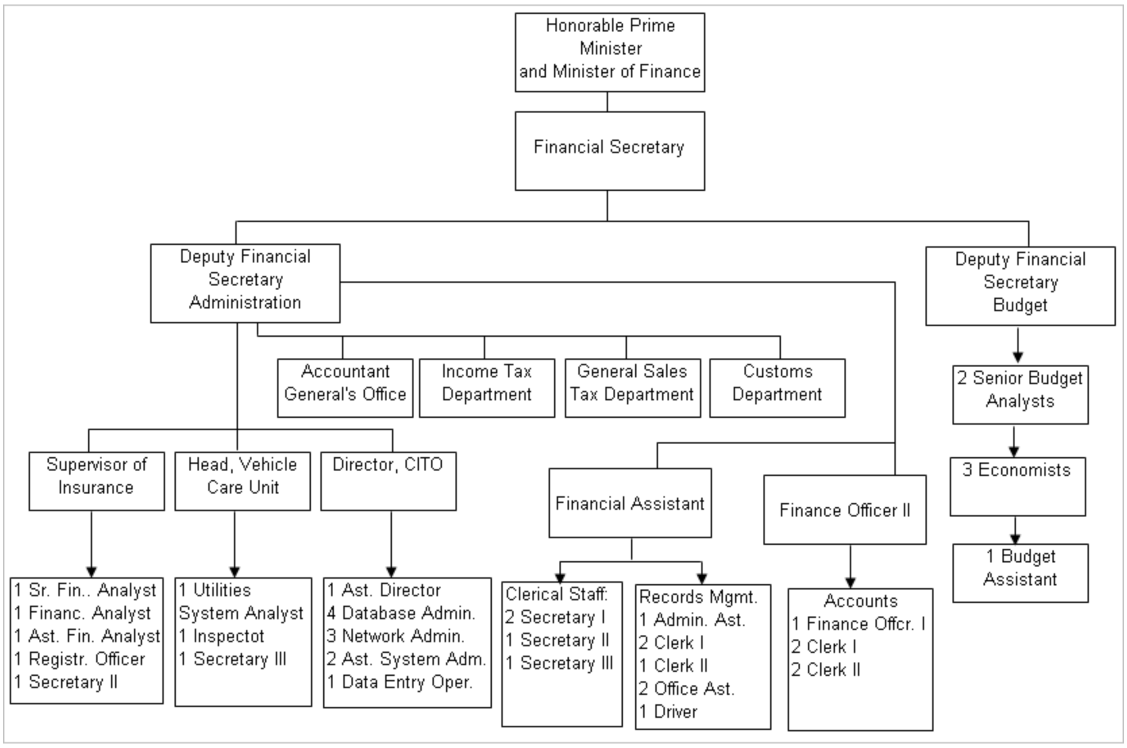
Source: Ministry of Finance, see Annex 2, Table 8 for further information.

1/ Exclude temporary "un-established" staff.
2/ Include staff occupied in financial management activities.
3/ Staff classified within pay scales ranged between 11 and 14.
4/ Staff classified within pay scales ranged 10 and below.

the general administration of the MoF is seriously understaffed. In this regard, the treasury and sub-treasury offices have 83 employees, twice as many as that of the general administration of the MoF which has only 41 employees. However, in both cases there is a disproportionate percentage of staff who hold clerical and other bureaucratic positions; over 50 percent at the general administration of the MoF and almost 80 percent at the treasury and branches. The same uneven distribution of staff resources occurs within customs and excise tax administration.

In addition, the MoF is operating with an organizational structure that does not support or is concordant with its PFM responsibilities. The MoF lacks a clear organizational structure. It should be more transparently organized around well-defined functions. The MoF is organized in two major financial management divisions, both directed by the Financial Secretary. These are the treasury and general administration services, and the budget management. The former is composed of the central administration office, the Office of the Accountant General, and three tax departments (see Figure 2.1). Another type of problem has been the high turnover of staff in the MoF.

Figure 2.1. Organization of the Ministry of Finance



Source: Ministry of Finance.

Table 2.6. Matrix of Institutional Responsibilities for PFM Functions

PFM Function	Cabinet	Ministry of Finance							Line Ministries				Other Offices				National Assembly	Donors
		FM	FS	BED	CED	ITD	GSTD	AGD	LM	CEO	PC	MED	OSC	CG	AG	PM Cabinet		
Policy of Elaboration and Planning																		
Policy Budget Approval	√	√		√					√									
Loan Approvals		√															√	
Supplemental Budgets	√	√		√					√	√								
National Development Plan (PSIP)	√	√	√						√	√		√						
Sector Development Plan									√	√		√						
Annual Corporate Plan			√						√	√								
Budget Formulation/Preparation																		
MTSF			√	√					√	√		√						
Budget Memorandum		√	√	√														
Macro-fiscal Framework	√	√	√	√					√									
Annual Budget Estimates		√	√	√					√	√								
Revenue Administration/Collections																		
Tax Revenue			√	√	√	√	√											
Grants/Loans			√	√														√
Budget Execution																		
Debt Management			√	√														
Budget Allocation/Cash			√	√														
Cash Release								√										
Establishment Control				√									√					
Personnel Rolls										√			√					
Payroll				√				√		√			√					
Procurement Supply Chain			√	√						√	√			√	√			
Non-salary Recurrent Expenditure			√	√				√		√								
Capital Expenditure			√	√				√		√					√			√
Payments			√	√				√		√								
Financial Reporting				√				√		√					√			√
Accounting				√				√										
External Scrutiny/ Budget Oversight																		
External Audit															√		√	
Budget Oversight																	√	
Procurement Oversight														√				
Expenditure Audit Oversight																	√	
PFM Reform																		
Reform Policy/ Approval	√											√				√		
Reform Coordination/ Monitoring												√				√		√
Reform Implementation			√	√														

FM: Finance Minister, FS: Financial Secretary, BED Budget/Economic Division, CED: Customs and Excise Department, ITD: Income Tax Department, GSTD: General Sales Tax Department, AGD Accountant General, LM: Line Minister, CEO: Chief Executive Officer, PC: Procurement Committee, MED: Ministry of Economic Development, OSC: Office of the Services Commission, CG: Contractor General, AG: Auditor General, PM: Prime Minister's Office.

3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

The purpose of the PEFA-based PFM assessment is to evaluate public financial management with focus on the central government and its functional performance through a set of indicators. In the case of Belize, the focus has been the budgetary central government which comprises government units covered in the budget. This definition of central government excludes autonomous government agencies and the Social Security Board, which are also part of the central government but for which no data are collected.

The budgetary central government includes the Office of the Governor General, the Office of the Prime Minister and the Cabinet, the Legislature, the Director of Public Prosecution, the Office of the Auditor General, and 17 ministries. A variety of national regulatory agencies and other autonomous government agencies, so-called "statutory bodies", are outside the budget and, thus, denominated extra-budgetary units. While these units are not covered in the budget, they receive grants and subventions of different nature mainly through portfolio ministries which are included in the budget.

PEFA indicators require data for three years as the basement for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Belize covers fiscal years 2005/2006, 2006/2007, and 2007/2008. Fiscal years in Belize start on April 1 and close on March 31.

3.1. BUDGET CREDIBILITY

PI-1 Aggregate expenditure out-turn compared to original approved budget

Score B: Actual primary expenditure deviated from the originally approved budgeted primary expenditure by 1.9% in FY 2005/06, by 9.3% in FY 2006/07, and by 6.5% in FY 2007/08. That is, only in FY 2006/07 the deviation was in the order of 10%.

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires

Table 3.1. Comparison of Original Budgeted and Actual Expenditures: FY 2005/06-2007/08 (In Belize Dollars, unless otherwise indicated)

Budget item	FY 2005/2006		FY 2006/2007		FY 2007/2008	
	Budget	Actual	Budget	Actual	Budget	Actual
Primary recurrent	375,375,433	392,749,930	416,113,342	433,522,534	478,957,877	490.799,340
Capital expenditure II (domestically financed)	80,768,951	54,883,315	54,199,460	80,589,667	49,956,293	72,351,605
Primary expenditure 1/	456,144,384	447,633,245	470,312,802	514,112,201	528,914,170	563,150,945
Difference as % of budgeted primary expenditure		1.9%		9.3%		6.5%

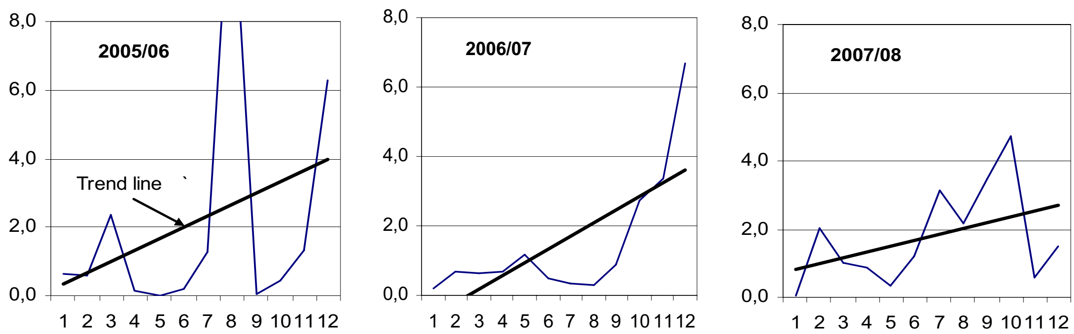
Source: Calculations based on Ministry of Finance data. See Annex 2, Table 1 for further details.

1/Excludes debt service payments and externally-financed capital expenditure, referred to as capital III.

appropriate fiscal discipline to be in place. In aggregate, in no more than one of the last three years has the actual primary expenditure deviated from the budgeted primary expenditure by an amount equivalent to near 10 percent of budgeted expenditure. Budget execution diverged by 1.9 percent in FY 2005/06 and by 6.5 percent in FY 2007/08 (Table 3.1.).

Serious deficiencies in budget preparation, execution and monitoring contributed to deviations in primary expenditure. These included poorly coordinated and integrated budgeting of wage and non-wage expenditures, unrealistic expenditure forecasts, excessive reallocations and supplements (so-called "special warrants") not authorized at a mid-year budget review, and ex-post supplementary authorizations rushed by the Ministry of Finance (MoF). Empirical evidence shows that supplementary funding usually intensifies towards the end of the fiscal year (Figure 3.1). Currently, budget supplements are approved by the National Assembly but only retrospectively, a practice that is seriously undermining its overall financial oversight function. All these have eroded the credibility of budget execution.

Figure 3.1. Monthly Supplementary Funds authorized by MoF: FY 2005/06-2007/08 (In Belize Dollars)



Source: Ministry of Finance

PI-2 Composition of expenditure out-turn compared to original approved budget

Score A: The average variance in expenditure composition did not exceed the overall deviation in primary expenditure by more than 5 % in any of the last three years. The deviations were 3.1% in FY 2005/06, 0.7% in FY 2006/07, and 0.9% in FY 2007/08.

This indicator measures the extent to which reallocations between budget lines have contributed to the variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To this end, it is necessary to estimate the total variance in the expenditure composition and compare it to the overall deviation in primary expenditure for each of the last three years. Variance is measured as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of administrative classification, using the absolute value of deviation. In order to be compatible with the assessment in PI-1, the calculation excluded debt service and donor funded project expenditure.

Analysis of budget deviations for primary expenditure between budgeted amounts and actual out-turns by ministry shows that deviations averaged more than 5 percent of the budgeted amounts in the three most recent years (Table 3.2). A detailed analysis of expenditure out-turns against planned budgets for individual ministries in Belize reveals that the weighted-average expenditure composition variance was affected markedly by reallocations and changes in spending especially from the three largest ministries other than the MoF (namely, education, national security, and health ministries). Thus, the variance of education spending reached 11.3 percent in FY 2007/08 and the variance of health spending reached 7.8 percent in FY 2005/06.

Table 3.2. Composition of Budget Execution by Ministry: FY 2005/06-2007/08 1/
(In annual percentage rates)

Ministry	FY 2005/06	FY 2006/07	FY 2007/08
Ministry of the Public Service and Governance	16.2%	4.3%	34.2%
Ministry of Finance 2/	5.1%	26.9%	7.7%
Ministry of Health	7.8%	4.8%	3.5%
Ministry of Foreign Affairs and Foreign Trade	4.2%	7.5%	4.0%
Ministry of Education	1.0%	5.8%	11.3%
Ministry of Agriculture and Fisheries	12.8%	6.9%	2.1%
Ministry of Natural Resources and the Environment	7.3%	17.1%	5.6%
Ministry of Tourism and Civil Aviation	1.1%	26.8%	24.0%
Ministry of Public Utilities, Transport and Communications	0.7%	0.9%	32.5%
Ministry of Human Development and Social Transformation	11.4%	9.2%	6.4%
Ministry of Works	17.7%	7.0%	9.1%
Ministry of National Security	0.5%	0.6%	0.4%
Ministry of Attorney General	10.7%	8.8%	10.3%
Ministry of Economic Development, Commerce and Industry	40.0%	2.1%	5.7%
Ministry of Housing and Urban Development	18.5%	0.4%	48.6%
Ministry of Labor, Local Government and Rural Development	0.6%	1.7%	2.7%
Ministry of Youth, Sports and Culture	0.3%	3.0%	5.5%
Others 3/	4.8%	4.7%	3.4%
Total primary expenditures, composition variance	5.0%	10.0%	7.4%

Source: Calculations based on Ministry of Finance data. See Annex 2, Table 2 for further details.

1/ Excludes debt servicing payments and externally-financed project expenditure.
2/ Excludes domestic and external interest payments. Includes pension payments.
3/ Includes the Office of the Governor General, the Office of the Prime Minister, the Judiciary, the Legislative, the Director of Public Prosecutions, and the Office of the Auditor General.

The average variance in excess of the overall deviation did not exceed 5 percent in any year during 2005/06 to 2007/08 (Table 3.3.). Thus, the reallocation between budget lines has not contributed to the variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.

Table 3.3. Results Matrix

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
FY 2005/06	1.9%	5.0%	3.1%
FY 2006/07	9.3%	10.0%	0.7%
FY 2007/08	6.5%	7.4%	0.9%

PI-3 Aggregate revenue out-turn compared to original approved budget

Score A: Actual domestic revenue as percentage of original budget revenue (excluding capital revenue and external grants) was 96.0% in FY 2005/06, 104.7% in FY 2006/07, and 103.2% in FY 2007/08. Central government revenue fell short 4 % in only one of the past three fiscal years.

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based upon that forecast. In Belize, the principal sources of revenue are the general sales tax, the business tax, import duties, and the revenue replacement duty. The latter is imposed on certain commodities in order to recoup the foregone tariff revenue, which in fact is not much different from imposing the same import duty. These commodities are mainly excisable goods.

Official data for the past three fiscal years (Table 3.4.) show that actual revenue collections were higher than the budget estimates in FY 2006/07 and FY 2007/08. This reflects that the MoF tends to be conservative in its revenue forecasts (particularly with respect to taxes on goods and services). The under-estimation of revenues reflects in part additional revenue measures put in place in February 2005 (increase in tax rates for the business tax, sales tax, and excise tax) and the introduction of the general sales tax in July 2006. However, the revenue out-turn was lower than the budgeted amount in FY 2005/06 due to a major plunge in imports duties.

Table 3.4. Comparison of Original Budgeted and Actual Revenues: FY 2005/06-2007/08 (In Belize Dollars, unless otherwise indicated)

Budget item	FY 2005/2006 Budget	Actual	FY 2006/2007 Budget	Actual	FY 2007/2008 Budget	Actual
Tax revenue	501,288,353	474,746,300	513,901,623	530,490,831	593,922,990	591,662,424
Non-tax revenue	44,399,507	49,258,645	43,275,752	52,963,179	51,889,750	74,972.187
Total domestic revenue 1/	545,687,860	524,004,945	557,177,375	583,454,010	645,812,740	666,634,611
% difference		-4.0%		4.7%		3.2%

Source: Calculations based on Ministry of Finance data. See Annex 2, Table 3 for further details.

1/ Excludes capital revenue and external grants.

PI-4 Stock and monitoring of expenditure payment arrears

Overall score: D+ (scoring method M1).

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

Score: D. Data are insufficient to conclude whether the stock of arrears has increased or decreased over the past two years. Only expenditure arrears related to land acquisition from the private sector was provided by the Ministry of Natural Resources.

There is neither a legal provision nor a regulation requiring that expenditure arrears be paid out of any unspent budget releases and that revenue arrears be collected during the three months after the end of the fiscal year, as most reform-minded countries advocate. Since arrears-related financial regulations and fiscal rules are lacking, and since payment arrears are not recorded, monitored or controlled, the MoF is not prepared to prevent buildup of payment arrears and weigh the overall fiscal risks and implications.

However, the MoF and the Ministry of Works have indicated that there is no evidence of payment arrears other than the significant payment arrears related to the purchase of land which have not yet been cleared by the Ministry of Natural Resources and the Environment. In the past two years, the Government of Belize authorized bulk purchases of land in several locations for extended infrastructure work without the MoF being able to assess the fiscal burden of these operations. As of October 2008, the amount of payment arrears to various private organizations and individuals ranged between 1 to 2 percent of GDP or 2 to 7 percent of total expenditure, depending on the type of land acquisition using FY 2007/08 data (Table 3.5). The MoF noted that land tax arrears owed by ex-patriots and other investors are equally substantial and have not been collected by the Ministry of Natural Resources, but could be collected and used as payment to land owners.

Table 3.5. Stock of Payment Arrears of the Ministry of Natural Resources as of 10/10/2008
(In BZ$, unless otherwise indicated)

	BZ$	% of total expenditure	% of GDP
Land acquisition 1/	19.729.943	2.7	0.8
Other land acquisition 2/	33.371.962	4.5	1.3
Total	53.101.905	7.2	2.1

Source: Ministry of Natural Resources and the Environment.

1/ Refers to land that was acquired by the Government at an agreed purchase price and imply accrual of interest.
2/ Refers to land that was acquired by the Government for which there are only estimated acquisition prices, but no agreement has been made between the parties involved so far.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

Score: D. There is no reliable data on the stock of arrears from the last two years.

The treasury system is based on cash transactions and no data on commitments with contractors and suppliers are available. Hence, the control of unpaid obligations is difficult. In response to the mission's request of data on the stock of payment arrears, the MoF conducted an ad hoc exercise during the field mission in 2008 and provided data on arrears for land acquisitions. Although the MoF has indicated that no arrears seem to exist other than those related to the government land purchases, the lack of data for commitments and arrears cannot assure this.

3.2. COMPREHENSIVENESS AND TRANSPARENCY

PI-5 Budget classification

Score C: The budget formulation and execution is based on an administrative classification that is consistent with GFSM 1986 standards and on an economic classification that can produce data broadly consistent with the economic classification presented in GFSM 1986. No functional classification exists.

The budget is based on an economic and administrative classification which is broadly consistent with the classification in the *Government Finance Statistical Manual* published in 1986 (GFSM 1986). There are differences in the terminology (such as personal emoluments and operating costs) and the economic classification of expenditure, such as misclassification of some recurrent expenditure items included in capital expenditures II and III. Nonetheless, expenditure consistent with the economic classification of GFSM 1986 can be derived with some underlying shortcomings such as the misclassification of recurrent and capital expenditure. No functional classification of expenditure is available.

The budget is prepared based on a transactions-based, general ledger software called Smart Stream. Smart Stream is consistent with the unified general ledger accounting standard and follows a chart of accounts that is incorporated into the system. Smart Stream is maintained by the Accountant General and operated by Accounting Officers at most MDAs. The chart of accounts is sufficiently detailed for the recording of cash transactions and is aligned with the budget classification. Thus, government accounts and budget execution data can be produced with a breakdown that corresponds to that of the approved budget. The chart of accounts is broken down into a 27-digit account structure that identifies and integrates sources and uses of public resources, and accumulation of assets and liabilities. A stylized feature of the chart of accounts is a breakdown by programs and activities, which is not being used in an effective manner.

The MoF intends to undertake a major review of the budget classification by function and sub-function classification in accordance with GFSM 2001 and COFOG standards. Difficulties may arise with the functional classification as long as ministries retain more than one function, such as in the case of the Ministry of Labor, Local Governments and Rural Development. In addition, the MoF has launched an IADB-led initiative to migrate towards a results-based budgeting system and a medium-term expenditure framework through a pilot effort that would take place in three key ministries.

PI-6 Comprehensiveness of information included in budget documentation

Score C: Budget documentation fulfils only 3 of the 9 benchmarks.

The budget documentation accessible to the National Assembly is neither complete nor comprehensive and it does not enable an adequate analysis of the budget proposal. A summary of the available budget documentation presented to the National Assembly is shown in Table 3.6. The budget documentation consists of the following:

- The draft Budget Presentation (Budget Speech) by the Prime Minister and MoF, which features various economic and financial assessments. This includes an overview of recent global and national economic developments, budget results for the previous year, underlying expenditure priorities for the proposed budget, and a summary on draft estimates of revenue and expenditure, among others; and
- The draft detailed revenue and expenditure estimates.

Table 3.6. Summary of Budget Documentation

Elements of budget documentation	Availability	Notes
Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No	A summary table with key macroeconomic assumptions is not presented. There is only an annex with selected macroeconomic indicators for previous years.
Fiscal deficit, defined according to GFS or other internationally recognized standard	Yes	
Deficit financing, describing anticipated composition	No	There is no detail of financing by domestic and foreign sources as required by GFSM standards
Debt stock, including details at least for the beginning of the current year	No	Only an annex with domestic and foreign debt service is presented
Financial assets, including details at least for the beginning of the current year	No	
Prior year's budget out-turn, presented in the same format as the budget proposal	No	Prior year's preliminary budget out-turn is not presented on aggregate in the main section of the document. Out-turn details are nonetheless available for each MDA in subsequent sections.
Current year's budget (revised budget or estimated out-turn) , presented in the same format as the budget proposal	Yes	Revised budget is presented in the main section with the same format as the budget proposal. Projected revenue and expenditure out-turn for the current year is detailed though with a different format and in a subsequent section of the budget document.
Summarized budget data for both revenue and expenditure according to the main budget heads of the classification used, including data for current and previous year	Yes	Budget revenue and expenditure data are included and are consistent with GFSM 1986 standards for both the current year and the previous year
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	There is no explicit presentation of fiscal impact of new policy proposals

PI-7 Extent of Unreported Government Operations

Overall score D+ (scoring method 1)

Score D: The level of unreported extra-budgetary expenditure (other than donor-funded projects) represented more than 10 percent of total expenditure in FY 2007/08. It more than doubled since FY 2005/06.

The government has failed to provide a complete overview and account of the total central government revenue, expenditures, and financing because extra-budgetary activities have never been part of the budget control and documents. In-year budget reports show the monies that were warranted to autonomous government agencies and special funds through line ministries, but the financial statements of these agencies have never been compiled and integrated into the budget process to evaluate their performance.

Extra-budgetary activities, which are managed independently by autonomous government agencies and statutory bodies, received subventions from the central government in amounts equivalent to 3.7 percent of total expenditure in FY 2007/08. Special funds comprise externally-funded donor projects and represented the largest portion of unreported government transactions, with 8.4 percent of total expenditures. Social security contributions equaled 1 percent of total expenditure (Table 3.7). These do not include overdue obligations and other post-privatization compensations paid by the MoF to multilateral banks on behalf of the Belize Electricity Company (BEL) throughout the past three years.

Table 3.7. Extent of Unreported Government Expenditures

	Number	BZ$	% of total expenditure	% of GDP
Extra-budgetary funds				
FY 2005/06	7	4,729,612	0.7	0.2
FY 2006/07	7	20,159,295	2.8	0.8
FY 2007/08	14	27,079,857	3.7	1.1
Special funds				
FY 2005/06	22	26,357,697	4.2	1.2
FY 2006/07	34	30,533,094	4.3	1.3
FY 2007/08	38	62,050,084	8.4	2.4
Social security contributions				
FY 2005/06	-	6,473,405	1.0	0.3
FY 2006/07	-	6,477,353	0.9	0.3
FY 2007/08	-	7,226,481	1.0	0.3
Total				
FY 2005/06	29	37,560,714	6.0	1.7
FY 2006/07	41	57,169,742	8.0	2.4
FY 2007/08	52	96,356,422	13.0	3.8

Source: Calculations based on MoF data. See Annex 2, tables 6 and 7 for further details.

(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

Score C: Economic and financial information on externally-funded projects are not readily available for purposes of fiscal analysis and planning.

The Public Sector Investment Program of the Ministry of Economic Development is responsible for keeping information on donor-funded projects. There is no comprehensive or systematic reporting system with only scattered information available on certain phases of the projects life. Economic outputs and financial reports are prepared by the project managers and reported to MED on request only. Externally-funded capital III expenditures represented 8.4 percent of total expenditures in FY 2007/08.

In accordance with the Finance and Audit Act (2005), MDAs responsible for executing projects financed with external funds or donations (special funds) must register and inform the revenue received in cash or in kind and the use made of it. In terms of non-reimbursable financing, there is no centralized information system in place. This is of major relevance because the total value of external donations actually collected more than tripled the budgeted amount in FY 2007/08. Donations represented 1.9 percent of GDP and 9.9 percent of total expenditures in FY 2007/08, up from 0.8 percent of GDP and 2.8 percent of total expenditure in FY 2005/06.

Noticeably, schools, hospitals and other key service providers operating under the umbrella of ministries continue to receive donated equipment and supplies whose value differ from one service provider to the other often considerably. While exempted from customs duties, customs keeps records of the estimated value of the imported aid in-kind. These data is not being reported to and used by ministries or service providers.

PI-8 Transparency of Inter-Governmental Fiscal Relations

Overall score (scoring method 2)**: D**

There is no legislation setting up a comprehensive and integrated public financial management system and a unified treasury accounting and internal control function with which to report and monitor the sources and use of public resources in an effective, efficient and transparent manner. Without an overarching organization in the budget and financial internal control sector under the aegis of the MoF it has been difficult for the national dialogue to succeed in the developing of a decentralized fiscal model for Belize.

Initiatives and demands by local governments and revised laws on municipalities and village administrations have on the other hand intensified in recent years advocating a movement towards a decentralized fiscal system. With the MoF, however, lacking the analytical capacities with which to weigh the fiscal risks, transition costs and sustainability, the national dialogue had fallen short of technical foothold. The structure of local government is vast and complex (Box 3.1) and deficiencies in management of local public finance remain significant, most critically within those priority poverty-stricken towns and villages.

Revenue and expenditure responsibilities are not clearly separated and defined for the provision of government services locally. Education, health and other major basic public services are delivered under the administrative responsibility and through de-concentrated district offices of line ministries and funded in large extent by taxes and loans managed by the MoF. Additional funding is provided by user fees and other own revenues collected through ministries and service providers directly. The Belize City Council (Reform) Act (2000), the Town Councils (Reform) Act (2000) and other major laws[3] allow major cities and municipal councils to create and collect their own taxes and other revenues to meet their needs in other priority areas. Central government financing is provided to local governments in the form of untied grants and other subventions, which as a percentage of total local government expenditure represented 17.7 percent for Belize City and 49.6 percent for the seven town councils across the country.

Untied grants include central government capital grants, and Social Investment Fund grants and other forms of financial aid that ultimately serve to pay for budget losses and several unplanned activities of Belize City and municipalities on a regular basis.

Box 3.1: Structure of Local Governments in Belize

- Belize has three distinct forms of local government: municipal councils (cities and town councils), village councils, and the 'Alcalde' system.
- Belize City and Belmopan are the only cities; there are seven towns, some 193 official recognized villages, and additional rural settlement communities that do not have official village status. Municipal mayors are now directly elected. City and Town councils have paid administrators and other staff.
- Villages elect 6 councilors and a chairperson every three years. Chairpersons receive a monthly stipend of $50 from central government. Alcaldes and second Alcaldes are elected annually by villagers and appointed with approval of the Attorney General. Alcaldes receive $100 in monthly stipend and second Alcaldes receive $50.
- In terms of local government associations, there is a municipal Belize Mayors' Association, District Associations of Village Councils, the National Association of Village Councils, and the Toledo Alcaldes' Association. There is also provision for an association of Water Boards.
- All local government entities have very limited legislative powers and fund activities largely from (a) financial subventions from the Executive branch of government, (b) collection of a limited number of taxes and fees, and (c) grant funding and loans.
- However limited, cities, towns and villages do have varying degrees of local policy authority for the specific geographical and population areas under their control. These powers are laid out in relevant acts.

There is no unit on local government finances at the MoF in charge of reviewing, negotiating, consolidating, and monitoring the budgets of municipal councils. This function has been delegated to the Ministry of Labor, Local Governments and Rural Development (MLG), and the Office of the Auditor General has created a Local Governments Unit to fulfil the oversight function under-performed by both the MoF and the MLG.

(i) Transparency and objectivity in the horizontal allocation among sub-national governments

Score D: There is no rules based system for any horizontal allocation of transfers from central government to local governments in Belize.

No equalization formula or revenue-sharing arrangement between the central government and the city and municipal councils has been legislated or agreed to determine the horizontal distribution of windfall taxes, royalties, or other centrally-collected revenues. There is no earmarking provided for pre-assigning any of these revenues to local governments. In lieu of this arrangement the MoF allows for extending supplementary funding to pay for their budget losses—untied grants represented one third of total funding of town councils (Table 3.8.), most of which was borrowed in the form of overdrafts that these councils do not usually pay off. On the other hand, central government subventions to Belize City and municipalities alone grew by 20 percent in FY 2007/08. These transfers are distributed horizontally across cities and towns on

[3] Other relevant laws grating local taxation powers to local governments include the Belmopan City Council (Reform) Act (2000), the Trade Licensing (Reform) Act (2000), and the Intoxicating Liquor Licensing (Reform) Act (2003), among others.

the basis of population size only, differences in income and financial capacities are not taken into account.

Table 3.8. Approved expenditure estimates of Local Governments

FY 2007/08	Belize City	Town Councils	Total
		(In BZ$)	
Local taxes and user fees	15,994,460	8,403,857	24,398,317
Of which: Property tax	6,300,000	5,796,590	12,096,590
MoF subventions	1,484,500	2,802,520	4,287,020
Other MoF financial aid (untied grants)	1,971,395	5,476,259	7,447,654
Total expenditure	19,450,355	16,682,636	36,132,991
		(In percent of total)	
Local taxes and fees	82.2	50.4	67.5
Of which: Property tax	32.4	34.7	33.5
MoF subventions	7.6	16.8	11.9
Other MoF financial aid (untied grants)	10.1	32.8	20.6
Total expenditure	100,0	100.0	100.0

Source: Ministry of Finance

(ii) Timeliness of reliable information to sub-national government on their allocations

Score D: City and municipal councils are not provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals. Earlier issued estimates are not reliable.

MoF subventions are allocated to major cities, municipal councils, villages and locally-registered statutory bodies through the Ministry of Labor, Local Government and Rural Development (MLG) to pay for any costs in locally administering the delivery of basic public services. Negotiations with local governments on draft expenditure estimates and proposed local revenues and MoF subventions are carried out through the MLG during the budget preparation phase. Advances of subventions are paid ahead of schedule and overdrafts are authorized by MoF almost constantly during the first nine months of the fiscal year due to a combination of factors, namely, draft revenues and planned allocations are unrealistic and a bulk of local tax are collected during January-March. In principle, overdrafts are arranged by MoF so as to be paid off after cities and municipalities had collected local taxes.

Subventions to local governments are included in the central government budget under the MLG, as part of the General Revenue Appropriation Act, and published in the official gazette. Several deficiencies, however, surfaces in the preparation and execution of local government budgets that MLG is unable to control, namely, the personnel database not linked to the payroll budget, the procurement of local purchases and tracking of capital investments. More severe is the fact that the capital investment budget is negotiated apart from the recurrent budget, with various ministries (i.e., Ministry of Economic Development, Ministry of Works, Ministry of Education) overlapping their competencies and undertaking large overhead costs. All these had led to large inefficiencies, errors, and problems in the internal reporting of budget resources effectively used by local entities.

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

Score D: Financial statements are submitted with long delays for the government to integrate in the general government accounting. Hence, evidence is not sufficiently available to determine the overall extent of reported local government expenditure.

Local governments are required to submit monthly budget execution reports (so-called "returns") to MLG to provide updates on their local revenues and their use of central government subventions (expenditure "out-turns"). In fact, these reports are required by the MoF to be received by the 10^{th} of every month, for authorizing advances and supplementary funding. However, the municipal councils, which comprise city and town councils, usually submit these monthly reports with a delay of three months and the data are unreliable. But the annual financial statements have not been submitted for the past three fiscal years. Most local governments do not have skilled financial officers or are usually understaffed. As a result, budget reporting is inaccurate and not submitted on a timely basis, especially within the poorest locations.

On the other hand, the financial oversight capacity of MLG is constrained by the lack of managerial capacities and sufficient staff at both the local level and MLG levels. Since the onset of MLG in March 2008, this entity has assigned only one person for compiling the budget estimates and out-turns from local governments. This, combined with unskilled staff and inadequate office tools and physical infrastructure at the local level, has created serious doubts about the accuracy of the local cash flows and quality of the local budget reports in general. Reports on capital II and III expenditures of local governments are budgeted and submitted through the Ministry of Economic Development and other line ministries.

PI-9 Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

Overall score D (scoring method 1)**:** Loose monitoring and supervisory role by the government in regards to the fiscal risk emanating from public enterprises, autonomous agencies and local government finances.

(i) Extent of central government monitoring of autonomous agencies and public enterprises

Score D: The central government does not consolidate fiscal risk issues into a report. Autonomous government agencies and public enterprises do not submit fiscal reports or annual audited accounts to the central government. Thus, the central government does not exercise any oversight role over them.

No government agency or department has been assigned an oversight role over the economic and financial developments of the autonomous government agencies and the public enterprises. Despite the collapse of the Development Finance Corporation in 2005, no fiscal risk analysis of public enterprises is being undertaken to weigh their financial soundness and economic competitiveness to global conditions as well as to inform the public on any corrective measures needed to cushion against domestic and external shocks.

Among the public enterprises gaining further need for a consolidated fiscal risk analysis are the Marketing and Development Board and the Belize Water Company. The Marketing Board is coping with major pressures from the domestic rice industry which demands that the government further raise subsidies to this sector in order to prevent domestic price increases and protect against foreign competition. Likewise, the Public Utilities Commission faces enormous pressures from the Belize Water Company to raise the water rates and to get the government to invest on new plant and equipment in order to remain competitive. Broadly speaking, a fiscal impact and risk mitigation assessment has not been made and extended to other public enterprises so as to determine the required fiscal cost for the government to sustain the operations of such companies.

On the other hand, the monitoring of autonomous government agencies remains largely fragmented amongst various portfolio ministries. The fiscal risks of the potential impact of the activities of the autonomous government agencies to the public finances have not been assessed. One major autonomous government agency for which fiscal risk analysis has not been conducted in recent years, specially after its detachment from the Ministry of Health, is the Karl Heusner Memorial (KHM) Hospital whose annual budget alone represents one fourth of the Ministry of Health's total budget.

(ii) Extent of central government monitoring of sub-national governments' fiscal position

Score D: No annual monitoring of local governments' fiscal position takes place. This limits the function of the Ministry of Local Government solely to compiling budget execution reports and then submitting them to the MoF, without any analysis being done on the impact on the fiscal position of growing subventions to local governments.

Financial laws do not confer the MoF with the monitoring of local government finances. The Constitution has delegated to a ministry bundled with responsibilities in several sectors, namely, the Ministry of Labor, Local Governments, and Rural Development, to play a monitoring and oversight role. In practice, however, it primarily supports the MoF in collecting budget estimates and execution data of local governments. The Ministry of Labor, Local Governments, and Rural Development and the MoF do not have sufficient human resources or the analytical capability to exercise an effective oversight role over the local governments.

PI-10 Public Access to Fiscal Information

Score C: The MoF prepares monthly budget execution reports that are available in printed form to anyone interested in having them. The reports are ready within one month after the end of the period. Monthly data were posted in the MoF website up to November 2006, when it was discontinued due to human resource constraints.

The nature and availability of essential elements of public information are:

(i) Annual budget documentation: The annual budget document with approved revenue and expenditure estimates (the Appropriation Bill) and the reports of the Auditor General are made available to the legislators in printed form. The approved annual budget report containing detailed information by budget (sub) heads of public interest is published in the MoF website but with a lag of one year. However, the Appropriation Act containing the approved recurrent and capital spending ceilings on an aggregate level by budget heads is published in the official gazette within the last week of the current fiscal year, although not made available on any official website.

(ii) In-year budget execution reports: The MoF prepares monthly reports on revenue and expenditure out-turns that are available in a non-standard format with only one-month lag and in printed form. However, due to understaffing in the MoF, this and other related economic and financial reports are not posted on a timely manner in the MoF website. The latest in-year budget execution report published in the MoF website refers to the year-to-November 2006 cumulative revenues, expenditures, and overall balance. The Central Bank of Belize posts on its website up-to-date budget execution reports as part of a set of key economic and fiscal indicators, but the fiscal data is posted with a two-three months lag. Other relevant reports available through the website of the Central Bank of Belize include the *Quarterly Economic and Financial Update,* where the lag of fiscal data is almost one year.

(iii) Year-end financial statements: Annual financial statements and balance sheets of the government are not made available to the public via website or other appropriate means within six months of completed audit.

(iv) External audit reports: Audit reports by the Auditor General have not been published since 1988 until November 2007, when an annual report with some audited financial statements corresponding to 2002/03 was published.

(v) Resources available to primary service units: As far as service units of national coverage, such as elementary schools or primary health clinics, the financial information is not publicly available in any form by the line ministries or subordinate departments or autonomous government agencies at all.

(vi) Other reports: Contract awards, contingent liabilities and expenditure and revenue arrears are not published.

The Constitution does not provide for the Government of Belize to enact legislation to give the public the right of access to budget and other relating essential fiscal reports.

3.3. POLICY-BASED BUDGETING

PI-11 Orderliness and participation in the annual budget process

Overall score B (score method 2)**:** The central government's budget is the result of an orderly process but not participatory enough or linked to policy objectives. The calendar has been adhered to at every stage of the budget process and provided enough time to MDAs to prepare their detailed budget proposals during the last three years.

While some key elements of performance budgeting are planned to be introduced, the strategic budgeting process is still in its early stage. The MoF plans to introduce output-based and multi-year budgeting with IADB technical assistance support and considers these as essential to improving budget outcomes. The process is currently largely top-down and focuses on the forthcoming fiscal year. Currently, no medium-term targets for the broad macro-fiscal aggregates (i.e., expenditures, debt and debt servicing) are set.

The MoF has not adopted a strategic budget policy for the early budget preparation stage that reflects expenditure priorities of the government. A public statement of Strategic Budget Policies of the government is not available four to six months ahead of the preparation of a detailed draft on revenue and expenditure estimates prior to a new fiscal year. This would have allowed for a more participatory process of public and internal discussions about government priorities and sector policies. Presently, government priorities are not systematically formulated and translated into budget policy.

The draft revenue and expenditure estimates are submitted by budgetary units to the MoF without a review of the budget proposals across sectors and ministries taking place first. The MoF organizational structure does not allow review of needs-based budget proposal built bottom-up by MDAs and reconciliation with spending limits to ensure fiscal discipline.

(i) Existence of, and adherence to, a fixed budget calendar

Score A: A clear annual budget calendar has been established by tradition, is adhered to, and allows MDAs enough time to complete their detailed estimates on time. Some MDAs initiate their budget process before receiving the budget circular.

Although no clear annual budget calendar has been established by law, the participants in the budget preparation process know in advance the timing of the different stages of the budget process. Some ministries start their budget process well before the receipt of the budget circular, such as the Ministry of Education.

The description of the budget timetable is not unified in a budget circular or other single related legal or regulatory instrument. The *Control of Public Expenditure* Handbook published in 1966 instructs the MoF to prescribe a Circular Call with the purpose of requesting MDAs to submit their draft budgets to the MoF and the MoF to submit the annual budget to the Cabinet and the National Assembly for approval (including the Budget Appropriation Bill). The budget circular, however, sets out no specific timetable for (i) the National Assembly to review and approve the annual budget, (ii) MDAs to submit a mid-year request for amendments to the budget and supplementary resources, (iii) the Prime Minister to sanction the budget approval for its implementation (Budget Appropriation Act), along with the Circular on General Warrants Rules and Payments Schedule to the Accountant General and other technical instructions; (iv) closing of accounts, mid- and end-year evaluation of budgets, and submission of accountability reports and the final accounts to National Assembly, among others.

Deadlines for some stages of the budget process are presented in the budget circular, which is usually issued on October 1. The budget circular sets a deadline by which MDAs should submit proposals for changes in their budget structure (late October), a deadline by which MDAs should submit their draft budgets to the MoF (usually no later than December 15), and a deadline by which the draft budget should be sent to the Cabinet of Ministers for their consideration (usually no later than January 31). The *Control of Public Expenditure* Handbook prescribes the steps that the National Assembly should follow to review and approve the budget (see Chapter 2, Articles 23-45, *The Annual Estimates*) but no dates or deadlines are specified. The budget should certainly be approved prior to the beginning of the next fiscal year on April 1. This deadline and those presented in the budget circular have been met during the past three fiscal years.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

Score D: The quality of the budget circular is very poor as it does not include ceilings approved by Cabinet which the budget entities can use as a basis for preparing their budget proposals.

In order to avoid last minute changes to budget proposals, it is important that the political leadership (i.e. the Cabinet) is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

In Belize, the budget circular does not specify spending ceilings which budget entities can use in the budget preparation process as the basis for preparing detailed budget proposals. Political involvement in the guidance on the preparation of the budget circular is low.

The budget preparation process does not allow for an efficient formulation and allocation of budget resources. Incrementalism and rigidities persist in the budgeting of wages and other recurrent expenditure. During the fiscal year, one twelfth of recurrent expenditure is warranted automatically at the end of each month. The MoF has not provided guidance in formulating a demand-led or inputs-based budget system across MDAs and in linking the recurrent and capital budget processes so as to produce a more coherent budget document. A methodology that supports the reconciliation of bottom-up strategic plans to pre-specified spending and debt ceilings is also lacking. The ability of MDAs to achieve these goals is hampered by limited institutional and analytical capacities within the MDAs and the MoF.

(iii) Timely budget approval by the legislature within the last three years

Score A: The National Assembly has approved the budget before the start of the fiscal year during the past three years.

Members of the National Assembly have not been actively involved in setting aggregate allocations by program, activity and geographical location during the budget preparation process. The focus has been at the economic and MDA level.

The National Assembly has been able to pass the annual budget without delay in the past three years, despite the limited time provided to the House and the Senate for debating and reviewing the budget (Table 3.9).

Table 3.9: Dates of budget speeches and budget approvals by the National Assembly

	Appropriation Bill	Budget Appropriation Act, approved by	
Fiscal year	Budget speech	House of Representatives	Senate
FY 2005/06	January 14th, 2005	January 21st, 2005	January 25th, 2005
FY 2006/07	March 17th, 2006	March 24th, 2006	March 28th, 2006
FY 2007/08	March 2nd, 2007	March 16th, 2007	March 20th, 2007

Source: Ministry of Finance.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Overall score (scoring method 2)**: D+**

(i) Multi-year fiscal forecast and functional allocations

Score D: No forward estimates of fiscal aggregates are undertaken for at least three years on a rolling annual basis. No links are established between the annual budget, the setting of annual spending limits and a medium-term plan. The lack of a fiscal policy unit at the MoF hampers its capacity to migrate to a multi-year budget planning.

The government has not adopted a multi-year and program-based budgeting framework which would allow the government to set out strategic goals and priorities and link resources to policy objectives. The government has also not been able to develop an effective poverty reduction strategy supported by a fully functional public expenditure management system. Public expenditure management has proven an ineffective policy instrument not articulating the country's fiscal ceilings and rules with priorities reflected in the budget or improvements in public sector performance and service delivery.

The budget documents show expenditure estimates for each budget head (i.e., line ministry) for two years prior to the budgeted fiscal year and for the fiscal year. Budget estimates are not included for the following one or two fiscal years. Also, the Draft Revenue and Expenditure Estimates document does not include a statement of medium-term fiscal policy and macroeconomic objectives, covering fiscal targets such as the government operating balances, government debt, and major investment projects. Without a medium-term horizon, budget preparation has become just a unilateral and inertial exercise with little communication provided between the MoF and the line ministries.

(ii) Scope and frequency of debt sustainability analysis

Score B: Debt sustainability analysis for external and domestic debt is not undertaken annually by the Central Bank of Belize despite the country's high level of indebtedness. A debt sustainability analysis was performed in 2005 by an international financial institution as a pre-requisite for restructuring debt of the Development Finance Corporation and other domestic and foreign debt.

A debt sustainability analysis was carried out in late 2005 as part of the requirement for the 2005/06 debt renegotiation completion. It was a comprehensive document which included an analysis of both external and domestic debt. The debt sustainability analysis was undertaken by a technical mission of the International Monetary Fund but the knowledge was not transferred to the Central Bank of Belize. The government accepted and used the findings of the debt sustainability analysis conducted on its behalf.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

Score D: Sector strategies have not been prepared neither has the government completed any costing of investments and recurrent expenditure.

Sector strategies do not exist for most sectors in the form of a Strategic Development Plan and as a result a comprehensive costing is not available in a medium-term form. Line ministries prepare their annual budget on the basis of budget (sub) heads and of programs. The chart of accounts has codes that even allow including information by projects. In practice, however, a budget broken by programs and projects becomes useless in the absence of a policy-driven strategic planning system and is often used in Belize for enabling more flexibility (virement) in moving funds to meet urgent payment needs.

Programs are poorly structured by the budget authorities and their purpose is not to align government activities to government policy objectives. Financial officers have had difficulty in associating activities and attributing specific costs to individual programs. Without staff devoted to activities and time measurement systems, the personnel inputs at the central ministry level (and their related overhead and capital expenditure) is often attributed to a central "administrative" program. While this program does not really pursue a government policy objective directly, it has been a practical way of avoiding very difficult cost attribution problems.

(iv) Linkages between investment budgets and forward expenditure estimates

Score D: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. In other words, investments are not selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and forward budget estimates for the sector.

Little progress has been made in recent years in strengthening the integration of capital and recurrent expenditures. An Economic Planning Department, usually responsible for the capital/development budget, is part of the Ministry of Economic Development, Commerce, Industry and Consumer Protection and under such institutional arrangement the coordination of a coherent and integrated budget proposal becomes very difficult.

Due to the above, it is unclear who is held responsible for providing a multi-year expenditure framework, consolidating the recurrent and capital budgeting processes and combining a top-down fiscal resources envelope with a bottom-up estimation of the current and multiyear costs of existing national policies and, ultimately, the matching of those costs with available resources in the context of a multi-year budget process, among others. On the other hand, there is no fiscal policy unit within the MoF which can produce multi-year forecasts of revenue, expenditure and potential deficit financing on an aggregate basis within which a multi-year budget forecast will ultimately unfold.

3.4. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

PI-13 Transparency of Taxpayer Obligations and Liabilities

Score (scoring method 2): **C+**

(i) Clarity and comprehensiveness of tax liabilities

Score C: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the Commissioners and the Ministry of Finance. The tax Commissioners are empowered by law to waive off, after review of objection, additional taxes resulting from an assessment and, in the case of the general sales tax, reduce or waive off the penalty to late filers. The Minister of Finance has almost total discretionary power, although some of his decisions are required to be published in the *Gazette.* He is empowered by law to waive off the tax principal as he sees fit in the case of the personal income and business tax. In the case of the general sales tax, the law does not provide for the Minister of Finance to remit taxes.

Revenue administration responsibilities are not unified under a single revenue administration structure in Belize, but mainly allocated to three departments: the Department of GST (GST), the Income Tax Department, and the Customs and Excise Department, which represents an organization by type of tax. The tax administration information system is not integrated either except partially in the case of the Department of GST and the Income Tax Department who utilize SIGTAS (Standard Integrated Tax Administration System). This fragmentation undermines operational performance and results in a costly way of administering revenue collection. The three departments report to the Financial Secretary who in turn reports to the Minister of Finance.

The major revenue sources for the central government are the GST, the business tax, and import duties. The GST was implemented in July 1, 2006 after a development period of some 12 months. It replaced a sales tax which had been in place since 1999. The authorities received significant assistance from the IMF CARTAC and the IMF Fiscal Affairs and Legal departments during the 12-month development period.

Belize recently became an oil producer and exporter Belize Natural Energy Limited, a private company, discovered oil in late 2005 and entered into a contract with the government under the Petroleum Act. Based on current discoveries, oil production was expected to peak in 2007 at one million barrels and then contract by about ten percent each year, declining to 284,000 barrels in 2019, the year when oil resources will be exhausted. Belize's oil is fully exported as there are no local refining facilities. The government collects 10 percent of gross sales based on its shareholding relationship with the private oil company. The remainder is subject to a 40 percent income tax and royalties of 5 percent. All government oil revenues are transferred to the budget. Oil revenues were equivalent to one percent of GDP in FY 2007/08 and are estimated to reach 3 percent of GDP in FY 2008/09. In September 2007, the Parliament approved the establishment of a Petroleum Revenue Management Fund. Gross government revenues from oil were to be invested in the fund and only a fraction transferred to the budget, but the Government has decided not to commence the fund and to continue transferring all government oil revenues to the budget. Otherwise, the government would have needed to borrow to sustain expenditure levels, but the return on savings in the oil fund were estimated to be lower that the cost of borrowing, which would have resulted in a deteriorating net debt position.

The GST Act (2006) and the GST Regulations (2006) are comprehensive and clear. The Income and Business Tax Act (revised edition 2000), the Customs Duty Act (revised edition 2000) and the Customs Regulation Act (revised edition 2000) are fairly comprehensive but not entirely clear. Revenue legislation in general is subject to frequent amendments to change thresholds, exemptions and zero-rated good, all of which makes the legislation less transparent. Amendments to the legislation are done through statutory instruments which are published in the government Gazette and on the revenue department website within one month of passage by the House of Representatives. There are no interpretations of the various sections of the income and business tax act to assist taxpayers and tax professionals in understanding and meeting their obligations. Part II of the Income and Business Tax Act covers income tax on profits arising from petroleum operations. Also, customs legislation is in need of consolidation and review. Currently the entry processing and cargo clearance regime remains largely manual and inefficient. As it stands, customs legislation is inadequate for the purposes of electronic processing and the use of electronic documents as evidence. In addition, some monetary amounts are out of date and some procedures referred to are no longer appropriate. Finally, there is no published manual to guide staff on all customs procedures.

Tax legislation provides substantial elements of administrative discretion to the Commissioner and to the Minister of Finance in the assessment of personal income and business tax liabilities. The Commissioner for Income Tax may remit the additional tax resulting from an assessment (article 38. (7) of the Act) and the Minister of Finance "may remit the whole or any part of the income tax payable by any person if he is satisfied that it would be just and equitable to do so" (article 95. (1) of the Act), but notices of such remissions should be published in the *Gazette* (article 95. (2) of the Act). The Minister of Finance may at his discretion also exempt newly-established businesses or industries from business tax payments during the first two years of operation or up to five years in the case of entities involved in long-term crops by order published in the *Gazette* (article 108. (2) of the Act). In the case of the GST, the Commissioner may amend or vacate the tax or refund resulting from an assessment (article 39. (5) of the Act) and may reduce or waive the penalty of 10 percent for late filers (article 58. (2) of the Act). The Minister of Finance may refund the GST paid on capital purchases acquired for any business purpose (article 96. (2) (c) of the Act) without any order in the *Gazette*. The Department of GST indicated that this provision of the GST Act is in the context of issues that may be subject to amendments to the law. The very nature of GST, i.e. VAT type tax, allows for refund of GST paid by registered persons on capital purchases and other purchases in the furtherance of the business. The GST Act does not provide for the Minister of Finance to remit (full or part) the tax.

(ii) Taxpayers' access to information on tax liabilities and administrative procedures

Score A: Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes. Educational pamphlets are available on the revenue administration websites.

Tax legislation and procedures are posted on www.belizelaw.org and on the website of the three revenue departments, which also include tax forms and instructions on how to fill them. The website of the Income Tax Department was launched only at the beginning of September 2008, although the legislation was published in the website referred to above. However, there are no interpretations of the various sections of the income and business tax act to assist taxpayers and tax professionals in understanding and meeting their obligations. The Income Tax Department conducted its last education campaign in 2005 when some changes were introduced. The website of the Department of GST has been excellent since the beginning of its operations in 2006. This department conducted extensive media advertising during its development period and keeps on-going nationwide education campaigns on radio, television, and newspapers. The website of the Customs and Excise Department is also very good. The two tax departments also provide good information in education pamphlets which are also included in their websites.

The GST Department has an organizational structure based on functions. Thus, it has a Taxpayer Service Division but with only two staff in Belize City and one staff in each of their three district offices. The Income Tax Department does not have a functional organizational structure and thus, some core tax administration functions, such as taxpayer services, are absent from the structure. This department used to provide phone numbers in their educational pamphlets and now include a telephone number for taxpayer services on their website, but no staff is exclusively dedicated to the service of taxpayers. The absence of a proper taxpayer service function causes a large amount of errors in tax returns data, requiring additional manual checks in filing, processing and auditing. The Customs and Excise Department has an organizational structure that has developed piecemeal and obsolete procedures, but they are undertaking a modernization process centered in the implementation of Asycuda World which would allow automation of about 90 percent of their procedures. They take consultations from the public through a form included in their website. A phone number is also provided on their website.

(iii) Existence and functioning of a tax appeal mechanism

Score D: The tax appeal process is not functioning since the two Appeal Boards have not been operational in years. Objections can be submitted to the Commissioner but if there is disagreement with this decision, there is no other effective mechanism for appeal. In some cases, appeals are being dealt with in an informal way and are resolved through negotiation, although not in the case of the general sales tax.

The legislation defines the appeal process as comprising three appeal mechanisms: objection, tax appeal, and court. Taxpayers can first present their assessment objections to the Commissioner. If the taxpayer does not agree with the Commissioner's decision, he can present his objections to the Appeal Board. If the taxpayer disagrees with the decision of the Appeal Board, he may present his complaint to the Supreme Court.

The tax legislation refers to two Appeal Boards, one for GST disputes and another one for income and business tax disputes. In the case of the GST, disputes may arise at a later stage when taxpayers are audited since the GST is based on self-assessments that are taken as submitted. However, none of the two boards have been active in years. The Department of GST indicated that there has been no need to activate the GST Appeals Board as the tax is relatively new and most cases are addressed and resolved at the objection level. The Appeal Board for Income Tax has not operated since 2000. As a result, some appeals have been dealt through interaction and eventual negotiation of assessments. An appeals system is a necessary component to balance the powers to tax. Therefore, the dispute resolution system should be a separate function with specialized staff. The current dispute resolution system in Belize creates opportunity for discretion.

For offences under the Customs and Duties Act where the penalty imposed or the amount ordered to be paid by the court is more than $20,000 dollars, an appeal may be filed to the inferior; and if the application is refused by the inferior court, the appellant may apply to the Supreme Court.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Score (scoring method 2): **C**

(i) Controls in the taxpayer registration system

Score C: Taxpayers are registered in database systems for individual taxes, which are not linked. Linkages to other government registrations systems are non-existent, but surveys of potential taxpayers are undertaken occasionally.

Both tax departments, the Income Tax Department and the Department of GST, register taxpayers and issue a taxpayer identification number (TIN) with six digits plus a suffix to designate tax type. The TIN is used by all three revenue administrations, i.e. the Income Tax Department, the Department of GST, and the Customs and Excise Department. However, the administrative departments maintain taxpayer information in separate databases and those databases are not linked except in the case of the Department of GST and Income Tax who utilize the Standard Integrated Tax Administration System (SIGTAS). The registration system is electronic and uses specialized software.

The taxpayer register is not accurate or current in the case of the Income Tax Department. Entities are improperly categorized, not all taxpayers are in fact registered, and the number of inactive taxpayers is high (over 8,000 of close to 16,000 registered business taxpayers are inactive). The taxpayer registration system is not linked to other relevant government registration system. Not even the Income Tax Department and the Department of GST formally interchange information. New businesses are required to register with the Registrar General and Registrar of Companies, but there is no automatic arrangements for information about new registrants to be passed to the revenue administration departments. Also, invoice data received by Customs is not used to cross check the registration base.

The Department of GST conduct registration drives in January of every year. Major registration drives were conducted at the time of the launch of the business tax in 1998 and again at the launch of the GST in 2006. Surveys of potential taxpayers were carried out in 2000 and 2006. As of end-September 2008, there were 2,800 registered taxpayers for GST, much less than business taxpayers, because the registration threshold for GST is higher than for business tax registration.

Table 3.10. Registered Taxpayers

Type of Tax	2005	2006	2007	2008
GST	--	2,380	2,440	2,801
Personal Income Tax	126,742	126,777	126,988	127,107
Business Tax	14,438	14,885	15,403	15,837

Sources: Income Tax Department and Department of General Sales Tax

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

Score C: Penalties for non-compliance generally exist, but changes to their level or administration are needed to give them a real impact on compliance.

Penalties for non-compliance with registration and declaration obligations exist but are seldom enforced. The GST Act establishes a fine for not non-registration of not less that BZ$5,000 and not exceeding BZ$10,000 or to imprisonment for a period not exceeding two years or both. But since the registration system has no inter-linkages with other administrative requirements, there is no easy way to identify taxpayers who have failed to register. Reliance is made on local knowledge to identify new registrants. There are no penalties for not registering with the Income Tax Department.

Indications are that about 10 percent of registered GST taxpayers have multiple returns outstanding, but the IT system relating to non-filers is not fully operational so the task is partially manual. The non-filing rate for business tax is over 70 percent. Part of this is explained by a taxpayer register that is seriously compromised and needs revision, but is also explained by weak compliance enforcement. Non-filer reports are not produced on a regular basis by the

Department of Income Tax. For GST, a non-filers report is generated monthly and enforcement procedures are activated immediately.

The penalty for not filing a return on income tax is B$5 a day but the penalty should not exceed BZ$1,000. If an entity fails to report receipts subject to business tax, the unreported receipts will be taxed at 50 percent plus any other penalties. For both, the GST and business tax, the late filing fee is 10 percent of the outstanding balance and the interest on arrears is 1.5 percent per month. In practice, compliance is a challenge for the tax departments. The Income Department has only two people working on enforcement and the Department of GST has seven people assigned to the Enforcement and Collection Division. The Department of GST feels that meaningful enforcement would require taking taxpayers to court, but the process tends to be prolonged due too numerous adjournments (up to six months) and their human resources limited.

Offences and penalties are covered in the Customs Regulation, articles 107-117. An importer or agent entering any goods who fails to comply with the requirements of the customs law applicable to the goods entered would be liable to a fine not exceeding BZ$1,000 or to imprisonment for a term not exceeding12 months, or to both, and in addition, all such goods in respect of which the offence was committed would be forfeited.

(iii) Planning and monitoring of tax audit and fraud investigation programs

Score C: There is a program of tax audits but audit programs are not based on clear risk assessment criteria.

The Income Tax Department undertakes business tax and personal income tax audits, the latter through employer's tax audits. In FY 2006/07 there were 573 personal income tax audits and 381 business tax audits. The audit function lacks a formal system and has a discretionary style in the Income Tax Department. Risk-based audit case selection is not in place, but it is being introduced. Taxpayers are selected through tips or by specific sectors where compliance has been low. There is no annual audit plan, no procedures manual, no standard reporting, and no performance measurement. Audit is also negatively affected by the absence of interpretations, leading to similar cases being treated differently and resulting in inequity. Audit is performed by 5 assessors and 8 inspectors in Belize City, and by 9 assessors and 3 inspectors in the three district branches, i.e. a total of 22 of the total 85 staff in the Income Tax Department are assigned to audit activities. This represents a significant increase, as only eight people were conducting audits in mid-2007. Audits in districts are more limited.

The Department of GST has a documented annual audit plan. The plan is annual and was first introduced in April 2007. The department uses risk based criteria for the selection of some audits. Some audit cases would not normally be captured by a risk-based system, for example those based on local knowledge, and others flagged for cross-checking resulting from another audit. 465 audits were completed in FY 2007/2008. Training has been provided by the IMF CARTAC on the design of risk based audit selection and a structured approach to annual audit planning. For the first eight months of operations since mid-2006, auditors were almost fully engaged on advisory visits and few audits were conducted. There were no annual audit plans prepared or performance standards established. Selection for full audit and for refund checks was therefore ad hoc and subjective. Since its creation in 2006, 22 out of the 52 staff of the Department of GST have been assigned to audit activities.

Customs undertakes pre-clearance inspections by examining invoices. Entries are lodged manually, entered into the system by a data entry operator, and then processed manually. Following assessment, the result is entered into the system and subsequently acquitted by the cashier after duty has been paid. There is no capacity to audit entries once they have been cleared. Customs procedures are not fully automated, risk-based controls are not employed, and post-clearance audits are not conducted. Customs in Belize continues to base its core procedures on 100 percent verification of cargo, rather than using risk assessment and selective targeting of high risk cargo. Apart from the impossibility of checking every consignment properly, customs does not have the equipment to do even a limited check with any rigor. The cargo checking regime is inefficient given the amount of cargo entering the country and the limited resources available. The department has a staff of 160: 60 are stationed in Belize City, 30 at Corozal, and 70 for the international airport and the remaining four district offices.

PI-15 Effectiveness in collection of tax payments

Score (scoring method 1)**: D+**

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year

Score D: The debt collection ratio for total arrears was only 5 percent in FY 2007/08. This ratio increased to 27 percent after excluding land taxes. Nonetheless, this debt collection ratio is well below 60%. The total amount of tax arrears, including those on land property taxes, is significant at 17 percent of total tax collection in FY 2007/08.

Arrears for personal income and business taxes as well as for GST have grown in the past two years, as shown in Table 3.11 below. The ratio of income and business tax arrears to the collection of these taxes reached almost 15 percent in FY 2007/2008, up from 8.4 percent for FY 2006/07. This is explained by a constant increase in business tax arrears since at least 2003/04.

Table 3.11. Income/Business and GST Tax Arrears as a Percent of Collected Revenue (In Belize Dollars)

Type of tax	FY 2006/07			FY 2007/08		
	Tax revenue	Arrears at year-end	Percent of revenue	Tax revenue	Arrears at year-end	Percent of revenue
Income/business tax	138,201,540	11,650,489	8.4%	180,092,769	26,522,043	14.7%
General sales tax	127,696,761	1,407,208	1.1%	168,670,190	8,231,617	4.9%

Sources: Income Tax Department and the Department of General Sales Tax

The debt collection ratio for income and business taxes (i.e. the percentage of collected arrears to the stock of arrears) has been of only 14 percent for the past two years, down from 22 percent in FY 2005/06; the ratio was 27 percent if collection of GST arrears is included (see Table 3.12).

Table 3.12. Stock and Collection of Tax Arrears
(In Belize Dollars, unless otherwise specified)

	For Personal Income/Business Taxes			Including GST
	FY 2005/06	**FY 2006/07**	**FY 2007/08**	**FY 2007/08** 1/
Stock of Tax Arrears at beginning of FY 2/	8,796,384	10,855,115	17,810,496	19,217,704
Stock of Collectable Tax Arrears at beginning of FY	7,396,489	8,481,360	15,623,492	18,329,377
Tax Arrears collected during the FY	1,934,971	1,578,381	2,490,210	5,196,095
% of Collected Arrears to Stock of Arrears	22.0%	14.5%	14.0%	27.0%
Tax Collection during that year 3/	129,457,848	138,201,540	180,092,769	348,762,959
% of collectable arrears to collection	5.7%	6.1%	8.7%	5.3%
% of total stock of arrears to collection	6.8%	7.9%	9.9%	5.5%

Source: Income Tax Department and Department of GST

1/ Includes GST arrears and collection. GST was introduced in July 1, 2006.
2/ Including arrears in dispute.
3/ Previous information only covers personal income and business tax. This includes GST collection.

Available data show that arrears related to land property taxes are large and amounted to BZ$ 82,281,274 as of October 2008. This amount comprises arrears owed by leasehold property owners at BZ$ 17,227,088 and arrears owed by freehold property owners at BZ$65,054,186. Assuming that land tax arrears were of the same magnitude at the beginning of FY 2007/08, the total value of land tax arrears represented 81 percent of the total stock of arrears as of FY 2007/08 and explain in large part the ratio of total arrears to tax collection at 17 percent (see Table 3.13). With the inclusion of land property taxes, the collection ratio drops to only 5 percent, assuming that no land property taxes were collected at it appears to be the case. Regarding customs duty arrears, the Customs Department indicated that there are no arrears as all duties and import taxes are paid before the goods are released to the importer.

Table 3.13. Stock and Collection of Tax Arrears for
Personal Income, Business and Land Taxes, FY 2007/08
(In Belize Dollars, unless otherwise specified)

Stock of Tax Arrears at beginning of FY 1/	101,498,978
Stock of Collectable Tax Arrears at beginning of FY	18,329,377
Tax Arrears collected during the FY	5,196,095
% of Collected Arrears to Stock of Arrears	5.1%
Total tax Collection during the FY	591,662,424
% of collectable arrears to collection	3.1%
% of total stock of arrears to collection	17.2%

Sources: Income Tax Department; and Department of General Sales Tax.

1/ Including arrears in dispute.

There is no national strategy, plan or oversight of debt collection. Tax arrears are not reported and monitored on a regular basis, only when requested. Debt is not managed by age or by size of taxpayer. There is no consistent approach to which debt should be pursued as a priority and as a result, most activity is reactive rather than a part of a deliberate collection enforcement strategy. GST does have a strategy but it is difficult to fully implement because of the limitations of the computerized system.

The Department of GST has a good range of powers to collect arrears including asset seizure, garnishee, installment arrangements, and requesting the court to issue a distress warrant. However to date, the only collection powers used have been garnishments, court orders and installment arrangements. While this has put a significant proportion of the total arrears under arrangement, indications are that little is actually being collected from arrears, although some refunds payable to default taxpayers have been withheld and transferred to arrears.

The collections unit of the Income Tax Department has not been empowered to manage the debt collection function. There is no clarification or guidelines on the authority to make decisions regarding installment payments, partial payments and mitigation.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Score A: All tax revenue is paid in directly into accounts controlled by the Treasury or transfers to the Treasury are made without delay on the same day that taxes are collected.

Taxpayers pay taxes mainly at the revenue administration offices and, if there is no office in a district, at the Treasury branch. Some tax payments are sent by mail and a few ones are paid at a commercial bank, the Atlantic Bank. Tax collected is transferred daily to the Consolidated Revenue Fund maintained by the Treasury and transfer advices are sent to the Accountant General. The funds are transferred to the Treasury without delay on the same day they are collected.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

Score D: Reconciliation of tax assessments, collections, arrears and transfers to the Treasury is not done.

Accounts reconciliation has not been taken place in years. The tax administration departments used to reconcile the accounts but the exercise has not been done in years. Thus, the difference between tax assessed and tax received by the Treasury cannot be explained, which is what this dimension seeks to assess.

PI-16 Predictability in the availability of funds for commitment of expenditures

Overall score (score method 1)**: D**

(i) Extent to which cash flows are forecast and monitored

Score D: Cash flow planning and monitoring are not undertaken by the Treasury or any other unit at the MoF.

The Accountant General is responsible for budget releases to the line ministries. Cash flows are not prepared. The Accountant General undertakes daily calculation and consolidation of the government's cash flow position of the Consolidated Revenue Fund. Cheques and other forms of payment to the Treasury are not automatically cleared and recorded in the general ledger due to the lack of a bank payments settlement system. It also lacks key information on external grants which affect revenue and expenditure flows.

No systematic cash flow forecast mechanism has been developed. Cash flows are better characterized as fund requests dominated for the most part by some period allocation of the budget estimates, rather than incorporating an explicit expenditure profile element. Thus, the Treasury advances one twelfth of the approved recurrent expenses at the end of every month and disburses funds for approved capital works and investments on request. Whenever requests made by budgetary units cannot be covered with available funds, the Treasury resorts to overdrafts from the Central Bank of Belize. Overdrafts are incurred at the same time that there might be unused funds and idle cash balances for certain programs and activities sitting in commercial banks. The priority rankings for the Accountant General are salaries, then other recurrent expenditures, and then capital expenditure.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Score D: MDAs are provided with no reliable indication of actual resource availability for expenditure commitment.

MDAs cannot predict whether they will have the appropriated funds released on a timely manner to comply with the timing and amounts agreed on and committed with suppliers and contractors.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Score D: Significant in-year budget adjustments of MDAs are frequent and not done in a transparent manner.

Adjustments to budgetary allocations should be made by normal ex-ante virement procedures or possibly by issuing a supplementary budget once or so within the year. Alternatively, adjustments to budgetary allocations may occur by ex-post regularization of unauthorized spending. In Belize, in-year adjustments to the budget are not regulated in the appropriation regulations. Virements are routinely approved at the end of the year after the spending ceilings set by the appropriations have already been exceeded. The frequent use of virements and ex-post regularization is an indication of poor budgetary planning and undermines the authority and legitimacy of budgetary appropriation.

PI-17 Recording and management of cash balances, debt and guarantees

Overall score (scoring method 2) **C+:** Not all cash balances of government bank accounts are easily identified, calculated and consolidated on a daily basis.

(i) Quality of debt data recording and reporting

Score B: Domestic and foreign debt records are complete, updated and reconciled on a monthly and quarterly basis. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and flows) are produced at least annually.

The Central Bank of Belize only has responsibility for recording government debt. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) is maintained by the Central Bank to keep transactions related to domestic and foreign official debt up-to-date. The CS-DRMS provides fairly comprehensive data. In the case of external debt, information on debt and debt service are recorded in the system (transactions are posted daily). In the case of domestic debt, only the debt in the form of loans is recorded in the system. The Central Bank also reconciles the data on stocks of domestic and external debt with local and international multilateral banks and minor errors with flows surfaced only occasionally. The IMF has made recommendations for a debt management unit in the MoF but to date this has not happened. The Central Bank, nonetheless, is looking to develop this area and some basic training using CS-DRMS tools was conducted in September 2008.

The MoF also compiles debt data for the budgetary central government and the institutional coverage is comprehensive. A monthly table for disbursements, interest, and loan repayments is prepared. This table is reconciled with the Central Bank of Belize, but is not published. The MoF uses an exchange rate to record the transactions in local currency that includes the commission paid to the Central Bank of Belize for handling the transaction. Debt statistics for the social security fund and extra-budgetary units are not compiled.

Statistics for central government debt are compiled and disseminated on a monthly basis. The lag for these data is eight months and three months lag for data without any breakdown. Thus, official debt statistics do not meet the GDDS recommendations for timeliness which require that debt statistics for the central government be available within two quarters after the end of the reference period.

(ii) Extent of consolidation of the government's cash balances

Score C: Calculation and consolidation of budgetary-central-government cash and bank balances take place on a monthly basis, inclusive of check payments cleared. A large portion of unreported funds, mainly donor-funded projects (equivalent to 3 percent of GDP), is not consolidated in the cash balance sheet.

Currently the Accountant General's Office controls the Consolidated Revenue Fund which comprises two main sub-accounts: (1) the collection accounts from the Tax and Customs Departments, and (2) the disbursement accounts from which cheques and electronic deposits are cleared. The Accountant General does not receive statements on special bank accounts, where proceeds of donations and loans from cooperation agencies and private entities as well as own funds from several autonomous government agencies are deposited. The Consolidated Revenue Fund sub-accounts are held at the Central Bank of Belize. It is unknown, however, what the total number of bank accounts held by central government units is.

The Finance and Audit Act (2005) does not refer to the Single Treasury Account. It does not require that all the accounts of the non-financial public sector be controlled by the Accountant General's Office and form part of the Single Treasury Account. This law does not establish the underlying principle of centralizing revenue and expenditure around the Single Treasury Account in local and foreign currencies, both collection and payment accounts simultaneously. There is no financial regulation requiring the consolidation of central government entities' bank account in the first instance.

No legislation requires either that the Accountant General be given control to authorize the opening of new bank accounts by public entities operating outside the scope of the budgetary central government. As a result, cash balances in central government bank accounts (including those of statutory bodies and extra-budgetary/special funds) are difficult to identify and consolidate periodically. Cash consolidation is not complete until a full reconciliation with all the commercial banks with which the Accountant General has agreement with is completed at the end of each month.

The MoF has agreements with the Central Bank of Belize on the maintenance of the government account systems and has agreements with three private banks concerning payment services. There is a single treasury account structure in the Central Bank of Belize for operating payment services related to government budgetary revenues, expenditure and bond finance, but the single treasury account is not functional.

Treasury payments are operated and authorized through a system (Smart Stream) customized by a private vendor for use of the MoF. Appropriation limits are controlled by Smart Stream and financial limits for the relevant MDAs payments are authorized by the MoF and disbursed through the Central Bank of Belize.

(iii) Systems for contracting loans and issuance of guarantees

Score C: Central government's contracting of loans and issuance of guarantees are always approved by the MoF, i.e. a single responsible government entity, but are not generally decided on the basis of clear guidelines, criteria or overall ceilings.

According to the Finance and Audit Act, loan guarantees cannot be contracted without prior authorization of the National Assembly. This arrangement is not carried out as part of the budget process. An overview of proposed new guarantees and the debt limits are not presented in the budget documents prepared by the MoF. Neither are all existing public guarantees on private loans and overdrafts reported in financial statements. Normal terms for guarantees are not specified in the government regulations.

Most government borrowing is taking place in the domestic market. The MoF is the sole authorized central government agency for contracting and managing domestic and foreign loans. No debt strategy which defines criteria for contracting loans and analyzes the medium-term fiscal implications is presented as part of the annual budget proposal submitted to the National Assembly.

PI-18 Effectiveness of payroll controls

Score D+ (score method 1)**:** Payroll and personnel data are linked for permanent staff; personnel records are being updated on a timely basis; and the authority to change personnel records and the payroll is restricted. However, no payroll audits have been undertaken within the last three years.

The number of full-time personnel grew moderately by 80 staff over the past two years to a total of 8,484 public workers in FY 2007/08. One fourth of the total is teachers working for private schools. Doubts, however, prevail in regard to the total number of central government employees and the value of personal emoluments, which include salaries of permanent staff, wages of temporary personnel, and social security contributions. The payroll declined by almost 1 percent of GDP to 9.2 percent in FY 2007/08, down from 10.0 percent in 2005/06.

While this section provides some information on temporary personnel, the management of temporary staff does not impact the rating of PI-18. They are considered "casual labor" and are dealt with in PI-20.

(i) Degree of integration and reconciliation between personnel records and payroll data

Score A: The personnel database and payroll for permanent staff are directly linked and, thus, ensure consistency and monthly reconciliation.

The Treasury is in charge of the central government payroll and the Human Resources Management Information System at the Ministry of Public Services manages the personnel database for the central government. The personnel emolument amounted to approximately 42% of primary expenditures in FY 2007/08. Personnel data comprise permanent and temporary public employees, who are paid through the salaries and wages payrolls, respectively. The payroll for permanent staff is underpinned by a computerized personnel database that provides a list of all staff who should be paid every month and which can be verified against the personnel records of the relevant institution. Thus, there is a complete degree of integration and reconciliation between personnel records and payroll data for permanent staff, which is what is evaluated under this indicator.

The Human Resources Management Information System is responsible for maintaining the central government personnel database up-to-date. The Human Resources Management Information System is already integrated into the Smart Stream-based payroll system which automates direct payments to the bank accounts of personnel and has the capability of cross-referencing the data with the data from the Accountant General on a monthly basis.

For analytical rather than evaluation purposes for this indicator, it is useful to know that the payroll data for wages of "unestablished staff" are incomplete due to the constant rotation and renewal of personnel within various MDAs. Temporary staff is estimated at an additional 20 percent of total public employees because the "unestablished" employees have not been adequately integrated and reconciled in the payroll system. In-year budget reports provide details on the cost and the number of permanent workers but only the cost of temporary staff at MDAs.

(ii) Timeliness of changes to personnel records and the payroll

Score A: Required changes to the personnel records and payroll are updated on a monthly basis in time for the following month's payments. Retroactive adjustments are rare.

Since April 2008, management of the personnel database has been centralized and delegated to the Human Resources Management Unit under the Ministry of Public Services. There are 10 people working in the Human Resources Management Unit to deal with personnel records down to the state level. Previously, ministries and departments maintained their personnel database.

The current average delay between a personnel change and the corresponding payroll change is two to four weeks. MDAs inform the Human Resources Management Information System of changes by sending the proper documentation.

(iii) Internal control of changes to personnel records and the payroll

Score A: The authority to change records and payroll is restricted and results in an audit trail.

Only the Accountant General has authority to introduce changes to the payroll and, since April 2008, only the Human Resources Management Unit under the Ministry of Public Service has the authority to make changes to personnel records. This unit requires proper documentation sent by authorized officer from MDAs in order to include new personnel, promotions, retirements as well as changes in salary grades, scales and the number of family dependents related to each employee, among others. The authority for changes to personnel records and payroll is restricted to a list of named officers.

The Public Service Commission approves promotions and then sends the information to the Human Resources Management Unit at the Ministry of Public Service for updating. This commission also has responsibility under the Constitution for setting payment rates and determining the classification of jobs. Interviews for new positions are held by the ministry where the position is open together with representatives form the Ministry of Public Service, based on which a recommendation is sent to the Public Service Commission.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

Score D: No payroll audits have been undertaken within the last three years.

The Office of the Auditor General has not conducted any partial or full payroll audits in years. No staff surveys been undertaken either.

The Accountant General processes the payroll, but the MoF has virtually no central oversight role. Also, the computerized and centralized personnel database was introduced only in April 2008. Thus, it is unclear whether any ghost workers might exist.

PI-19 Competition, value for money, and controls in procurement

Overall score (score method 2)**: D**

Apart from the payroll, the largest share in the budget constitutes the purchasing of goods and services which accounted for 25 percent of total primary expenditure in FY 2007/08 (up from 21 percent in FY 2005/06). A major deficiency constitutes the lack of a transparent contracting and procurement law advocating an open competition system to ensure the effective and efficiency use of public funds. The Finance and Audit Act (2005) only provides a section on government procurement and sale contracts which describes the duties and responsibilities of the Contractor General and the general rules and procedures under which open competition bids and other procurement methods are to be carried out. It does, however, inhibit fundamental provisions relating to open competition as the widely accepted practice and its infringement.

(i) Evidence on the use of open competition for awards of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)

Score D: Relevant data, such as records of awarded purchases, financial documents or procurement board evidence, are not available to assess the method used to award public contracts.

For awards of contracts and purchases below BZ$ 20,000, it is in the direct discretion of financial officers how small purchases through open competition are conducted. Purchasing requires three quotes from which the chief executive officer selects one after consultation with the financial officer and after performing proper due diligence.

There is no internal record of awarded contracts for small purchases kept by most MDAs. An open competition for small purchase is not published to the public through an official website or the media. The MDAs provide no commitments after registering the contract as a way of guaranteeing payments agreed with the government. Payments are generally requested upon presentation of an invoice which supports the partial or full provision of the goods and/or services.

(ii) Extent of justification for use of less competitive procurement methods

Score D: Regulatory requirements do not clearly establish open competition as the preferred method of procurement. In the absence of proper procurement legislation and internal control units in the government, non-open competition is widely used by financial officers of MDAs for awarding contracts to suppliers.

Financial regulations allow for cases in which only one provider meets or exceeds the price and quality requirements. The limited tendering procedure allows that the financial officer selects a provider upon a waiver authorized by the chief executive officer under special circumstances for technical reasons, collusion, events of extreme urgency or other exceptional reasons,

The Finance and Audit Act (2005) also allows the Government to select a supplier or purchaser from a register of qualified suppliers or contractors that is maintained by the MDAs accordingly. These mechanisms are widely used by the Government, the so-called selective tendering procedure, under those circumstances.

(iii) Existence and operation of a procurement complaints mechanism

Score D: No official process is identified to enable submitting and addressing complaints regarding implementation of the procurement process.

The law does not establish a structure and a number of mechanisms for processing complaints in relation to the procurement process.

PI-20 Effectiveness of internal controls for non-salary expenditure

Score D+ (score method 1)**:** Whereas the financial regulations set out the minimum standards for the financial management of MDAs, including expenditure authorization and the rules for virement, they are not always followed.

Internal control procedures for non-salary expenditure are generally deficient due to (a) poor commitment controls, lacking for the most part; (b) the use of ex-post virement (the process of regularization of unauthorized expenditures); (c) incomplete recording of transactions; and (d) breaches of controls due to ineffective budget accountability mechanisms. While sound financial internal controls exist in the Finance and Audit Act, for example, those against any public officer incurring expenditures without proper authorization (Section 24 (b) & (c)), modern budget rules and procedures have not been established so as to prevent malpractices from recurring, for instance, in the regular approval of supplementary funding.

(i) Effectiveness of expenditure commitment controls

Score D: Commitment control systems are generally lacking.

The Finance and Audit Act (2005) does not explicitly define expenditure commitments in public accounting. In general, expenditure commitment controls do not exist at all, except for debt service obligations. The appropriations approved for MDAs are allocated in accordance with the availability of cash. Only a few project officials, responsible for social investments and road construction, have managed to keep expenditure commitment under control.

During the fiscal year, the MoF has relatively little knowledge of and control over overall commitments leading to unauthorized spending, even between budget heads, and subsequent regularizations. Records of commitments, particularly those of capital III expenditure, obtained from contracts with vendors and requested by donors are maintained manually by the project managers outside the general ledger (Smart Stream) and are often incomplete.

The use of ex-post virement (regularization) makes the implementation of an effective control of expenditure ceilings very difficult. The Financial Orders of 1965 specify that virements must be approved in advance. Such ex-ante approvals, however, are often not sought and system weakness prevents central government and parliamentary oversight.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

Score C: Internal control rules and procedures aim towards primarily processing and recording transactions, which are understood by chief executive officers and accounting officers.

Financial regulations provide the framework for internal control rules and responsibilities to the Accounting Officers. While general in nature and well understood by the chief executive officers and head accounting and financial officers, the Financial and Audit Act fails to enforce the violation and surcharges (penalties) for not complying with internal controls.

Furthermore, no centralized financial control authority within the MoF is held responsible for ensuring greater understanding among public officials, disseminating new internal control standards, providing relevant training and overseeing their application and benefits to public financial management. The lack of such a unit has not enabled public officers to adopt an internal control culture for ensuring the financial integrity of their day-to-day government activities.

(iii) Degree of compliance with rules for processing and recording transactions

Score D: The core set of rules are not complied with on a routine or widespread basis due to the deficient organization related to the control of internal rules and financial procedures.

No central agency keeps record of MDAs complying with rules for processing and recording transactions. Accountant Generals are held responsible for providing technical guidance and supervising the due compliance in the implementation of budget and treasury rules and procedures, including those relating to processing and recording of transactions. The MoF is required to submit supplementary funds for approval by the National Assembly. However, supplementary funds are provided without prior approval and approval is sought retroactively at the end of the fiscal year. Thus, the Public Accounts Committee, which is part of the National Assembly, does not exercise a proper financial oversight role.

PI-21 Effectiveness of internal audit

Overall score (score method 1)**: D**

(i) Coverage and quality of the internal audit function

Score D: There are no internal audit offices within ministries monitoring compliance of accounting and financial internal controls.

The concept of internal audit is new in Belize. No central unit in the government is responsible and no legislation exists for this function which is widely considered an integral part of internal control. On the Auditor General's initiative, his office performs audits for a ministry or other public agency on their financial management and activities occurred in one fiscal year. By lacking this function, the monitoring of legality, integrity, support documents, and compliance with accounting standards and financial rules and procedures remains largely lacking.

(ii) Frequency and distribution of reports

Score D: Reports are non-existent and regular in most MDAs.

There are no rules for reporting internal audit reports. The largest service units report only occasionally to their management in the district, on request, and do not systematically submit internal audit reports to their line ministry, the MoF, or to the Office of the Auditor General.

(iii) Extent of management response to internal audit function

Score D: Since no internal audit reports take place, no internal recommendations are provided.

Since no internal audit function is taking place, there are no recommendations to implement.

3.5. ACCOUNTING, RECORDING AND REPORTING

PI-22 Timeliness and regularity of accounts reconciliation

Overall score (score method 2)**: C**

(i) Regularity of bank reconciliation

Score B: Bank reconciliation for all Treasury managed bank accounts takes place at least monthly, at aggregate and detailed levels.

There are no explicit rules known by all government agencies for the timeliness and government bank accounts reconciliation. There is a *Control of Public Expenditure* Handbook, however, that requires that every day the Office of the Accountant General receives the bank statements of the transactions undertaken the day before in relation to the three categories of bank accounts under its control (see PI-17). The Central Bank of Belize sends the account statements by electronic means. The same day, the information on the statements is incorporated into the general ledger's cash and bank accounts (embodied within Smart Stream), which enables automatic and immediate reconciliation and the detection of any difference. The categories of accounts which are not controlled by the Accountant General are not reconciled.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Score D: Reconciliation and clearance of suspense accounts and advances have not taken place at all.

Reconciliation and clearance of suspense accounts and advances are not carried out. The process of incorporating these accounts into the information that should be supplied to the Accountant General has been recently initiated. The purpose is to cluster them to facilitate monitoring and be able to reconcile and eventually clear them.

PI-23 Availability of information on resources received by service delivery units

Score D (score method 1)**:** No comprehensive data have been collected (through surveys or otherwise) of the availability of resources to service delivery units.

No comprehensive data have been collected (through Public Expenditure Tracking Surveys or other means) to evaluate the timeliness of payments and/or supplying of goods and services to front-line service delivery units. According to ministries, primary programs or other key service providers are well furnished with essential goods such as medicines, vaccines, and textbooks, which have been received on a timely basis throughout the past three years. However, it is unclear whether these key programs are receiving the essential goods and services in the required quantity and quality, and in the most economical and timely manner.

PI-24 Quality and timeliness of in-year budget reports

Overall score (score method 1)**: D+**

(i) Scope of reports in terms of coverage and compatibility with budget estimates

Score C: Reports provide timely and regular information on budget information both at an aggregate and MDAs level. This information is captured at the payment stage and, thus, is on a cash basis. Commitments are not registered.

The Finance and Audit Act (2005) does not specify the regular financial reports that the Accountant General should generate to explain budget execution through the fiscal year. Adequate and regular information on budget execution is essential for the Accountant General to be able to supervise fiscal performance and for the different entities to be able to manage their budgets. Information released through these reports is accounted for on a cash basis. No data on expenditure at the commitment stage are captured or monitored.

A monthly budget execution document available through Smart Stream shows the year-to-date and monthly performance of revenue collections as well as current and capital expenditure of the budgetary central government. The report includes those receipts collected by the tax and customs departments. Current expenditures are divided into personal emoluments, pensions, purchases of goods and services, domestic and foreign interest payments, and itemized transfers to public and private institutions. It also shows capital expenditures II and III funded by domestic and foreign sources, respectively. Smart Stream has the capability of reporting revenue and expenditure out-turns on a monthly basis, by administrative classification as well.

Other reports used for monitoring purposes include the records of reallocations supplements approved by the MoF and subventions and other transfers to autonomous government agencies, municipal councils and other public entities by administrative units on a weekly and monthly basis.

(ii) Timeliness of the issue of reports

Score C: In-year budget reports are not generated on a routine basis, but on request.

No regular information on budget execution is made available on a regular basis to the Financial Secretary or the MoF or to the Cabinet to monitor performance and if necessary identify new actions to get the budget back on track. No regular information is provided to the MDAs either for managing the affairs for which they are accountable. This is not a problem of lack of information or information technology problems, but rather a major weakness regarding monitoring budget execution.

In-year budget reports can be generated at any time and are automatically generated through Smart Stream in printed and electronic form. At present, only expense analysis reports (detailed dates of cheques paid and other forms of payment) and allocation-monitoring reports are routinely sent to MDAs on a quarterly basis within 4 weeks after the end of the quarter. Other useful reports are not routinely submitted to MDAs, though accounting and financial officers of MDAs can request them at any time. Until now, however, the MoF has not produced a well-defined set of reports for MDAs to warn them about their available resources in the budget so that they can better project and adjust their cash requirements as they move towards the end of the fiscal year.

(iii) Quality of information

Score D: Budget execution reports include some items that have not been reconciled and concern had arisen about the accuracy and completeness of the monthly information.

The reports generated through Smart Stream do not comprise all the information required for reconciling any inaccuracies and performing a complete fiscal and debt analysis on a timely basis. Information on non-tax revenues is not readily available, often reported as projected, and the actual amounts can be obtained with certain delay, on a quarterly and annual basis. Actual information on foreign grants is not readily available. There is a diversity of donor assistance, technical cooperation, and other external and domestic funds.

When a budget report is prepared on request, relevant information is missing such as a comparison between actual and budgeted revenues and expenditure, and by MDAs. Other missing information relates to disbursements effectively authorized and released through cheques or direct electronic deposits and partially or fully used. A column indicating the use of these monies is typically supported by a voucher number accompanied by invoices and other verifiable factual evidence.

PI-25 Quality and timeliness of annual financial statements

Overall score (score method 1)**: D+**

(i) Completeness of the financial statements

Score D: A consolidated government statement is prepared annually. Information on revenue, expenditure, bank account balances and the stock of other assets and liabilities is generally incomplete with omissions being a major concern.

The financial statements focus on the budgetary central government entities only. They include the financial operations of MDAs processed through the Accountant General, except those transactions by extra-budgetary units and the Social Security Board. Other public funds including donor-funded projects and several autonomous government agencies such as the University of Belize, the KHM Hospital and others are not included in the financial statements as complete and accurate information could not be obtained for those units, as most of them operate under special bank account, away from the internal controls of the budget system.

(ii) Timeliness of submissions of the financial statements

Score D: The production and submission of the final accounts and financial statements to the General Auditor had fallen seriously behind schedule in the past three fiscal years.

The Finance and Audit Act (2005) requires the government to submit the annual statements of sources and uses of public funds (revenue and expenditure out-turns) and the changes in financial assets and liabilities to the Auditor General within three months following the end of the fiscal year. This timetable has not been met for the past three fiscal years.

(iii) Accounting standards used

Score C: International accounting standards have not been fully applied, but

statements are presented in a consistent format.

Financial statements are presented in a consistent format, but are not in accordance with the definitions and nomenclature set forth in the International Public Sector Accounting Standards (IPSAS). Among others, the financial statements do not contain key information on the net financial worth or wealth position, namely, the decrease or increase in the government entities' net assets/equity between two reporting years under the particular measurement principles adopted and disclosed in the financial statements. Substantial disagreements persist in the financial statements produced in Belize based on cash and not on accruals.

3.6. EXTERNAL SCRUTINY AND AUDIT

PI-26 Scope, nature and follow-up of external audits

Overall score D (using methodology M1): All three dimensions received a D score.

(i) Scope/nature of audit performed (including adherence to auditing standards)

Score D: No annual audits had been published in years until 2007 when the financial statements for FY 2002/03 were audited and published. A statement for assets/liabilities could not be included due to unresolved problems that will also affect the financial audits of forthcoming fiscal years. Audits comprise transaction level testing.

The Office of the Auditor General is established under Section 109 of the Belize Constitution Act, Chapter 4 of the Laws of Belize, revised edition 2000, which provides independence to the Auditor General. The Auditor General is appointed by the Governor General, acting on the recommendation of both Houses of the National Assembly.

The Finance and Audit (Reform) Act of 2005 mandates that the Auditor General audit the accounts of all entities that collect, disburse or transact in any way with public monies annually. This includes all budgetary central government units and autonomous government agencies. However, autonomous agencies can only be audited when their related legislation or act mandates it so. In other cases, the Auditor General has no authority to audit the accounts of the autonomous agencies.

External audits have not been taking place. The Office of the Auditor General started examining the central government financial statements in 2007 and decided to start with FY 2002/03. Audits for previous years have not been conducted. The financial audit for FY 2002/03 was finalized in September 2007. Its findings and financial statements were published in the *Report of the Auditor General* of November 1, 2007. The report explained that a statement of assets and liabilities for FY 2002/03 was not included because of a number of problems, including lack of source documents on outstanding loans and unresolved issues with advance accounts, special funds, and deposits. The statement of public debt was not included either because as many as 40 percent of public debt transactions could not be audited due to the absence of source documents. This is the first annual report issued by the Office of the Auditor General in several years and included audit observations on significant issues, such as arrears of revenue, records management, bank accounts, financing accounts, contracts, inventory, and internal audit.

Work is on-going to complete the financial audits for FY 2003/04 to FY 2007/08 by September 30, 2008, which is the deadline for submitting the next annual report to the Prime Minister and Minister of Finance. These examinations will suffer from the same shortcomings for the data on assets/liabilities and public debt as the ones encountered for FY 2002/03. Recent legislation was approved recommending that the Auditor General be summoned by the Senate if the annual report, which should include the audited financial statements for the past fiscal year, is not presented. The Senate can then, after questioning the Auditor General, make a recommendation for the Auditor General's removal.

The scope of audit performed pertains to compliance auditing or audits of transactions, i.e. checking whether financial regulations and procurement procedures are followed. Value for money audits do not take place due to lack of staff expertise. The mandate is also unclear on this. Performance audits are not undertaken. Performance auditing standards and the reference framework, indicators, and target are not yet developed. Audit activities are guided by the International Organization of Supreme Audit Institution standards.

(ii) Timeliness of submission of audit reports to legislature

Score D: Audit reports had not been submitted to the National Assembly since FY 1988/89. After many years, the Auditor General submitted an annual report including audited financial statements for FY 2002/03 in November 2007. Those statements had a delay of more than four and a half years after the end of the fiscal year covered. Annual audit reports are scheduled to continue being prepared and published.

The Finance and Audit (Reform) Act of 2005 mandates that the Accountant General submit the financial statements of the central government to the Auditor General within three months after the end of the fiscal year and that the Auditor General submit the audited financial statements to the Minister of Finance within three months of receiving the accounts. The Minister would then cause the statements to be laid before the next meeting of each House of the National Assembly. However, this is not taking place in practice.

No audited financial statements had been sent to the National Assembly since FY 1988/89. It appears that some statements which were submitted by the Accountant General to the Auditor General for audit were being audited but none was tabled in the National Assembly. There are 12 parts to financial statements and all of these must be completed in order to say that the full statements have been audited. The Office of the Auditor General decided to start examining the financial statements for the FY 2002/03 to avoid going further back in time. Currently, the statements for 2003/04, 2004/05, 2005/06, and 2006/07 are being examined.

(iii) Evidence of follow up on audit recommendations

Score D: There has been no response to the audit recommendations provided in November 2007.

The report of the Auditor General of November 1, 2007 contained relevant recommendations but no action has been taken by the audited entities.

PI-27 Legislative scrutiny of the annual budget law

Overall score (using methodology M1) D+: One dimension scored B, another one C, and two D.

(i) Scope of the legislature's scrutiny

Score C: The legislature's review covers details of expenditure and revenue, but only at a stage when detailed proposals have been finalized.

The legislature consists of the National Assembly made up of the House of Representatives and the Senate. The members in the House are elected and those in the Senate are appointed. Thus, the Senate has no voting powers on the annual budget. The total members of the House are 31, each representing one of the constituencies in Belize. Currently 6 of them belong to the opposition party and 25 to the government party. The latter group comprises 16 line ministers, 5 state ministers, and 4 other members belonging to the government party but without portfolio. While the distribution between government party and opposition party members in the House depends on the election results, the government in power always has the majority. The total members of the Senate are 13, including five opposition senators, a representative of the private sector, a labour representative, and a representative from NGOs.

Practice has been that when the Prime Minister and Minister of Finance delivers his budget speech at the House around end-February, the draft annual budget document is distributed to the members of the House. The draft annual budget document includes (1) the budget speech which addresses the budget results for the previous fiscal year, underlying priorities for the draft budget, and budget proposals for the upcoming fiscal year; (2) a summary of proposed revenues and expenditure; and (3) detailed accounts for revenue, recurrent expenditure, capital II expenditure which is domestically financed, capital III expenditure which is externally financed, and public debt service.

The House does not propose any major changes to the budget other than corrections of errors or other minor changes. This is not surprising since all ministers are members of the House and the government party has the majority of seats. By the time the draft annual budget is tabled in the House, ministers have already discussed and agreed their budgets with the Minister of Finance. Therefore, the annual budget document is presented at the House at a stage when detailed proposals have been finalized and the difference between the draft and the final budget document is virtually non-existent. As indicated above, the Senate has no power to amend the budget. Consequently, the National Assembly does not exercise any real scrutiny on the proposed annual budget.

(ii) Extent to which the legislature's procedures are well-established and respected

Score B: Simple procedures exist for the National Assembly's budget review and are respected.

According to article 115 of the Constitution (revised version 2000), the Minister of Finance is required to present to the National Assembly the annual budget for the next financial year. However, there is no reference to a specific date or minimum time that should be provided to the National Assembly to review the annual budget. By tradition, the members of the House receive the draft budget document at the time of the first reading of the annual budget at the House, when the budget speech is delivered.

The Control of Public Expenditure (COPE) Handbook of December 1966 describes the steps that should be followed for the National Assembly's budget review and approval (see article 115, *The Annual Estimates*). Accordingly and close to practice, (1) the budget is presented to the House by the Prime Minister and Minister of Finance and tabled for the first session; (2) the House debates about economic developments, policy and the budget, and sends the annual budget for review to the Committee of Supply, which is part of the House; (3) the Committee of Supply reviews the annual budget and the Appropriation Bill, makes amendments after discussing them with the relevant Ministers, and passes the Appropriation Bill; (4) the Minister of Finance presents the amended annual budget and Appropriation Bill to the House and recommends that the bill be approved; (5) the House approves the annual budget and the Appropriation Bill. In practice, all the steps described above are followed other than the review to be undertaken by the Committee of Supply, which has been inactive for years. The total process takes two and a half weeks, mainly because two weeks elapse between the budget speech and the time when the House meets to debate the budget for only 2-3 days. The House approves the draft annual budget with no real objections since all 16 ministers are members of the House and the government party has the majority. After the budget is approved at the House, the annual budget and the Appropriation Bill are discussed for about one day at the Senate and approved without delays. Since the members of the Senate are appointed, they have no power to change the budget. Subsequently, the Governor General signs the Appropriation Bill at which point the bill becomes an act and starts being enforced.

(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)

Score D: The time allowed for the National Assembly to review the budget documents is about three weeks, which is insufficient for a meaningful debate.

The process of budget review starts late according to the PEFA measurement standard. A system is considered to be based on good practice when the legislature has a clear role and adequate time (defined as at least two months) to debate the annual budget and offer its views and counter-proposals to the executive. In the case of Belize, the National Assembly is given only three weeks. This comprises two weeks between the budget speech and the debate of 2-3 days at the House, and one day for the debate at the Senate.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Score D: Rules regarding in–year budget amendments exist but are usually not respected.

Some rules for in-year amendments to the budget are included in the Finance and Audit (Reform) Act of 2005. The Act does not provide yet for regulations. However, there are procedural rules in the Control of Public Expenditure Handbook of 1966 (one chapter on supplementary expenditure, another one on reallocations, and another one on excess expenditure). The handbook and the underlying financial rules (the Financial Orders of 1965 and the Stores Orders of 1962) need to be updated and supplemented. The government has already decided to hire a consultant to make recommendations for modernizing and revising the financial regulations and also identify weaknesses and inconsistencies in the Finance and Audit (Reform) Act of 2005. The Caribbean Development Bank will finance this undertaking.

The Act of 2005 prescribes that if a new or additional urgent expenditure is needed and it is not possible to wait until the next session of the House of Representatives, the MoF may approve expenditure to be financed from the Consolidated Revenue Fund by special warrant but should report it at the next meeting of the House. In practice, the MoF approves new and additional expenditure through supplementary allocations without the required approval from the National Assembly by recurring often to overdrafts from the Central Bank.

PI-28 Legislative scrutiny of external audit reports

Overall score D (scoring methodology M1): All dimensions scored D.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

Score D: The National Assembly did not examine the report of the Auditor General issued on November 1, 2007 despite valuable observations made for FY 2006/07, in great part because the National Assembly stopped its sessions in December 2007 because of the national elections to select a new government.

Prior to November 2007, the Auditor General had not submitted audit reports to the National Assembly since 1988/89. The report of November 2007 included financial statements for FY 2002/03 and significant observations of "particular concern" to the Auditor General related to the audit examinations for the FY 2006/07. However, the National Assembly did not examine the audit report due to lack of time prior to stopping its sessions in December 2007 because of the national elections process to select a new government. The National Assembly reconvened only after the new government took office in February 2008.

(ii) Extent of hearing on key findings undertaken by the legislature

Score D: The National Assembly conducted no hearings related to the findings related to FY 2006/07.

The National Assembly took no action with respect to key findings in the audit report of November 2007. The National Assembly did not conduct any hearings on the findings that emerged from the audit examinations of some ministries and departments during FY 2006/07 or conduct hearings with responsible officers from entities on which the audit report raised queries.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

Score D: Since the National Assembly did not examine the report of the Auditor General, it issued no recommendations.

Since the National Assembly did not examine the report of the Auditor General, it did not recommend any actions or sanctions to be implemented by the executive. In theory, the Public Accounts Committee should review the audit report, make recommendations to the National Assembly, and the Assembly would pass on those recommendations to the executive.

3.7. DONOR PRACTICES

This section uses three high-level performance indicators to assess donor practices which impact the performance of the country PFM system. Overall, current donor practices do not support the operational performance of the PFM system in Belize

D-1 Predictability of Direct Budget Support

Score C+ (scoring method 1)

(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)

Score C: In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15 percent. The deviation was 32 percent for FY 2005/06.

Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors. When received by the government's treasury, the funds will be used in accordance with the procedures applying to all other general revenue. Direct budget support may be channelled through separate or joint donor holding accounts before being released to the treasury.

Direct budget support constitutes an important source of revenue for central government in Belize. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection. Both the shortfalls in the total amount of budget support and the delays in the in-year distribution of the in-flows can have serious implications for the government's ability to implement its budget as planned.

In Belize, donors submit estimates of their expected disbursements to the government usually before the budget estimates are finalized, but they do not specifically coordinate a forecast for budget support and submit this to the government. Most estimates are provided on an annual basis with no indication of the month or quarter in which the donor expects the disbursement to take place. Also, donors provide their forecasts on an annual calendar basis rather than a Belize fiscal year basis which is what is needed for the budget preparation exercise if quarterly data are not available. This applies to the Inter-American Development Bank (IADB) and the Caribbean Development Bank (CDB).

As shown in the table below, in no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15 percent. The deviation was 32 percent for FY 2005/06. The reason for this shortfall and also for that of 2006/076 might be related to difficulties that Belize had at the time in servicing its debt. The larger amount of disbursements received in FY 2007/08 is because some loans/grants were agreed and initiated only during the budget year.

Table 3.14. Total Direct Budget Support: Budgeted versus Actual Total External Loans and Grants in BZ$

	FY 2005/06	FY 2006/07	FY 2007/08
Originally budgeted disbursements	193,752,073	222,510,149	119,835,148
Actual disbursement	131,870,590	190,694,095	137,050,084
Shortfall	61,881,483	31,816,054	(17,214,936)
As % of budgeted disbursements	32%	14%	-14%

Source: Budget Department, Ministry of Finance

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

Score A: By and large, the government can draw on budget support on the basis of reimbursement of expenditure or from grants disbursed with no conditions attached prior to disbursement. Thus, for the purpose of this indicator, it is considered that the government has control over the amounts it will receive and that quarterly disbursement estimates may not be required.

The main donors providing budget support to Belize are: (1) the IADB, (2) the CDB, (3) the Republic of China, and (4) the Republic of Venezuela. Donors make commitments to provide budget support, but do not provide a forecast of budget support disbursements quarter by quarter. Thus, Belize does not have a formal program schedule of disbursements by quarter from donors.
However, the government can draw on budget support on the basis of reimbursement of expenditures with no other conditions attached prior to disbursement. Thus, for the purpose of this indicator, it is considered that the government has control over the amounts it will receive and that quarterly disbursement estimates are not required and so this dimension gets the highest

score. [4]This is the case of the programmatic support provided by the CDB and the IADB. The government consults with program managers on their implementation capacity and expectations for the forthcoming year and includes disbursements in the budget that are consistent with these expectations. The disbursements are made directly to the government and, in some cases, directly to the bank account of the suppliers with the instructions copied to the government.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

Score D (scoring method 1)

(i) Completeness and timeliness of budget estimates by donors for project support

Score D: Donors do not provide budget estimates for disbursement of project aid at stages consistent with the government's budget preparation and with a breakdown consistent with the government's budget classification. Furthermore, donors do not provide budget estimates for the government's coming fiscal year at least three months prior to the budget preparation start. Donors provide estimates on an ad-hoc basis.

While the government through its spending units should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts), the government is dependent on donors for budget estimates and reporting on implementation for aid in-kind. Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

Predictability of disbursement of donor support for projects and programs affect the implementation of specific line items in the budget. Donors do not provide detailed budget estimates for disbursement of project aid after the initial project approval process. Consequently, the government does not have reliable and comprehensive information on the actual value and detailed composition of all donor assistance.

The Ministry of Economic Development does not have an accurate and reliable public investment database, although they are working on it. So even though project data at an aggregate is readily available, detailed breakdowns by expenditure category, function or sector are not readily available nor requested by the government.

(ii) Frequency and coverage of reporting by donors on actual flows for project support.

Score D: Donors do not provide quarterly reports within two month of the end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget.

[4] See the Clarifications to the PFM Performance Measurement Framework updated by the PEFA Secretariat in June 2008 and posted on its website.

Donors do not provide periodic quarterly reports to the government. Not even the European Union, which has set up an office at the MoF to coordinate with the European Delegation in Jamaica, reports data to the MoF on a regular basis. Thus, the National Authorizing Office could not provide to the PEFA evaluation team data on total disbursements for the FY 2007/08.

D-3 Proportion of aid that is managed by use of national procedures

Score D: Less than 50 percent of aid funds to the central government are managed through national procedures. The European Union, the Inter-American Development Bank, and the Caribbean Development Bank use their own procedures for accounting, audit, reporting, and procurement. China and Venezuela use their own procedures for accounting and reporting, but since they do not finance projects, procurement and audit are not assessed.

The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

The *Paris Declaration on Aid Effectiveness* of 2005 emphasizes the importance that donors align their procedures to those of the national system. Donors committed to base their overall support on partner countries' national systems and procedures. Donors also committed to implement, where feasible, common arrangements at country level for planning, funding, disbursing, monitoring, evaluating and reporting to government on donor activities and aid flows

However, none of the above describes the situation in Belize. The European Union, the IADB, and the CDB use their own procedures for procurement, accounting, audit, and reporting. China and Venezuela use their own procedures for accounting and reporting, but since they do not finance projects, procurement and audit are not assessed. Nonetheless, since procurement is a very weak area in Belize, donors are justified in not using the national system. The *Paris Declaration* indicated that donors have committed to progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes or adopt harmonized approaches when national systems do not meet mutually agreed levels of performance, which is not the case in Belize.

Table 3.16. Analysis of the flows of donor funds managed through national procedures

	Use of national procedures by donors			
Donors	**Accounting**	**Audit**	**Reporting**	**Procurement**
China	**x**	**n/a**	**x**	**n/a**
Venezuela	**x**	**n/a**	**x**	**n/a**
CDB	**x**	**x**	**x**	**x**
IADB	**x**	**x**	**x**	**x**
EU	**x**	**x**	**x**	**x**

Source: The Ministry of Economic Development and the EU National Authorizing Office

4. GOVERNMENT REFORM PROCESS

4.1. Description of recent and on-going reforms

Some progress has been made in recent years to reform the PFM system by undertaking a number of measures, although important challenges remain. A comprehensive and integrated government reform plan is non-existent at this point. The PEFA analysis in this report should assist with addressing the reform programme as a whole, i.e. across all components. It can also assist in guiding the prioritization and sequencing of such reform measures. The areas where the PFM system shows the greatest room for improvement are those which have scored a D or a D+.

The government intends to continue reforming the PFM system with assistance from the CDB, the IADB, and the IMF CARTAC. The measures introduced in past years include:

- A stronger legislative/regulatory framework, including the revision of the Constitution (2000), the Income and Business Tax Act (2000), the Customs Duty Act (2000), the Customs Regulation Act (2000), the Finance and Audit Act (2005), the GST Act (2006), and the GST Regulations (2006).
- More comprehensive information provided in the budget document.
- Publication of a comprehensive Public Sector Development Program for the first time in 2006.
- A database for project documentation and information is being developed at the Ministry of Economic Development.
- Improvements in tax administration and efforts to modernize the Customs Department.
- Linking the payroll to the computerized personnel data system for permanent staff.
- Clearing the backlog of external audit reports has been initiated with the publication of the report of November 2007, the first one since FY 1988/89.
- Improvements in expenditure control.

Building on these measures, the government is currently working to strengthen further tax administration by introducing risk-based audits with technical assistance from the IMF CARTAC; introducing a computerized system for Customs control and clearance based on ASYCUDA World; strengthening the Office of the Auditor General with IADB technical assistance and training; establishing a Debt Unit at the MoF to enhance the institutional framework for debt management and developing the capacity for debt sustainability analysis; continue developing a database for project information; introducing multi-year programme budgeting with IADB technical assistance; hiring a consultant with CDB financing to receive recommendations on an appropriate institutional framework for conducting macroeconomic management; and hiring a consultant with CDB financing to receive recommendations on updating PFM regulations that date back to mid-1960.

Institutionally, the reform measures are directed by the MoF. As the reforms continue, it will be important for the government to ensure that sufficient analytical capacities exist to lead and manage the reform process.

4.2. Institutional factors supporting reform planning and implementation

The reform measures described above emphasize the technical aspects of the PFM reforms. However, although the government has indicated its desire to strengthen its budget policy and planning processes, these measures will be ineffective in bringing about fundamental change in the way in which budgets are planned and executed if there are underlying institutional obstacles to reform. Specifically, the government's ability to meet its objectives for PFM reform hinges critically on its ability to overcome the following institutional obstacles: (i) the need for strong government ownership and leadership; (ii) overcoming low capacity to implement the reforms; and (iii) co-ordination and appropriate sequencing of the reforms.

4.2.1. *Government ownership and leadership of reform programme*.

Government leadership of a PFM reform programme can be taken to be evidence of government commitment to reform. High-level political commitment and leadership for reform will be required for the success of any programme, particularly when it comes to the reforms on strategic budgeting issues (through greater linkage between national development policies and plans and budgetary allocations), which require significant political certainty and direction.

4.2.2. *Overcoming low capacity to implement the reforms.*

The pace of reform has been hampered by constraints in implementation capacity. This is particularly the case with financial management capacities. The lack of analytical skills will adversely affect the government's ability to meet its PFM reform objectives. Another constraint to the ability to implement reforms could relate to inappropriate incentives (including pay and conditions) in government.

4.2.3. *Co-ordination and appropriate sequencing of reforms.*

A road map for reforms is necessary to specify a sequenced work programme with realistic timelines. The implementation of any comprehensive programme without appropriate sequencing would distract attention from focusing efforts on reaching priority objectives. There is a need for the MoF to set priorities and expected results, identify timelines for the medium-term, monitor implementation, and ensure good communication and co-ordination between central and line agencies and other government agencies, and also with donors.

Annex 1
Summary of Performance Indicators

Indicator	Score	Explanatory Details
A. PFM OUT-TURNS: I. Credibility of the Budget		
1. Aggregate expenditure out-turn compared to original approved budget (M1)	B	Deviations between actual and original primary expenditure were: FY 2005/06 = 1.9%; FY 2006/07 = 9.3%; FY 2007/08 = 6.5%. The deviation was in the order of 10% in one year.
2. Composition of expenditure out-turn compared to original approved budget (M1)	A	The average variance in excess of overall deviation was: FY 2005/06 = 3.1%; FY 2006/07 = 0.7%, FY 2007/08 = 0.9%. The variance did not exceed by more than 5 % in any of the last three years.
3. Aggregate revenue out-turn compared to original approved budget (M1)	A	Variations between original budget revenue and actual outturn were: FY 2005/06 = -4%; FY 2006/07 = 4.7%; FY 2007/08 = 3.2%. Central government revenue fell short 4 % in only one of the past three fiscal years.
4. Stock and monitoring of expenditure payment arrears (M1)	D D D	 (i) Data are insufficient to conclude whether the stock of arrears have increased or decreased over the past two years. Only expenditure arrears related to land acquisition from the private sector was provided by the Ministry of Natural Resources. (ii) There is no reliable data on the stock of arrears from the last two years.
B. KEY CROSS-CUTTING ISSUES: II. Comprehensive and Transparency		
5. Classification of the budget (M1)	C	The current budget classification is based on an administrative and economic classification consistent with GFSM 1986 standards. No functional classification is available.
6. Comprehensive of information included in budget documentation (M1)	C	Documentation includes: a) the fiscal deficit, b) current year's budget, and c) the summarized budget for both revenue, and expenditure including the current and previous year.
7. Extent of unreported government operations (M1)	D+ D C	 (i) The level of unreported extra-budgetary expenditure (other than donor-funded projects) represented more than 10 percent of total expenditure in FY 2007/08. It more than doubled since FY 2005/06. (ii) Economic and financial information on externally-funded projects are not readily available for purposes of fiscal analysis and planning.
8. Transparency of inter-governmental fiscal relations (M2)	D D D D	 (i) There is no rules based system for any horizontal allocation of transfers from the central government to local governments in Belize. (ii) City and municipal councils are not provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals. Earlier issued estimates are not reliable. (iii) Subnational governments submit their financial statements with long delays of up to three years. General government data are not consolidated. It is unclear what percentage of subnational government expenditure is collected.
9. Oversight of aggregate fiscal risk from	D	

Indicator	Score	Explanatory Details
other public sector entities (M1)	D D	(i) The central government does not consolidate fiscal risk issues into a report. Autonomous government agencies and public enterprises do not submit fiscal reports or annual audited accounts to the central government. Thus, the central government does not exercise any oversight role over them. (ii) No annual monitoring of local governments' fiscal position takes place. This limits the function of the Ministry of Local Government to solely compiling budget execution reports and then submitting them to the MoF, without any analysis being done on the impact on the fiscal position of growing subventions to local governments.
10. Public access to key fiscal information (M1)	C	The MoF prepares monthly budget execution reports that are available in printed form to anyone interested in having them. The reports are ready within one month after the end of the period. Monthly data were posted in the MoF website up to November 2006, when it was discontinued due to human resource constraints.
C. THE BUDGET PROCESS		
III. Policy-Based Budgeting		
11. Orderliness and participation in the annual budget process (M2)	B A D A	 (i) A clear annual budget calendar has been established by tradition, is adhered to, and allows MDAs enough time to complete their detailed estimates on time. (ii) The quality of the budget circular is very poor as it does not include ceilings approved by Cabinet which the budget entities can use as a basis for preparing their budget proposals. (iii) The National Assembly has approved the budget before the start of the fiscal year during the past three years.
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)	D+ D B D D	 (i) No forward estimates of fiscal aggregates are undertaken for at least three years on a rolling annual basis. No links are established between the annual budget, the setting of annual spending limits and a medium-term plan. The lack of a fiscal policy unit at the MoF hampers its capacity to migrate to a multi-year budget planning. (ii) Debt sustainability analysis is not undertaken annually by the Central Bank of Belize despite the country's high level of indebtedness. A debt sustainability analysis was performed in 2005 by the IMF as a pre-requisite for restructuring debt of the Development Finance Corporation and other debt. (iii) Sector strategies have not been prepared and the government never did a costing of capital and recurrent expenditures. (iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. In other words, investments are not selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations.
IV. Predictability and Control in Budget Execution		
13. Transparency of taxpayer obligations and liabilities (M2)	C+ C	 (i) Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is

Indicator	Score	Explanatory Details
		questioned due to substantial discretionary powers of the Commissioners and the Ministry of Finance. The tax Commissioners are empowered by law to waive off, after review of objection, additional taxes resulting from an assessment and, in the case of the general sales tax, reduce or waive off the penalty to late filers. The Minister of Finance has almost total discretionary power, although some of his decisions are required to be published in the *Gazette.* He is empowered by law to waive off the tax principal as he sees fit in the case of the personal income and business tax. In the case of the general sales tax, the law does not provide for the Minister of Finance to remit taxes.
	A	(ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes. Educational pamphlets are available on the revenue administration websites.
	D	(iii) The tax appeal process is not functioning since the two Appeal Boards have not been operational in years. Objections can be submitted to the Commissioner but if there is disagreement with this decision, there is no other effective mechanism for appeal. In some cases, appeals are being dealt with in an informal way and are resolved through negotiation, although not in the case of the general sales tax.
14. Effectiveness of measures for taxpayer registration and tax assessment (M2)	C	
	C	(i) Taxpayers are registered in database systems for individual taxes, which are not linked. Linkages to other government registrations systems are non-existent, but surveys of potential taxpayers are undertaken occasionally.
	C	(ii) Penalties for non-compliance generally exist, but changes to their level or administration are needed to give them a real impact on compliance.
	C	(iii) There is a program of tax audits but audit programs are not based on clear risk assessment criteria.
15. Effectiveness in collection of tax payments (M1)	D+	
	D	(i) The debt collection ratio for total arrears was only 5 percent in FY 2007/08, well below 60%. The total amount of tax arrears is significant and equivalent to 17 percent of total tax collection.
	A	(ii) All tax revenue is paid in directly into accounts controlled by the Treasury or transfers to the Treasury are made without delay on the same day that taxes are collected.
	D	(iii) Reconciliation of tax assessments, collections, arrears and transfers to the Treasury is not done.
16. Predictability in the availability of funds for commitment of expenditures (M1)	D	
	D	(i) Cash flow planning and monitoring are not undertaken by the Treasury or any other unit at the MoF.
	D	(ii) MDAs are provided with no reliable indication of actual resource availability for expenditure commitment.
	D	(iii) Significant in-year budget adjustments of MDAs are frequent and not made in a transparent manner.
17. Recording and management of cash balances, debt and guarantees (M2)	C+	
	B	(i) Domestic and foreign debt records are complete, updated and reconciled on a monthly and quarterly basis. Data considered of

Indicator	Score	Explanatory Details
	   C C	fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and flows) are produced at least annually. (ii) Calculation and consolidation of budgetary-central-government cash and bank balances take place on a monthly basis, inclusive of check payments cleared. A large portion of unreported funds, mainly donor-funded projects (equivalent to 3 percent of GDP), is not consolidated in the cash balance sheet. (iii) Central government's contracting of loans and issuance of guarantees are always approved by the MoF, i.e. a single responsible government entity, but are not generally decided on the basis of clear guidelines, criteria or overall ceilings.
18. Effectiveness of payroll controls (M1)	D+ A A A D	 (i) The personnel database and payroll for permanent staff are directly linked and, thus, ensure consistency and monthly reconciliation. (ii) Required changes to the personnel records and payroll are updated on a monthly basis in time for the following month's payments. Retroactive adjustments are rare. (iii) The authority to change records and payroll is restricted and results in an audit trail. (iv) No payroll audits have been undertaken within the past three years.
19. Competition, value for money and controls in procurement (M2)	D D D D	 (i) Relevant data, such as records of awarded purchases, financial documents or procurement board evidence, are not available to assess the method used to award public contracts. (ii) Regulatory requirements do not clearly establish open competition as the preferred method of procurement. In the absence of proper procurement legislation and internal control units in the government, non-open competition is widely used by financial officers of MDAs for awarding contracts to suppliers. (iii) No official process is identified to enable submitting and addressing complaints regarding implementation of the procurement process.
20. Effectiveness of internal controls for non-salary expenditure (M1)	D+ D C D	 (i) Commitment control systems are generally lacking. (ii) Internal control rules and procedures aim towards primarily processing and recording transactions, which are understood by the accounting and finance officers. (iii) The core set of rules are not complied with on a routine or widespread basis due to the deficient organization related to the control of internal rules and financial procedures.
21. Effectiveness of internal audit (M1)	D D C D	 (i) There are no internal audit offices within ministries monitoring compliance of accounting and financial internal controls. (ii) Audit reports are non-existent and regular in most cases. (iii) Since no internal audit reports take place, no internal recommendations are provided.
V. Accounting, Recording, and Reporting		
22. Timeliness and regularity of accounts reconciliation (M2)	C B	 (i) Bank reconciliation for all Treasury managed bank accounts

Indicator	Score	Explanatory Details
	 D	takes place at least monthly, at aggregate and detailed levels. (ii) Reconciliation and clearance of suspense accounts and advances have not taken place at all.
23. Availability of information on resources received by service delivery units (M1)	D	No comprehensive data have been collected (through surveys or otherwise) of the availability of resources to service delivery units through the line ministries.
24. Quality and timeliness of in-year budget reports (M1)	D+ C C D	 (i) Reports provide timely and regular information on budget information both at an aggregate and MDAs level. This information is captured at the payment stage and, thus, is on a cash basis. Commitments are not registered. (ii) In-year budget reports are not generated on a routine basis, but on request. (iii) Budget execution reports include some items that have not been reconciled and concern had arisen about the accuracy and completeness of the monthly information.
25. Quality and timeliness of annual financial statements (M1)	D+ D D C	 (i) A consolidated government statement is prepared annually. Information on revenue, expenditure, bank account balances and the stock of other assets and liabilities is generally incomplete with omissions being a major concern. (ii) The production and submission of the final accounts and financial statements to the General Auditor had fallen seriously behind schedule in the past three fiscal years. (iii) International accounting standards had not been fully applied.
VI. External Scrutiny and Audit		
26. Scope, nature and follow-up of external audit (M1)	D D D D	 (i) No annual audits had been published in years until 2007 when the financial statements for FY 2002/03 were audited and published. A statement for assets/liabilities could not be included due to unresolved problems that will also affect the financial audits of forthcoming fiscal years. Audits comprise transaction level testing. (ii) Audit reports had not been submitted to the National Assembly since FY 1988/89. After many years, the Auditor General submitted an annual report including audited financial statements for FY 2002/03 in November 2007. Those statements had a delay of more than four and a half years after the end of the fiscal year covered. Annual audit reports are scheduled to continue being prepared and published. (iii) There has been no response to the audit recommendations provided in November 2007.
27. Legislative scrutiny of the annual budget law (M1)	D+ C B D	 (i) The legislature's review covers details of expenditure and revenue, but only at a stage when detailed proposals have been finalized. (ii) Simple procedures exist for the National Assembly's budget review and are respected. (iii) The time allowed for the National Assembly to review the budget documents is about three weeks, which is insufficient for a meaningful debate. (iv) Rules regarding in–year budget amendments exist but are usually not respected.

Indicator	**Score**	**Explanatory Details**
28. Legislative scrutiny of external audit reports (M1)	D D D D	 (i) The National Assembly did not examine the report of the Auditor General issued on November 1, 2007 despite valuable observations made for FY 2006/07, in great part because the National Assembly stopped its sessions in December 2008 because of the national elections to select a new government. (ii) The National Assembly conducted no hearings related to the findings related to FY 2006/07. (iii) Since the National Assembly did not examine the report of the Auditor General, it issued no recommendations.
D. Donor Practices		
1. Predictability of Direct Budget Support (M1)	C+ C A	 (i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15 percent. The deviation was 32 percent for FY 2005/06. (ii) By and large, the government can draw on budget support on the basis of reimbursement of expenditure or from grants disbursed with no conditions attached prior to disbursement. Thus, for the purpose of this indicator, it is considered that the government has control over the amounts it will receive and that quarterly disbursement estimates may not be required.
2. Financial information provided by donors for budgeting and reporting on project and program aid (M1)	D D D	 (i) Donors do not provide budget estimates for disbursement of project aid at stages consistent with the government's budget preparation and with a breakdown consistent with the government's budget classification. Furthermore, donors do not provide budget estimates for the government's coming fiscal year at least three months prior to the budget preparation start. Donors provide estimates on an ad-hoc basis. (ii) Donors do not provide quarterly reports within two month of the end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget.
3. Proportion of aid that is managed by use of national procedures (M1)	D	Less than 50 percent of aid funds to the central government are managed through national procedures. The European Union, the Inter-American Development Bank, and the Caribbean Development Bank use their own procedures for procurement, accounting, audit, and reporting. China and Venezuela use their own procedures for accounting and reporting, but since they do not finance projects procurement and audit are not assessed.

Annex 2
Statistics used in the Calculation of Quantitative Indicators

Table 1. Out-turn of central budgetary expenditures
(In Belize dollars)

Budget item	FY 2005/06 Budget	Actual	FY 2006/07 Budget	Actual	FY 2007/08 Budget	Actual
Current expenditure	**493,715.095**	**546,386,856**	**561,685,262**	**600,704,213**	**585,234,290**	**601,510,343**
Personal emoluments	224,926,951	223,174,871	223,564,558	219,462,323	235,313,278	233,955,430
Goods and services	84,682,233	95,359,024	108,261,489	115,881,122	134,902,692	140,410,032
Pensions	34,513,844	40,101,778	39.802,215	39,991,873	39,019,482	42,299,527
Interest payments	118,339,662	153,636,926	145,571,920	167,181,679	106,276,413	110,711,003
Domestic	14,530,634	20,249,437	20,997,735	24,410,684	22,027,083	26,198,395
Foreign	103,809,028	133,387,489	124,574,185	142,770,995	84,249,330	84,512,608
Other transfers and subsidies	31,252,405	34,114,257	44,485,080	58,187,216	69,722,425	74,134,351
Capital expenditure	**146,530,143**	**84,446,874**	**103,050,011**	**114,329,035**	**117,999,441**	**137,607,957**
Capital II spending-domestic	80,768,951	54,883,315	54,199,460	80,589,667	49,956,293	72,351,605
Capital III spending-foreign	65,761,192	26,357,293	48,850,551	30,533,092	64,835,148	62,050,086
Net lending	-	3,206,266	-	3,206,266	3,208,000	3,206,266
Total expenditure	**640,245,238**	**630,833,730**	**664,735,273**	**715,033,238**	**703,233,731**	**739,118,300**

Source: Ministry of Finance.

Table 2. Administrative composition of central budgetary primary expenditure 1/
(In Belize dollars)

Ministry	FY 2005/2006 Budget	Actual	FY 2006/2007 Budget	Actual	FY 2007/2008 Budget	Actual
Office of the Governor General	452,986	259,980	317,076	281,983	323,157	285,988
Judiciary	4,252,338	4,209,049	5,394,804	5,267,049	5,979,026	5,788,060
Legislature	2,068,625	1,926,104	2,050,070	1,813,317	2,182,109	1,774,665
Ministry Public Service, Governance	7,671,593	6,425,937	3,535,786	3,687,627	3,561,965	4,779,373
Director of Public Prosecutions	969,329	857,127	914,625	879,300	1,044,689	987,137
Auditor General	850,505	864,563	903,312	1,080,976	1,309,922	1,149,549
Office of the Prime Minister	2,733,344	2.345,768	2,379,517	3,244,025	2,614,525	3,017,097
Ministry of Finance 2/	105,982,395	114,544,767	110,174,806	143,038,973	123,358,639	132,898,179
Ministry of Health	40,153,955	37,007,302	54,592,900	57,231,047	69,564,009	71,997,568
Ministry of FF. AA, Foreign Trade	9,382,912	8,992,477	8,223,292	8,837,715	8,779,134	9,129,012
Ministry of Education	132,139,946	133,509,797	135,038,868	142,838,898	144,338,871	160,582,262
Ministry of Agriculture and Fisheries	8,606,366	7,503,876	8,065,612	8,621,969	9,514,319	9,713,248
Ministry Nat. Resources and the Environment	9,949,053	9,223,422	11,962,637	14,004,593	12,805,654	13,519,690
Ministry Tourism and Civil Aviation	560,611	554,621	672,817	852,982	949,440	1,177,633
Ministry Publ. Util., Transp., Communic.	7,164,672	7,112,283	8,276,142	8,203,480	9,362,331	12,402,356
Ministry Human Devel., Social Transform.	4,902,369	4,341,240	6,222,744	5,652,223	6,570,654	6,150,484
Ministry of Works	19,454,937	16,014,476	17,983,652	19,243,744	22,523,236	24,562,677
Ministry of National Security	62,010,624	62,305,058	71,678,900	71,270,792	79,141,873	78,856,795
Ministry of the Attorney General	2,908,464	2,597,959	2,815,472	2,566,847	2,786,607	2,500,316
Ministry Econ. Devel., Commerce and Industry	7,390,433	4,437,604	8,203,776	8,027,881	8,882,379	8,378,075
Ministry of Housing and Urban Development	1,854,967	1,512,437	1,214,674	1,219,663	1,247,245	1,853,787
Ministry of Labor, Local Govt, Rural Developmt.	7,603,376	7,650,296	7,229,102	7,105,842	8,483,880	8,253,017
Ministry of Youth, Sports and Culture	1,655,722	1,650,140	2,421,218	2,347,541	3,590,506	3,393,977
Others 2/	15,424,862	14,993,228	41,000	-	-	-
Total	456,144,385	450,839,511	470,312,802	517,318,467	528,914,170	563,150,945

Source: Ministry of Finance

1/ Excludes interest payments and externally-financed, capital III expenditures, and net lending.
2/ Excludes interest payments.

Table 3. Administrative composition of central budgetary recurrent expenditures 1/
(In Belize dollars)

Ministry	FY 2005/06		FY 2006/07		FY 2006/07	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Governor General	270.986	259.980	312.076	277.782	318.157	281.186
Judiciary	4.252.338	4.209.049	5.199.804	4.988.373	5.919.026	5.643.229
Legislature	2.068.625	1.905.621	2.030.070	1.792.472	2.123.189	1.751.106
Ministry Public Service, Governance	7.637.593	6.061.973	3.520.786	3.646.190	3.511.465	3.977.980
Director of Public Prosecutions	969.329	857.127	914.625	872.005	1.044.689	987.137
Auditor General	850.505	864.563	903.312	1.080.976	1.299.922	1.145.618
Office of the Prime Minister	1.633.344	1.561.269	1.979.517	1.806.872	2.049.525	2.121.861
Ministry of Finance *	196.921.312	255.408.953	244.079.747	283.297.319	213.990.566	224.707.980
Ministry of Health	35.246.379	32.598.311	52.731.703	53.474.447	66.352.721	66.734.478
Ministry of FF. AA, Foreign Trade	9.182.912	8.395.196	8.173.292	8.837.715	8.764.134	9.129.012
Ministry of Education	115.596.805	115.446.352	121.776.868	123.096.755	141.433.549	146.809.520
Ministry of Agriculture and Fisheries	5.217.512	4.817.626	6.226.892	5.963.770	8.307.419	8.418.097
Ministry Nat. Resources and the Environment	6.556.947	6.520.114	8.757.637	8.298.870	9.894.825	8.608.666
Ministry Tourism and Civil Aviation	560.611	555.621	622.817	832.675	899.440	898.206
Ministry Publ. Util. NEMO, Transp., Communic.	7.099.672	7.048.682	7.455.142	7.255.845	7.862.331	10.958.488
Ministry Human Devel., Social Transform.	3.917.003	3.641.267	5.517.744	4.953.212	5.880.105	5.537.924
Ministry of Works	6.469.242	6.382.913	7.571.652	7.573.866	7.911.600	8.018.267
Ministry of National Security	59.765.774	60.628.621	69.458.900	68.604.456	76.303.963	75.220.981
Ministry of the Attorney General	2.399.464	2.166.056	2.295.472	2.290.046	2.591.607	2.346.784
Ministry Econ. Devel., Commerce and Industry	2.241.704	1.896.326	1.976.212	1.846.778	5.829.524	5.896.144
Ministry of Housing and Urban Development	1.599.967	1.327.089	1.114.674	1.119.851	1.142.147	1.066.685
Ministry of Labor, Local Govt, Rural Developmt.	6.528.358	7.369.918	6.679.102	6.496.774	8.333.880	7.950.851
Ministry of Youth, Sports and Culture	1.655.722	1.650.140	2.346.218	2.297.164	3.470.506	3.300.143
Others	15.072.991	14.814.089	41.000	-	-	-
Total	**493.715.095**	**546.386.856**	**561.685.262**	**600.704.213**	**585.234.290**	**601.510.343**

Source: Ministry of Finance

1/ Excludes interest payments.

Table 4. Administrative composition of central budgetary capital II expenditures
(In Belize dollars)

Ministry	FY 2005/06		FY 2006/07		FY 2007/08	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Governor General	182.000	-	5,000	4.201	5,000	4.802
Judiciary	-	-	195.000	278.676	60.000	144.831
Legislature	-	20.483	20,000	20.845	58.920	23.559
Ministry Public Service, Governance	34,000	363.964	15,000	41.437	50.500	801.393
Director of Public Prosecutions	-	-	-	7.295	-	-
Auditor General	-	-	-	-	10,000	3.931
Office of the Prime Minister	1.100.000	784.499	400,000	1.437.153	65.000	895.236
Ministry of Finance	27.400.745	9.566.474	11.666.979	23.717.067	15.644.486	18.901.202
Ministry of Health	4.907.576	4.408.991	1.861.197	3.756.600	3.211.288	5.263.090
Ministry of FF. AA, Foreign Trade	200,000	597.281	50,000	-	15,000	-
Ministry of Education	16.543.141	18.063.445	13.262.000	19.742.143	2.905.322	13.772.742
Ministry of Agriculture and Fisheries	3.388.854	2.686.250	1.838.720	2.658.199	1.206.900	1.295.151
Ministry Nat. Resources and the Environment	3.392.106	2.703.308	3.205.000	5.705.723	2.910.829	4.911.024
Ministry Tourism and Civil Aviation	-	(1.000)	50,000	20.307	50,000	279.427
Ministry Publ. Util. NEMO, Transp., Communic.	65,000	63.601	821.000	947.635	1,500,000	1.443.868
Ministry Human Devel., Social Transform.	985.366	699.973	705.000	699.011	690.549	612.560
Ministry of Works	12.985.695	9.631.563	10.412.000	11.669.878	14.611.636	16.544.410
Ministry of National Security	2.244.850	1.676.437	2.220.000	2.666.336	2.837.910	3.635.814
Ministry of the Attorney General	509.000	431.903	520.000	276.801	195.000	153.532
Ministry Econ. Devel., Commerce and Industry	5.148.729	2.541.278	6.227.564	6.181.103	3.052.855	2.481.931
Ministry of Housing and Urban Development	255.000	185.348	100,000	99.812	105.098	787.102
Ministry of Labor, Local Govt, Rural Developmt.	1.075.018	280.378	550.000	609.068	150,000	302.166
Ministry of Youth, Sports and Culture	-	-	75,000	50.377	120,000	93.834
Others	351.871	179.139	-	-	-	-
Total	**80.768.951**	**54.883.315**	**54.199.460**	**80.589.667**	**49.956.293**	**72.351.605**

Source: Ministry of Finance.

Table 5. Out-turn of central budgetary revenues
(In Belize dollars)

Revenue item	FY 2005/06 Budget	Actual	FY 2006/07 Budget	Actual	FY 2007/08 Budget	Actual
Tax revenue	**501,288,353**	**474,746,300**	**513,901,623**	**530,490,831**	**593,922,990**	**591,662,424**
Taxes on income and profits	135,578,509	129,457,848	135,067,421	138,201,540	170,256,297	180,092,769
Taxes on property	9,506,265	5,519,356	6,115,000	4,296,763	5,617,723	6,521,745
Taxes on goods and services	166,701,689	181,833,627	202,291,685	217,089,613	237,910,103	236,073,252
Intl. trade and transactions	189,501,890	157,935,469	170,427,517	170,902,915	180,138,867	168,974,658
Non-tax revenue	**45,052,872**	**55,092,070**	**49,753,368**	**56,302,514**	**56,998,180**	**84,283,720**
Licenses	12,342,645	10,246,836	11,179,600	10,922,924	10,423,300	13,219,068
Rents and Royalties	7,984,371	9,703,248	10,347,858	17,477,220	15,094,350	23,062,910
Property income	3,600,000	8,588,338	4,500,000	1,464,845	7,700,000	12,425,005
Government Departments	20,472,491	20,720,223	17,248,294	23,098,190	18,672,100	26,265,204
Total domestic revenue	**545,687,860**	**524,004,945**	**557,177,375**	**583,454,010**	**645,812,740**	**666,634,611**

Source: Ministry of Finance.

Table 6. Grants and Subventions to Extra-budgetary Activities
(In Belize dollars)

Extra-budgetary Fund/Special Fund	FY 2005/06	FY 2006/07	FY 2007/08
Belize Marketing and Development Corporation	221,242	786,548	252,000
Karl Heusner Memorial Hospital	-	12,240,000	6,437,083
Drug Abuse Control Council	262,601	-	22,721
National Library	1,344,660	1,344,660	1,399,992
Sports Council	700,00	1,228,112	1,385,715
University of Belize	-	-	8,683,146
Belize Agriculture Health Authority	-	-	1,325,000
Coastal Zone Management Authority	-	-	199,992
Solid Waste Management	-	-	92,951
Toledo Development Corporation	-	-	150,000
Belize Trade and Investment Development Service (BELTRAIDE)	-	-	724,992
National Institute of Culture and History	-	-	1,600,000
Belize Statistical Institute	-	-	1599,999
Coastal Zone Management Authority and Institute (CZMAI)	206,571	200,000	-
National Agriculture Health Services (NAHA)	849,993	1,153,709	-
Development Finance Corporation	1,843,845	3,206,266	3,206,266
Public Utilities Commission			
Total	4,729,612	20,159,295	27,079,857

Source: Ministry of Finance.

Table 7. Capital III Transfers to Special Funds
(In Belize dollars)

Special Fund/Project	2005/06	2006/07	2007/08
146: Public Awareness Campaigns	-	-	14.571
203: Banana Industry Project	-	129.152	133.036
209: Forest Modelling & Inventory Management	-	-	5.530
364: Social Investment Fund	501.265	1.919.974	4.921.147
377: Poverty Alleviation	-	-	6.679.251
409: Tourism Development Plan	1.009.471	-	-
629: Housing Project	454.042	-	-
664: Rural Water Projects	-	-	16.504
676: Southern Highway TA (ESTAP)	344.209	306.090	353.483
679: Home Improvement Grants & Loans	48.683	-	-
715: Meteorological Services	-	-	1.840
717: Rural Water Supply & Sanitation Project	-	375.000	125.000
811: Health Reform Project	1.007.416	2.075.760	7.258.318
816: Vector Control	36.953	-	-
822: UNICEF Program – Health	-	-	47.231
867: Biodiversity Management Project	-	3.000	-
916: Hurricane Preparedness (Conferences & Workshop)	742.562	-	-
1035:Computerisation	-	187.959	-
1037:Purchase of other equipment (MoF)	-	1.000.000	-
1069:Upgrade of School Buildings	-	3.270.077	487.195
1071:Education Grant	-	-	200.000
1197:Roads & Municipal Drainage Project	670.187	-	-
1200:Streets & Drains – Villages	-	886.567	886.567
1201:Orange Walk By-Pass	343.366	-	-
1316:Purchase of Vehicles	-	-	201.036
1344:UNICEF - Human Development	43.889	39.348	28.485
1361:Toledo Development Corporation	-	188.135	100.000
1389:Dredging/Land Reclamation Project	-	-	4.533.978
1392:HIV/AID	-	6.690	-
1508:Strengthening of Vocational & Technical Sector (MOE)	12.347.050	4.183.765	2.108.824
1510:Comm. Agric. Credit Fund (MAFC)	1.074.415	-	-
1524:Hurricane Preparedness (CDB) (MED)	502.750	-	-
1526:Commonwealth Debt Initiative (MED)	3.004.762	2.945.000	2.902.754
1527:BNTF Phase IV (MED)	2.091.512	2.562.484	2.725.165
1541:Land Management Program	1.612.326	3.355.769	1.628.829
1566:National Poverty Elimination Strategy	-	49.050	-
1570:Silver Creek Bridge	-	1.390.419	-
1580:Belize/Spain Mixed Commission	253.275	407.154	271.741
1591:Belize Sport Centre	-	-	2.000.000
1595:Sarteneja-Progresso-Corozal Town Upgrade	-	-	3.685.386
1596:Governance Improvement Commission	9.920	86.829	57.165
1598:National Action Program	10.850	14.500	985
1599:Debt Management Strategy	222.129	505.418	-
1600:General Sales Tax	26.665	18.498	-
1616:United Nation Environment Program (UNEP/ROLAC)	-	17.119	2.929
1618:Strengthening of Audit Department (CDI)	-	28.294	99.002
1619:Macro-Economic Stability (CDI)	-	711.041	451.227
1620:Housing Project (CDI)	-	779.360	1.275.706
1622:Home Improvement	-	976.606	15.748.459
1625:FAO Technical Cooperation	-	8.997	2.801
1626:Sexual Behavior Survey	-	32.880	-
1630:Manufacturers Traders & Trust Company	-	1.589.424	-
1632:Taiwan/Belize Co	-	482.295	990.882
1633:Institutional Development – LIC	-	440	39.560
1643:NAVCO	-	-	99.999
1644:Belize Barrier Reef System	-	-	79.180
1645:Orange Walk/August Pine Ridge/Blue Creek Road Upgrading	-	-	1.886.318
Total	**26.357.697**	**30.533.094**	**62.050.084**

Source: Ministry of Finance

Table 8. Staff Resources in the Ministry of Finance and other PFM-related Agencies

	Number of public employees				% of total public employees		
MINISTRY/DEPARTMENT	Total	Finance & Mgmt.	Tech. & Admin. Support 1/	Others 2/	Finance & Mgmt.	Tech. & Admin. Support 1/	Others 2/
MINISTRY OF FINANCE	476	119	53	304	25,0%	11,1%	63,9%
1. General Administration	41	15	5	21	36,6%	12,2%	51,2%
2. Supervisor of Insurance	6	3	2	1	50,0%	33,3%	16,7%
3. Central Information Technology Office	12	10	1	1	83,3%	8,3%	8,3%
4. Treasury System	83	13	4	66	15,7%	4,8%	79,5%
Treasury Belize City	45	9	1	35	20,0%	2,2%	77,8%
Sub-Treasury Belmopan City	6	1	0	5	16,7%	0,0%	83,3%
Sub-Treasury Corozal	5	1	0	4	20,0%	0,0%	80,0%
Sub-Treasury Orange Walk	7	1	0	6	14,3%	0,0%	85,7%
Sub-Treasury San Ignacio	6	0	1	5	0,0%	16,7%	83,3%
Sub-Treasury Dangriga	5	0	1	4	0,0%	20,0%	80,0%
Sub-Treasury Punta Gorda	6	0	1	5	0,0%	16,7%	83,3%
Sub-Treasury San Pedro	3	1	0	2	33,3%	0,0%	66,7%
5. Customs and Excise Administration	188	44	13	131	23,4%	6,9%	69,7%
Customs and Excise Belize City	122	41	3	78	33,6%	2,5%	63,9%
Customs and Excise San Pedro	3	0	3	0	0,0%	100,0%	0,0%
Customs and Excise Corozal	30	3	1	26	10,0%	3,3%	86,7%
Customs and Excise Big Creek	2	0	1	1	0,0%	50,0%	50,0%
Customs and Excise Punta Gorda	3	0	1	2	0,0%	33,3%	66,7%
Customs and Excise Benque Viejo	15	0	2	13	0,0%	13,3%	86,7%
Customs and Excise Orange Walk	7	0	1	6	0,0%	14,3%	85,7%
Customs and Excise Consejo	6	0	1	5	0,0%	16,7%	83,3%
6. General Sales Tax Administration	53	27	1	25	50,9%	1,9%	47,2%
Belize City	34	20	1	13	58,8%	2,9%	38,2%
San Ignacio	7	3	0	4	42,9%	0,0%	57,1%
Corozal	6	2	0	4	33,3%	0,0%	66,7%
Dangriga	6	2	0	4	33,3%	0,0%	66,7%
7. Income Tax Administration	93	7	27	59	7,5%	29,0%	63,4%
General Administration	66	7	21	38	10,6%	31,8%	57,6%
Belmopan City	9	0	2	7	0,0%	22,2%	77,8%
Dangriga	9	0	2	7	0,0%	22,2%	77,8%
Corozal	9	0	2	7	0,0%	22,2%	77,8%
MINISTRY OF ECONOMIC DEVELOPMENT	40	20	3	17	50,0%	7,5%	42,5%
1. Fiscal Management	27	17	2	8	63,0%	7,4%	29,6%
2. Bureau of Standards	13	3	1	9	23,1%	7,7%	69,2%
AUDITOR GENERAL'S OFFICE	39	9	10	20	23,1%	25,6%	51,3%
1. General Administration	31	8	8	15	25,8%	25,8%	48,4%
2. Belmopan Administration	8	1	2	5	12,5%	25,0%	62,5%
MINISTRY OF PUBLIC SERVICE	132	24	35	73	18,2%	26,5%	55,3%
1, General Administration	26	10	4	12	38,5%	15,4%	46,2%
2, Establishment Training	43	9	15	19	20,9%	34,9%	44,2%
3. Public Service Commission	1	1	0	0	100,0%	0,0%	0,0%
4. Elections and Boundaries	52	3	14	35	5,8%	26,9%	67,3%
Belize	24	2	5	17	8,3%	20,8%	70,8%
Corozal	3	0	1	2	0,0%	33,3%	66,7%
Orange Walk	3	0	1	2	0,0%	33,3%	66,7%
Cayo	7	0	3	4	0,0%	42,9%	57,1%
Stann Creek	3	0	1	2	0,0%	33,3%	66,7%
Toledo	2	0	1	1	0,0%	50,0%	50,0%
5. HRMIS	10	1	2	7	10,0%	20,0%	70,0%

Source: Ministry of Finance.

1/ Staff classified within pay scales between 11 and 14.
2/ Staff classified within pay scales 10 and below.

Annex 3
List of People Consulted

NAME	INSTITUTION	DESIGNATION
Mr. Joseph Waight	Ministry of Finance	Financial Secretary
Dr. Carla Barnett	Ministry of Finance	Senior Economic Advisor
Mr. Artemio Osorio	Ministry of Finance	Budget Director
Mr. Victor Orellano	Ministry of Finance	Information Systems Specialist
Mr. Jose Franco	Ministry of Finance	Economist
Ms. Raquel Guerra	Ministry of Finance	Economist
Ms. Yvonne Hyde	Ministry of Economic Development	Chief Executive Officer
Ms. Kathrine Mendez	Ministry of Economic Development	Director EU National Authorizing Office
Mr. Wiezsman Pat	Ministry of Economic Development	Sr. Project Officer EU National Authorizing Office
Mr. Julio Escalante	Ministry of Economic Development	Project Officer EU National Authorizing Office
Mr. Duane Belisle	Ministry of Economic Development	Director, Public Sector Investment Program (PSIP)
Mr. Davide Danon	Ministry of Economic Development	Senior Economist Policy and Planning Unit
Ms. Jeanette Garcia	Ministry of Economic Development	Specialist, Human Development
Ms. Karlene McSweaney	Ministry of Economic Development	Policy and Planning Unit
Mr. Edmund Zuniga	Office of the Auditor General	Auditor General
Mr. Wayne Simon	Office of the Auditor General	Specialist
Ms. Dorothy Bradley	Treasury Department	Accountant General
Mr. Felix Enriquez	Treasury Department	Senior Economist
Mr. Cadet Henderson	Ministry of Works	Chief Executive Officer
Mr. Lennox Bradley	Ministry of Works	Chief Engineer
Mr. Dean Flowers	Ministry of Works	Finance Officer
Mr. Marion Palacio	Central Bank of Belize	Deputy Governor
Ms. Lylia Roberts	Central Bank of Belize	Debt Management Specialist
Ms. Azucena Quan Novelo	Central Bank of Belize	Senior Research Specialist
Ms. Cynthia Castillo	Department of General Sales Tax	Commissioner
Mr. Eric Eusey	Department of Income Tax	Commissioner
Ms. Marilyn Ordonez	Department of Income Tax	
Mr. Evan Brown	Department of Income Tax	
Ms. Dalila Gibson	Ministry of Public Services	Head of Human Resources Management Information System
Ms. Francine Magloire	Ministry of Agriculture and Fisheries	Director of Projects
Mr. Jose Novelo	Ministry of Agriculture and Fisheries	EU Project Officer
Ms. Carol Gentle	Ministry of Foreign Trade	
Mr. Javier Garcia	Sugar Industry Control Board	
Ms. Cordelia Avila	Ministry of Health	Finance Officer
Mr. Manual Matus	Ministry of Education	Finance Officer
Mrs. Marian McNab	Ministry of Labor, Local	Chief Executive Officer

NAME	INSTITUTION	DESIGNATION
	Governments and Rural Development	
Mrs. Desire Flores	Ministry of Labor, Local Governments and Rural Development	Finance Officer
Mr. Eugene Palacio	Ministry of Labor, Local Governments and Rural Development	Economist, Local Governments Unit
Mr. Harold Arzu	Inter-American Development Bank Belize Office	IADB Representative
Ms. Martha Isabel Abello	Inter-American Development Bank	Senior Project Financial Management Specialist
Mr. Jorge von Horoch	Inter-American Development Bank	Modernization of the State Specialist
Mr. Kent Vital	Caribbean Development Bank	Representative
Mr. Michael Corlett	The World Bank	Research Analyst Caribbean Country Management Unit
Ms. Svetlana Klimenko	The World Bank	Sr. Financial Management Specialist

Annex 4
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Annex 5
Terms of Reference

Assessment of Belize' Public Finance Management (PFM)

1. Background

Belize has a small, open economy with a population of 300,000 people. GDP was estimated to be BZ$ 2.428 billion (US$1.214billion) in 2007/08 and is expected to rise to US$2.558 in 2007/08. In GDP per capita (PPP) is US$6,201 which is slightly below the regional average.

In recent years growth has been significant although the rate of growth has been highly variable. Whilst tourism has been the main driver of growth, the agricultural sector has been, and remains, very important. Belize has diversified its agricultural exports from the traditional export crops of sugar and bananas. Citrus now represents some 26% of exports, followed by sugar (17%), bananas (12%) and marine products such as shrimp (12%). Several non-traditional crops such as papaya are becoming more important. Agriculture provides some 22,000 out of the national total of 98,000 jobs.

Sugar exports to Europe have been an important factor in maintaining production. However, preferential access to EC markets for sugar from Belize has been renegotiated and as such the price received is being reduced by 36% over four years. The real impact of this change has been offset in the short term by the strength of world sugar prices, linked to the high price of hydrocarbons and ethanol production. The industry has responded to the challenges with an Adaptation Strategy. Support will be provided by the EC in the form of transfers under the Sugar Protocol.

Belize has a vibrant tourism sector with an atypical structure: its natural environment has encouraged development of smaller lodges and beach facilities, some on offshore cays. It also attracts many cruise passengers. Further expansion of tourism and real estate appears probable.

The IMF predicts future growth in the longer term of 2.7% per annum. This appears conservative as it is broadly similar to population growth, implying no gains in productivity and/or unfavourable terms of trade.

The macro-economic and public finance circumstances of Belize have strengths and weaknesses. A peg has been successfully maintained with the US$ since 1976 at Belize $2 = US$1. Inflation has been well controlled and broadly mirrored that of the USA. The IMF concluded that the exchange rate is appropriate and not overvalued. Money supply is controlled by altering the level of reserves that the solvent commercial banking sector is required to maintain with the Central Bank.

By contrast foreign exchange reserves are low, Belize has an endemic foreign trade deficit and the Government is highly indebted. This led the IMF to question the sustainability of the macroeconomic situation in successive Article IV consultations. However since the 2005 Article IV, the situation has changed. A 'home grown adjustment programme' was initiated by the Government at the end of 2004.

In February 2007 the Government completed a debt restructuring necessitated by its inability to meet its debt obligations. Debts will be repaid over a longer period, with interest rates set at

4.5% rising to 6.5% and then 8.5% per annum. These preferential terms have been accepted by almost all creditors, a sign of the gravity of the situation faced. Having undertaken the debt restructuring the sustainability of government finances looks more promising providing fiscal discipline is maintained.

The Government has strong incentives to maintain this fiscal discipline. It lacks borrowing alternatives, and has been tied into tight conditionality by its creditors and the regional financial institutions. Whilst Belize does not have a borrowing programme with the IMF, policy loans have been agreed with the IADB and CDB and these have been endorsed by the IMF. In effect, if not in legal form, a Staff Monitored Programme is being maintained - an additional visit by the IMF took place in March and will be followed by the Article IV Consultation due to take place in October 2007.

Belize does not operate its own macro-economic model. However CARTAC, the IMF training unit for the Caribbean, is providing training in Belize. As elsewhere this should build macro-economic capacity and enable greater ownership of macro-economic issues.

- The PFM situation in Belize:

Structure and Management of Public Finances
External public debt climbed from 44% of GDP at the end of 1999 to 97% of GDP at the end of 2003. By the end of 2004, overall public and publicly guaranteed debt was 100.2% of GDP of which 91% was external debt. The inevitable consequence is that interest payments by Government rose from 2% of GDP in FY1999/00 to 7.5% of GDP in FY2005/06. The GoB was faced by a major challenge to manage the growth in the economy in a manner that would provide Government with more resources to service its international debt obligations. The outlook for 2007 and beyond, according to the IMF[5], is worrisome, as scheduled debt service obligations are high and will rise over time, weighing heavily on the overall balance of payments, particularly as access to voluntary market financing at affordable terms is impaired. While government continued to hold a tight rein on spending in the effort to meet its debt obligations, the trend in external payments and receipts was recognized by Government to be unsustainable. Consequently, a programme to restructure the public sector's external commercial debt was officially launched in December 2006.

At the end of 2006, the public sector's external debt amounted to $1,970.4mn or 80.7% of GDP. Subsequent to the completion of restructuring in February 2007, debt service payments were projected to fall by an average of $96.0mn per annum over the medium term. The debt to GDP ratio is also being forecasted to decline gradually over the next five years assuming the continuation of the existing economic policy framework.

The Central Bank of Belize reports in 2007 that a tight fiscal stance was maintained leading to a forecasted reduction in the government's overall deficit and an increase in its primary surplus to 3.2% of GDP and 3.8% of GDP, respectively, for the 2006/2007 fiscal year.

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[5] IMF Article IV consultations report, September 2006.

The Reform Process

To date, the reform in the system of planning and budgeting has been mainly focused on the reductions in Capital II expenditures i.e., capital expenditures financed from Government resources, in order to achieve some reduction in the fiscal deficit. Recurrent spending is dominated by interest payments and the public sector wage bill. The Government is making efforts to improve the Public Sector Investment Programme (PSIP) but progress is slow. In 2006 the Government published a comprehensive PSIP for the first time. However, the CDI report for 2006 notes the majority of project selection and prioritisation still occurs at the Cabinet level with little technical analysis or objective criteria.

The sustainable solution is to link planning objectives to budget formulation and expenditure policy. Given the current complexities in the financial situation, consideration should be given to implementing a macroeconomic framework that would predict future available resources and expenditure commitments. This is even more important in light of the current emphasis being placed by Government on substantially reducing the level of poverty in the medium term.

The Government currently prepares a three-year Medium-Term Economic Strategy (MTES), but this is an independent exercise and not integrated into the budgeting process. The CDI report for 2006 notes that Government priorities are not systematically formulated and translated into budget policy. It is left to the line ministries to see that stated government policies are reflected in their programs. The Government envisages a series of three-year Medium Term Development Plan's (MTDPs) to fall into the longer-term Vision 2025. This will be backed by a revenue forecasting exercise to formulate a broad estimate of available resources for implementation of the medium-term plans.

Main donors involved in institutional support to the PFM reform

A Public Expenditure Review (PER) was finalised in 2006 and the recommendations endorsed by the Government. Also, the IADB's US$500,000 PRODEV project aims to improve the monitoring and quality of public expenditure and will pick up some of the key recommendations of the PER. These include support to the Central Statistics Office (CSO), the gradual implementation of multi-year programme budgeting. Strengthening the Budget Unit in the Ministry of Finance is underway with training and additional staff. Efforts are being made to improve consultations with line ministries around the budget process. Also, officials have attended long-term CDB funded training on financial and technical analysis of PSIPs in 2007. Belize's budget follows a one-year cycle with no elements of performance or program budgeting and weak monitoring of physical and financial progress of spending. The PRODEV project will pick up many of these issues through its focus on the Auditor General's Office, Ministry of National Development (MND) and the CSO. The CDB's PBL also uses benchmarks related to better macroeconomic planning and expenditure management.

Recent developments

Part of the problem for the deterioration in public finances may be attributed to an unrealistic expansionary programme operated by the Government between 1999 and 2003. Much of the damage was caused by lending through Development Finance Corporation (DFC), a parastatal development institution with its own board. Appropriate project viability criteria were not applied and the loan portfolio deteriorated with almost half in default. An independent enquiry into this affair has reported but the findings have yet to be made public. The Government has agreed to wind-up the DFC.

Other financial management aspects have undermined public confidence: the Social Security Board was investigated and governance failings identified. No audited statements of the Government's finances have been prepared for many years. The last Auditor General's report was submitted to the Minister of Finance, (who is the Prime Minister), in December 2006, but have not been put to the National Assembly, as required by the legislation.

Whilst donor pressure is limited in Belize – the IADB is the only donor with an in-country office – popular pressure against public malpractice is reaching unprecedented levels. This came to a head in May 2007 when a scandal emerged about a secret Government Guarantee signed by the Prime Minister to Belize Bank, underwriting a Belize $33million (plus punitive interest) loan to a private hospital UHS. A joint statement objecting to the envisaged payment between the Belize Chamber of Commerce and the main unions in Belize was submitted. In the fall-out the two main architects of the debt restructuring resigned, undermining confidence in the reform process.

Despite the present political uncertainties the Government states its continuing commitment to the reform process. However, as the Opposition party UDP won the 2008 general elections there seem to be indications that the new government will take this opportunity to reaffirm its commitment to a substantive public reform programme.

In this context it is desirable if a PEFA assessment is undertaken to provide a benchmark against which a reform-orientated policy engagement could take place.

- Presentation of PEFA's guiding principles

In 2001, the Public Expenditure and Financial Accountability (PEFA) Program was started in order to strengthen recipient and donor ability to (i) assess the condition of country public expenditure, procurement and financial accountability systems, and (ii) develop a practical sequence of reform and capacity-building actions, in a manner that:

- Encourages country ownership.
- Reduces the transaction costs to countries.
- Enhances donor harmonization.
- Allows monitoring of progress of country PFM performance over time.
- Better addresses developmental and fiduciary concerns.
- Leads to improved impact of reforms.

The initiative has been jointly financed by the World Bank, the European Commission (EC), the UK's Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Royal Norwegian Ministry of Foreign Affairs and the French Ministry of Foreign Affairs. The International Monetary Fund (IMF) and the Strategic

Partnership with Africa (SPA) are also partners. The PEFA Secretariat is located in the World Bank offices in Washington, DC.

Two key observations motivating the PEFA programme is that i) PFM is a central feature of public policy and therefore has a direct impact on development; and ii) the multiplicity of individual donor instruments to analyse PFM has many disadvantages, not in the least the burden it places upon the countries analysed.

Consequently, one of the key activities of the PEFA programme has been the development, in June 2005, of a PFM Performance Measurement Framework, which outlines the structure and content of the *PFM Performance Report.* The PFM Performance Report provides donors and partner countries with a standardised monitoring instrument of PFM, allowing measurement of changes in PFM performance over time. An important aspect of the report is that the external diagnosis does not include recommendations or an action plan. Rather, any PFM reform agenda should be country-led and country owned. The PFM Performance Report can however facilitate a coordinated programme of institutional support by donors on the basis of an action plan developed by national authorities.

2. The rationale for carrying out a PEFA assessment

The Government of Belize has requested a study on their potential eligibility to EC budget support, which requires an assessment of Belize's Public Financial Management. In accordance with Articles 61(2) and 67 of the Cotonou Agreement, the Guidelines for European Commission General Budget Support and for Support to Sector Policy Programmes mandate a preliminary assessment of public financial management to ascertain the feasibility of such approaches.

Moreover, in the context of the **Multi-Annual EC Assistance Strategy for Belize under the accompanying measures for Sugar Protocol countries**, it is foreseen that a possible modality to support the accompanying measures is Budget Support. However, in order to qualify for Budget Support (following the requirements of the Cotonou Agreement), Belize needs to comply with the following eligibility conditions:

1) A well defined national (or sector) policy and strategy is in place or under implementation;
2) A stability-oriented macroeconomic policy is in place or under implementation;
3) A credible and relevant programme to improve public financial management is in place or under implementation.

In line with the work of the PEFA programme, the objectives of a PFM Performance Report for Belize are to:

a) in the short-term, establish a baseline study needed to start measurement of PFM performance over time, and to inform and strengthen the dialogue between the Belizean Government and those IDPs on strengthening PFM;
b) in the medium term, assist Government and IDPs to assess current PFM reforms and to identify potential PFM areas where (further) institutional support is required;

c) in the short- and medium-term, assist IDPs in determining the eligibility of Belize for future macroeconomic support programmes such as (sectoral/general) budgetary support and debt relief;

3. Objective and expected results of the assessment mission

- The objective of the assessment mission is to draft of a comprehensive[6] "Public Financial Management – Performance Report" (PFM-PR) prepared according to the PEFA methodology (see point 5 below), so as to provide an analysis of the overall performance of the PFM systems of the beneficiary country as well as a baseline situation that permits the measuring over time of changes in performance. The Report will analyse the performance of PFM in Belize and establish a reference point for future discussions between Government and International Development Partners.

  The PEFA report prepared for Jamaica in 2007 is a good example of a PFM assessment. Also, the IADB, in its 2006 public expenditure review for Belize, covers similar issues and made a number of recommendations to reform in public spending and the budget process. The Macroeconomic Assessment for Belize funded by the European Commission in 2007 summarises some of these recommendations using PEFA indicators (see Annex 4 in the macroeconomic assessment).
- The team will also include an assessment of the eligibility criteria for Budget Support in Belize, as outlined under section 2. In particular, as regards potential Sector Budget Support, it should be assessed if the "Belize Country Strategy for the Adaptation of the Sugar Industry' (BCS) – 2006-2015" could qualify as sector programme. This general assessment shall include options for timing and modalities of a potential budget support programme or recommendations on actions to be taken to meet the eligibility criteria for budget support.

- Identify any needs for technical assistance or other technical cooperation in the field of Public Finance for the Government of Belize and/or its public bodies. Small grants of up to 120,000 Euro per annum may be available for such cooperation under the annual Sugar allocations to Belize.

These results will allow the EC to verify the eligibility of Belize to a budget support programme as laid down in articles 62.1 and 67 of the Cotonou Agreement and to identify the possible actions needed in order to use this delivery mechanism in the country.

4. Specific tasks in the preparation of the PFM-Performance Report

In order to meet the objective of the assessment mission the following tasks shall be carried out:

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[6] This PFM PR is composed of the detailed analysis of the 31 indicators of the « PFM Performance Measurement Framework » and of the performance report itself which summarises this analysis of the indicators and includes other elements relevant for the assessment.

- Documentation. Before the mission in the partner country the experts will collect, in the Headquarters of the European Commission (see below point 6), all basic documentation that they deem necessary for the mission's work on the spot. They will also let the Government know, through the local representation of the lead donor, any need for additional information. The experts will specify the time-span they deem necessary between the date of reception of this basic documentation and the actual start of the mission on the spot. The European Commission will particularly follow up this issue with the national authorities so as to minimize the risk of disrupting the mission which could be entailed by an important delay in providing this basic documentation.
- Training workshop. The mission on the spot will start with an information/training workshop gathering all the stakeholders and enabling the latter to understand the challenges and the modalities of the PEFA assessment. This workshop will be run by the experts and its organisation and financing will be taken care of by one of the involved donors. The pedagogical material used by the experts will be that worked out by the PEFA Secretariat and posted on its website. This workshop will comprise: (i) a general session with all the stakeholders aiming at providing a general understanding of what a PEFA assessment is about; (ii) a technical session with the national authorities (government and external control body) to explain the indicators.
- Work-plan: On arrival the experts will submit to the national authorities and the involved donors a work-plan describing the main steps of the mission, notably specifying the list of the interlocutors to meet, the tentatively scheduled meetings and the list of required information not yet collected and to be provided on the spot. This work-plan may foresee a mid-term meeting gathering all the stakeholders so as to report on the work's progress and possible difficulties faced. A final debriefing session will be planned.

5. Methodology

- Document of reference: the experts, in close coordination with government services involved, will undertake the required analysis while rigorously following the structure, the methodology and the guidelines of the document adopted by the PEFA Steering Committee and entitled "Public Financial Management – Performance Measurement Framework". This document can be found on the website www.pefa.org. The original version of this document is in English.
- Differences in Methodology. If the particular situation of the country requires the addition of specific indicators and/or, for some indicators, to diverge from the prescribed methodology, this shall be duly justified by the experts and require the agreement, during the mission, of the European Commission Delegation to Belize. In any case, only a very limited number of additional indicators would be acceptable. In this case, as well as for any possible proposed difference in methodology, the experts will ask for the written opinion of the PEFA Secretariat.
- Interpretation. Any question on the interpretation of the guidelines, which the experts cannot resolve with the available documentation, should be addressed to the PEFA Secretariat and/or to the Headquarters of the European Commission.
- Supporting information. In the report the experts will justify the scoring and describe, in an annex, for each indicator, the analytical work which has been carried out mentioning the sources of information and documentation used. Furthermore, for each indicator, the

experts will mention the any possible difficulties encountered during the assessment, the approach used to overcome these difficulties, and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out.

6. Stakeholders: donors and national authorities

The following stakeholders will be involved in the in the study:

- The Government of Belize[7]: (i) will indicate the names of the officials (NAO, Ministry of finances) who will be the interlocutors of the experts during the assessment; (ii) will indicate whether a service of the administration will accompany the experts during the mission; (iii) will comment the draft and final reports and send its comments to the experts and the lead donor.

- The lead donor (European Commission): (i) prepares the TOR of the assignment in consultation with stakeholders; (ii) coordinates with Government the timetable for the assignment; (iii) finances the assignment and recruits the experts; (iv) is responsible, together with the team of experts and the Government, for the organisation and the follow up of the field mission; (v) checks the quality of the report in consultation with the Government, the IDPs involved, and if so required with the PEFA Secretariat[8]; (vi) consolidates the comments of the donors and of the PEFA Secretariat and sends them to the experts and the government; (vii) disseminates the draft and final report. The lead donor will indicate the names of its officials who, in HQs (DG Development and DG Aidco) and on the spot (EC delegation), will be the interlocutors of the experts.

- The International Development Partners (IDPs) that wish be a part of the PEFA exercise. The IDPs concerned will attend workshops and briefings organised by the team of experts. Also, they will provide comments to the (draft) reports produced by the experts. Aside from being involved at these various stages of the process, IDPs that wish to do so can, in coordination with the team leader, share their own PFM expertise for the assignment, whether in the form of their own previous reports related to PFM, or through their own staff expertise on PFM.

7. Reporting

Reporting requirements are set out below:

- In view of the final session of debriefing at the end of the mission, the experts will provide the government and the lead donor with an *aide mémoire* (10 pages maximum, excluding annexes), in 10 copies, indicating the main findings and reflections which will be developed in the draft report. This aide mémoire will be complemented by the detailed analysis of the 31 indicators of the PFM-PMF.

[7] In particular the NAO, the Ministry of Finance, the Auditor General's Office and where necessary individual line ministries.
[8] Should its advice be required.

- Within one week after the end of the mission on the spot, the experts will send to the government and the lead donor a draft PFM-Performance Report, in 10 copies, based on Annexes 1 and 2 of the above-mentioned PEFA document.
- Within 15 days following the reception of the draft report, the stakeholders (donors, government) will send their comments to the experts.
- Within 15 days after the reception of the comments, the experts will write the final report. The latter will be sent in 10 copies to the government and the lead donor. It will contain, in an annex, the observations of the government on the points where the latter disagrees with the findings of the experts.
- The report shall be written in English.

8. Calendar

Based on the above, the indicative calendar prior to and during the assignment is as follows:

- Global calendar of the team of experts: the mission on the spot will involve 2 experts, will include the information/training workshop, and will have a maximum duration of 4 weeks. In addition 2 weeks of work, involving the team leader and one other expert, will comprise: 2 days for the briefing and the debriefing in the HQs of the lead donor, 12 days for the preparation of the mission and the finalisation of the report. Total number of working days for each expert is estimated at 40 days.
- The TOR will include, for each week of work, a tentative table indicating the dates and key steps in preparing the PEFA.

Prior to start of assignment

Based on the above, the indicative calendar prior to the start of the assignment and indicative calendar of the assignment is as follows:

Task	*Responsible*	*Indicative calendar*
Awareness raising IDPs	EC (lead donor)	
Drafting TOR	EC (lead donor)	Mid March 2008
Awareness raising & consultation: letter to GoB	EC (lead donor)	Mid- March 2008
IDPs/GoB: sharing of draft final TOR	EC (lead donor)	Mid - March 2008
Finalisation of TOR	EC (lead donor) in consultation with GoB	Mid April 2008
Launching of TOR through framework contract	EC (lead donor)	Early May 2008
Framework contractor selected and notified	EC (lead donor)	Early June 2008
Presentation of offer, including proposed work plan, by contractor		Mid- June 2008

PEFA assignment

Task	*Responsible*	*Indicative schedule*	*Indicative calendar*
Desk study (Phase I)		Week 1	September 2008
Submission desk report	Experts	Week 2	
Submission work-plan for field mission	Experts	Week 2	

Briefing to EC HQs	Experts	Week 2	
Comments on desk report by Government and IDPs	*Government and IDPs*	*Week 3-5*	
Field mission (Phase II)		Week 6-9	Oct/Nov 2008
Workshop at start of field mission	Experts	Week 6	
Presentation and submission of aide-mémoire	Experts	Week 8	
Submission of first draft of PFM Performance Report	Experts	Week 9	
Finalisation of PFM Performance Report		Week 10-15	November 2008
Comments on draft report by Government and IDPs	*Government and IDPs*	*Week 10-12*	
Drafting of final PFM Performance Report	Experts	Week 13	
Submission of final PFM Performance Report	Experts	Week 13	
Final workshop in Belize	Experts	Week 14 (4 days)	
Briefing to EC HQs	Experts	Week 15 (1 day)	

In the periods outlined for comments (6 weeks: week 3-5; 10-12), there will be no work ongoing for the experts. The total assignment for the experts therefore comprises 8 working weeks.

9. Composition and professional profile of the team

The team will be composed of two experts:

- The team leader will have at least 15 years of experience in analysis and/or audit of PFM, of which at least 5 from developing countries.
- The other member of the team, will have a least 10 years of experience in the area of PFM.
- The cumulated experience of the experts should ensure that the team is able to cover the analysis of the different areas of the Public Expenditure and Financial Accountability (PEFA) Report.
- Previous experience of carrying out a PEFA Assessment would be an asset.
- At least one international expert with a good prior knowledge of the specific budget and PFM situation of the country under review would be an asset.
- The international experts will have an excellent command of English. Working knowledge of Spanish will be an asset.

Annex 6

Belize-Public Expenditure and Financial Accountability (PEFA) Assessment

Draft Final Report, October 2008

Comments by the PEFA Secretariat

This note is intended to provide the PEFA Secretariat comments on the final draft PFM-PR for Belize. We are pleased to be given this opportunity to present our comments. These comments are meant to give an answer to the following questions:

1. Has the standard indicator been used (with or without modification)?
2. Is the indicator correctly applied or interpreted?
3. Is sufficient evidence provided for all aspects of the indicator? If not, what is missing?
4. Is the information specific and presented clearly and used correctly?
5. Is the scoring methodology correctly chosen and applied?
6. Is the scoring correct, on the basis of the information provided?
7. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicator (constitutional arrangements, system heritage)?

Our comments do not consider if the data/information presented in the report is likely to be correct and can only judge the correctness of scoring on the basis of the evidence actually presented.

Our comments follow the content of the PFM-PR, section by section, and include a table of specific observations on the scoring of the individual indicators in relation to section 3.

Overall impression

A well organized and neatly prepared report, which follows the PFM Performance Report outline and guidance closely. The report shows in general a good understanding of the PEFA methodology. However, the report could probably be shortened, especially in the introduction and background sections, as well as for some indicator analysis in section 3. The work benefited from a thorough desk study and from consultations of the PEFA Secretariat for methodological advice during the field work.

Section 1 – Introduction

Very useful information on the process, methodology and scope of the assessment.

Section 2 - Background

Very thorough section with description of institutional arrangements, of division of responsibilities within the MOF and of the legal framework. The table of distribution of staff resources by main occupation at the MOF is an original and useful feature.

Section 3 – Performance of systems, processes and institutions

This section follows very closely the proposed structure and content of the Performance Report and systematically indicates sources of information. Some boxes, meant at summarizing the rationale for the ratings, are in contradiction with the narrative or follow closely the formulation of the scoring requirements of Framework but with some slight changes that are not justified. We have also observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for some of the individual indicators, as highlighted in the table below:

Indicator	Comments on Application for 2008
PI-1	Correctly rated, based on sufficient evidence
PI-2	Correctly rated, based on sufficient evidence
PI-3	Correctly rated, based on sufficient evidence
PI-4	(ii) C is not fully evidenced. There is an ad hoc exercise in 2008 but only for arrears related to the purchase of land. It seems that the exercise was not comprehensive.
PI-5	Correctly rated, based on sufficient evidence
PI-6	Seems correct but the sentence "*projected revenue and expenditure out-turn for the current year is presented though with a different format and in a secondary section"* about current year's budget should be explained further.
PI-7	(i)The situation to be assessed is the latest year available at the time of the mission, i.e. FY 2007/2008. The % of unreported government expenditures compared to total expenditure is reported here to be more than 10%, thus leading to a D rating instead of a B. These figures given in table 3.7 do not match the one given in the first par. of p. 40. The Clarifications posted on our website show for PI-7 that special funds and social security funds should be included in the calculation. (ii) There are contradictions in the narrative as to whether information on loans is comprehensive.
PI-8	(ii) Score does not seem evidenced by the narrative. It is difficult to see if SN gvt are provided reliable information on allocations ahead of completing their budget proposal. (ii) It would be useful to understand how the quantitative estimate "for at least 60% of local government expenditure" has been calculated. Otherwise, the score is not sufficiently evidenced.
PI-9	Correctly rated, based on sufficient evidence
PI-10	For item (i) to be met, all documents listed in PI-6 must be available upon submission to the legislature, which does not seem to be the case. On the other hand, monthly reports are available in printed form to anyone interested in having them would be sufficient to consider item (iii) met. The score of C seems still

	appropriate.
PI-11	ADA is B according to M2 methodology. Otherwise correct.
PI-12	(ii) B is evidenced by the data provided because domestic and external debt sustainability analysis was undertaken in the last three years.. Otherwise OK
PI-13	Correctly rated, based on sufficient evidence
PI-14	Correctly rated, based on sufficient evidence
PI-15	Correctly rated, based on sufficient evidence
PI-16	Correctly rated, based on sufficient evidence
PI-17	(i)No reconciliation problem is reported in the narrative. Is the fact that only debt in the form of loans is recorded for domestic debt the reason for a B instead of an A? This should come out more clearly in the narrative. Besides, the word "*monthly*" in the summary explanation box is not required (ii) and (iii) OK
PI-18	(ii) Timeliness for changes is not precisely defined. The management of temporary staff should not impact the rating of PI-18. They are considered "casual labor" and are dealt with in PI-20 as mentioned in the Framework. The scores should be reconsidered with this in view.
PI-19	Correctly rated, based on sufficient evidence
PI-20	Correctly rated, based on sufficient evidence
PI-21	Correctly rated, based on sufficient evidence
PI-22	Correctly rated, based on sufficient evidence
PI-23	Correctly rated, based on sufficient evidence
PI-24	(ii) For (ii) the narrative indicates rather a C as this dimension measures timeliness of reports issuance. In addition, a D contradicts the content of the previous dimension narrative. (iii) the information provided seems to indicate that data is of no real use, thus pointing to a D.
PI-25	(i)If omissions are a major concern, the score could be D (iii) Are there National Accounting standards used and are these standards disclosed? A C can be awarded even if international accounting standards are not used. Not enough evidence.
PI-26	Correctly rated, based on sufficient evidence
PI-27	Correctly rated, based on sufficient evidence
PI-28	Correctly rated, based on sufficient evidence
D-1	(ii) The calculation does not appear clearly and the score is not evidence. An excel sheet is available on our website www.pefa.org to make the calculation easier.
D-2	Correctly rated, based on sufficient evidence
D-3	Correctly rated, based on sufficient evidence

Section 4 – Reform Efforts

The report stresses the fact that in Belize "a comprehensive and integrated government reform plan is non-existent at this point" and that the PEFA assessment could help address the reform program as a whole. It would be interesting to have the assessors' opinion on how the institutional barriers to reform planning and implementation (weak government leadership, low capacity and appropriate coordination and sequencing of reforms) could be overcome and if the PEFA process could help in this respect. Is there a discussion around these issues planned with the government in the wake of the assessment? Did all the stakeholders have the opportunity to share their views on the findings of the report and will they be involved in discussions about reform planning and implementation? The PEFA Secretariat would be happy to help support this dialogue.

Executive summary

Well written and useful section, even if part III of the summary is a slightly shorter version of section 4 of the report. A short story line (one to three paragraphs) should come out clearly from the executive summary.

PEFA Secretariat
6 November 2008