

MUNICIPAL FINANCIAL MANAGEMENT MODERNIZATION PROGRAM

(BO-0196)

EXECUTIVE SUMMARY

Borrower:	Republic of Bolivia	
Executing agency:	Ministry of Finance	
Amount and source:	IDB (FSO):	US\$20,000,000
	Local:	US\$ 5,000,000
	Total:	US\$25,000,000
Terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 1/2years
	Interest rate:	1% for 10 years 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	<p>The program's overall objective is to help enhance the efficiency, transparency and control of public financial management. The program's specific objective is to strengthen financial management at the national and subnational levels through the implementation and startup of the Integrated Administrative Modernization and Management System (SIGMA) in municipalities and the institutionalization of SIGMA management in the General Accounting Office (DGC) of the Ministry of Finance.</p>	
Description:	<p>The program has the following two components:</p> <ol style="list-style-type: none"> 1. Development and implementation of SIGMA and integration of communications between the central government and municipalities. The purpose of this component is to design and implement SIGMA in 91 municipalities. A number of different versions of SIGMA will be developed so that it can be adapted to the conditions existing in the various municipalities, which will be selected on the basis of objective criteria (paragraph 2.3). The component will also help ensure integration, communication and coordination between the various municipalities and the 	

central government, by establishing and launching a telecommunications network designed to optimize the operation, usefulness and impact of SIGMA and other systems for institutional strengthening of municipalities.

2. **Consolidation and institutionalization of SIGMA at the municipal level.** The purpose of this component is to optimize the utilization of SIGMA and ensure its sustainability by: (i) maintaining and developing the central government's existing technical capabilities to provide support for integrated management systems; and (ii) strengthening the DGC so that it can gradually assume its SIGMA management duties.

Upon program completion, the following **outputs** are expected to have been obtained: (a) SIGMA will be on stream in the 91 municipalities covered by the program; (b) the telecommunications network linking the various administrative units will have been set up and will be in operation, thereby ensuring improved coordination and integration together with an increased flow of information; (c) financial statements and budgetary performance reports will be submitted by the municipalities on a more timely basis; (d) at least 91 municipalities will submit auditable financial statements to the Comptroller-General of the Republic (CGR); (e) there will be improved ex post supervision by the CGR of the management of public municipal resources; (f) SIGMA will have been institutionalized and consolidated in the DGC; and (g) SIGMA-generated financial statements will be published in various media accessible to the general public.

The Bank's country and sector strategy:

The primary objective of the Bank's strategy in Bolivia is to fight poverty. It sets forth three lines of action which are consistent with three of the four pillars of the strategy for the Operational Plan for Government Action for 1997-2002: (i) economic growth; (ii) development of human capital and access to basic social services; and (iii) governance and the consolidation of reforms. The proposed program is in keeping with this strategy, particularly as it relates to governance and the consolidation of reforms.

Modernization of financial management at the municipal level as provided for by this program is also consistent with the Bolivian Poverty Reduction Strategy, which calls for deepening decentralization in Bolivia and provides that an increasing percentage of public investment is to be carried out at subnational levels (prefectures [regional governments] and municipalities).

The Bank's provision of support for the modernization of municipal financial management in Bolivia is also in keeping with its subnational development strategy (see document GN-2125), especially as it relates to support for the strengthening of subnational governments' institutional capacity. This entails the provision of assistance for the harmonization of subnational financial management systems with central government systems and practices and greater budgetary transparency.

The proposed operation will support the government economic program agreed upon with the International Monetary Fund (IMF) with regard to structural fiscal reforms, since SIGMA implementation constitutes a structural adjustment indicator. This program will also supplement the support received by the Government of Bolivia from the International Development Association (IDA) for modernization of the State, in particular the Programmatic Structural Adjustment Credit for Decentralization recently approved by IDA. The conditionalities set forth in the policy action matrix for the IDA program include the implementation of SIGMA in subnational agencies within time horizons compatible with the implementation timetable for the proposed operation.

Environmental and social review:

Given the nature of the activities to be financed under the program, no direct environmental or social impacts are foreseen. Indirectly, the program will have a positive social impact, since it is designed to help deepen the State's fiscal decentralization process and to provide tools for a more accurate identification of social program beneficiaries and, hence, for more accurate targeting of social spending.

Benefits:

The program's direct beneficiaries will be municipalities and the central government agencies responsible for coordinating and supervising municipal financial management. The immediate benefit of the program will be reflected in the provision of financial management systems to the municipalities, which currently either do not have any or have systems that so lack integration that their usefulness is seriously impaired. These improved financial management systems will constitute one of the basic pillars for a more efficient and transparent form of fiscal and administrative management. Implementation and startup of SIGMA at the municipal level will have a direct positive impact on reform of national and subnational government and will help to further the decentralization process in Bolivia.

SIGMA implementation will also help ensure more effective coordination and supervision by the Ministry of Finance and the Comptroller-General of the Republic of the public funds administered by municipalities. SIGMA will, in addition, foster greater

accountability in municipal management by not only permitting but also promoting the regular disclosure of information to the general public.

Use of SIGMA will contribute to closer monitoring and greater transparency in the application of the funds provided under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC II) by introducing procedures and tools to track application of those resources and the funding of programs carried out by municipalities. This will assist Bolivia in fulfilling the commitments it has assumed upon qualifying for HIPC II.

The program will also have a significant impact on the development of strategic plans for the country's municipalities, which have thus far been seriously limited in terms of both number and substance. The availability of tools permitting a more systematic form of financial management will enable municipalities to use longer planning horizons, which will in turn bolster the government's institutional strengthening efforts at subnational levels.

Risks:

The possibility that municipalities may not be sufficiently interested in this initiative, or may not provide adequate support for it, constitutes a potential risk. To mitigate this risk, incentives will be offered, such as the legal requirement that municipalities have SIGMA in place in order to qualify for funding from the Treasury for debt refinancing.

Once SIGMA has been established in the selected municipalities, the equipment procured under the program will become the property of those municipalities. This mechanism introduces an element of risk, since some municipalities may not provide the necessary maintenance for that equipment. This risk will be mitigated by: (a) including the requirement that maintenance services be provided for a three-year period, at the supplier's expense, in the bidding conditions; (b) making provision, as part of the program's contingency funds, for the possible technical updating of approximately 10%-15% of the hardware supplied to medium-sized and small municipalities; and (c) incorporating clauses in the program agreements (paragraph 3.5) which obligate the municipalities to maintain the equipment provided to them, with set-asides of tax revenues covered by the revenue sharing system in the event of non-compliance.

Special contractual clauses:

Conditions precedent to the first disbursement: In addition to the standard contractual terms and conditions, the executing agency must submit the following documentation: (i) evidence that the program execution unit has been effectively established according to the terms agreed upon with the Bank; (ii) evidence that the program coordination committee, to be made up of the Deputy Minister for Budgetary and Accounting Affairs, the Deputy Minister of the Treasury and the Director-General of the program execution unit, has been effectively established, according to the terms agreed upon with the Bank; (iii) a model interagency cooperation and technical assistance agreement for SIGMA implementation, defining the responsibilities of the Ministry of Finance and of the municipalities benefiting from the program during SIGMA implementation and operation; and (iv) an operational work plan for the first year of program implementation, according to the terms agreed upon with the Bank.

During program execution, reports will be submitted and an evaluation will be conducted, as indicated in paragraphs 3.7, 3.9, 3.10 and 3.12.

Poverty-targeting and social sector classification:

This operation does not qualify as a social-equity enhancing project, as described in the key objectives for Bank activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704).

Exceptions to Bank policy:

See the section on procurement below.

Procurement:

Consulting services will be hired in accordance with standard Bank procedures and the procedures indicated in document GN-1679-3, with the exception of the direct contracting of approximately 67 consultants at an estimated cost of US\$3.2 million during the program execution period. These consultants, who are currently staffing the SIGMA Central Technical Unit of the Ministry of Finance, have been implementing SIGMA in the central government and were hired in accordance with the applicable procedures of IDA, which is funding SIGMA's implementation in the central government. Detailed information on the positions held by those consultants can be found in the program technical files.

The justification for this exception is that the program is seeking to maintain the continuity of a successful process that is already under way and that is producing verifiable results (implementation of

SIGMA in the central government). This process has been headed up by a technical team whose core members are the consultants referred to above. The continuation of their employment will ensure that this leadership and the technical capabilities they have developed are not undermined by unnecessary staffing changes. Such changes would introduce an element of risk for program execution, since there would be no guarantee that other consultants having sufficient familiarity with and experience in the work involved in implementing and fine-tuning SIGMA could be found in the near future.

Consulting service contracts for US\$200,000 or more will be awarded by means of international competitive bidding. Goods will be procured following standard Bank procedures. The procurement of goods for US\$350,000 or more and the awarding of construction contracts for US\$3 million or more will be carried out by means of international competitive bidding. The program provides for minor works to adapt structural wiring systems so that offices can be interconnected. These works will be financed with local counterpart funds and will be carried out in accordance with standard Bank procedures for such projects.