

STRENGTHENING OF PUBLIC FINANCES IN VENEZUELAN STATES

(VE-0087)

EXECUTIVE SUMMARY

BORROWER AND
GUARANTOR: Republic of Venezuela

EXECUTING AGENCY: Central Budget Office (OCEPRE)

AMOUNT AND SOURCE: IDB: US\$ 6,000,000 (OC)
Local counterpart funding: US\$ 6,000,000
Total: US\$12,000,000

FINANCIAL
TERMS AND
CONDITIONS: Amortization period: 20 years
Disbursement period: 4 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: United States dollars
from the Single Currency
Facility

OBJECTIVES: Main objective: to strengthen financial administration at the state level, thereby contributing to efficient, effective, and transparent delivery of public services in the priority fields of activity of subnational governments.

Specific objectives: (i) to strengthen state financial administration on a comprehensive basis, balancing the use of nationally applied concepts, standards, and systems with the particular requirement of each state; (ii) to strengthen the General Sectoral Department of Regional Budgets (DGSPR) of the Central Budget Office (OCEPRE) as executing agency for the state budgetary system; (iii) to establish a territorial financial information system (SIFT) to consolidate budgetary, financial, and accounting information for official and public use; and (iv) to harmonize the budget and accounting standards applied by the states.

DESCRIPTION: The program will finance consultant services (individuals and firms), computer and office equipment, training, and general support during a period of 36 months to execute the following components:

- a. Program management (US\$2.4 million, 36 months). To coordinate the technical and administrative execution of the program. Supervisory and advisory personnel will be employed and a unit will be given responsibility for all the administrative aspects (bidding, award of contracts, procurement, payments, accounting, etc.).
- b. Strengthening of state financial administration (US\$6.3 million, 36 months). Implementation of specific technical assistance projects in approximately 18 states. The projects developed in accordance with the operating regulations by each participating governor's office will seek to introduce comprehensive reform in respect of budget administration, accounting, treasury, and other related areas, as well as computer systems for automating financial administration processes.
- c. Strengthening of OCEPRE and regulatory development (US\$1 million, 18 months). Support for the institutional strengthening of the DGSPR, the issuance of updated budgetary roles, and the development of a territorial financial information system for official and public access. Specific support for the Office of the Comptroller General of the Republic is included to update accounting standards.

The program will be executed at three levels: a governing level, consisting of an Executive Committee established by presidential decree and composed of representatives of the Ministries of Finance and Interior Relations, the Association of Governors of Venezuela, and the Office of the Comptroller General of the Republic; a coordination level occupied by a Central Coordinating Unit; and an execution level, made up of state executing units in each participating governor's office.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy in Venezuela has three main objectives: (i) to consolidate fiscal and macro-economic stability; (ii) to reduce inequalities and alleviate poverty; and (iii) to increase the productivity of non-oil resources through development of the private sector. All three of these objectives are consistent with Bank's operational strategy of supporting national efforts to reform the public sector.

The proposed operation provides direct support for public sector reform. Proper management of fiscal resources is a basic function of state governments, which impacts directly on the efficiency, effectiveness, and transparency of public service delivery. The program will also have an indirect impact on two areas of Bank policy: consolidation of fiscal stability, by providing better aggregate information on state public spending; and the alleviation of poverty, by focusing public resources on priority areas for action.

**ENVIRONMENTAL
AND SOCIAL REVIEW:**

This project does not entail any social or environmental impact.

BENEFITS:

Measurable improvement in the quality and quantity of state-level public services. The efficient and effective use of budget resources and larger volumes of better information on which to base decisions – combined with growing state-level public investment with FIDES funds and funds from the special appropriations act – will lay the foundation for higher productivity in sectors receiving priority attention from the states. On average, the unit cost for service delivery by the states, should be reduced by an estimated 5%.

Creation of an operational model for cooperation between the central governments and the states suitable for application in other areas. The program establishes an innovative mechanism for joint decision making and implementation by the various levels of government. Its main characteristic is balanced participation by the states and the central government, combining central coordination with decentralized execution and governed by an equitably representative Executive Committee. If successful, this operational model can be used in other areas forming part of the functional and fiscal decentralization process in the country.

Contribution to the process of consolidating democracy in the states. Inasmuch as the democratic election of governors is a recent phenomenon, public institutions in the individual states are still not fully adapted to the practices of transparent and accountable administration. This program is intended to improve the transparency of financial management and will be an initial step towards involving oversight bodies, the state legislative branches, and civil society in day-to-day state public affairs.

RISKS:

Inadequate functioning of the Executive Committee. There is a risk that the heterogenous nature of the program's Executive Committee, designed as a joint decision-making body, could obstruct rather than facilitate decisions.

To mitigate this risk, at least partially, the Office of the Comptroller General of the Republic has been invited to join the Committee. The Comptroller's Office has strong technical expertise in the issues addressed by the project and could serve as an implicit arbitrator to facilitate decision-making.

Legal reforms complicating implementation of the program. Draft legislation entitled integrated financial administration and control system act, currently under legislative consideration, would define the lead role of OCEPRE in establishing the regional budgets. Although the issues does not appear controversial, there is a possibility that a change in this lead role might call certain program activities into question.

National authorities and the Bank are both following this legislative proposal and discussions have been held with members of Congress and officials in the Ministry of Finance to clarify the scope of the planned operation.

Difficulty of procuring consulting services within the required time frames. Inasmuch as the pace of implementation for this operation is determined essentially by demand from the individual states, it could prove difficult to recruit all of the consultants needed during periods of peak demand.

The program provides for a pilot process of public bidding at the national and individual state levels for the recruitment of national consultants with experience in the areas covered. This bidding process will be conducted in the second quarter of 1998 and will result in a regularly updated consultant information bank for use by the individual states.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The conditions precedent to the first disbursement are as follows: (i) signature of the presidential decree creating the Executive Committee and the Central Coordinating Unit, and designation of the representatives to the Executive Committee; (ii) approval of the program operating regulations by the Executive Committee; (iii) selection of the national coordinator by the Executive Committee; and

(iv) assignment of physical space suitable for the UCC's operations. Also, submission, to the Bank's satisfaction, of a plan for strengthening the DGSPR will be a condition precedent to the disbursements for component 3 of the program (strengthening of the OCEPRE).

**EXCEPTION TO BANK
POLICY:** None.

PROCUREMENTS: The threshold amounts beyond which international public bidding must be conducted for project procurement are US\$350,000 for goods and US\$5,000,000 for works.

It is recommended that prior consultation with the Bank be required for the selection and hiring of individuals consultants when the amounts concerned are in excess of US\$50,000. Contracts with consulting firms will be subject to the established prior consultation processes.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Fiscal and functional decentralization in Venezuela is a dynamic process which, though based on clearly defined legal grounds, is placing growing demands on the institutional capacity of the country's individual states. In parallel, the democratic order recently introduced within the state governments is making public administration more responsive to the demands of society, which invariably call for broader and better social service coverage.
- 1.2 At the core of any public administration capable of meeting the needs of society and the challenges of decentralization one finds the same modern mechanism for administering resources. Without budgets that reflect the aspirations of government programs – whose implementation is frequently unpredictable and unsupervised – and without timely and reliable information on which to base decisions, government officials have their hands tied when it comes to responding to citizen demands.
- 1.3 The Government of Venezuela has clearly identified this issue within the context of state administration, and has requested support from the Bank in addressing it. The aim of the program proposed here is to modernize the financial administration of the states, and the central agencies with responsibility over them, in a comprehensive manner and by means of a joint decision-making process. The program entails the active participation of each interested state government and coordination with the Central Budget Office and the Ministry of Finance on technical and methodological matters.

B. Macroeconomic context

- 1.4 In response to the macroeconomic imbalances of the 1993-1995 period, Venezuela entered into an agreement with the International Monetary Fund (IMF) in April 1996 to carry out an economic adjustment program with structural reforms under the title "Agenda Venezuela". The aim of Agenda Venezuela is to lower inflation, reestablish confidence, and lay the foundation for sustained economic growth.
- 1.5 The main adjustment policies were the elimination of currency exchange and interest rate controls and increases in the VAT (wholesale) and gasoline prices. In 1997, important structural reforms were introduced, including: (i) consolidation of a liberalized petroleum market; (ii) reprivatization of a large portion of the financial system; (iii) privatization of public enterprises, including Siderúrgica del Orinoco [Orinoco Steel] (SIDOR); (iv) reform of the labor act, and (v) enactment of a new organic law on social security.

- 1.6 The positive effects of these policies began to be felt in 1997. Inflation fell from more than 100% in 1996 to 37.8% in 1997, and there was a strong rebound in gross domestic product (GDP) from a negative 0.4% to 5.1% growth. The current account surplus represented 4.8% of GDP in 1997 (8.8% in 1996). In terms of the labor market, the decline in real wages and employment in recent years were successfully reversed but still have not regained the levels of 1992. On the negative side, the combined effect of slow growth in real wages and the rise in consumer prices probably resulted in a slight increase in the poverty level.
- 1.7 A common thread among the goals of sustainable macroeconomic stability, increased productivity for nonoil resources, reduction in the level, intensity, and breadth of poverty, is wide-ranging and profound reform of the public sector. This reform is designed to improve not only internal efficiency, but also functional efficiency. Continued privatization, the development of appropriate regulatory climates, in macroeconomic as well as sectoral terms, and intensified decentralization will help to promote the development of nonoil resources in general and the private sector in particular. Progress has been slow, however, in reforming the public sector — one of the main items on Agenda Venezuela.

C. Decentralization in Venezuela

- 1.8 The gradual transfer of government functions to the states and municipalities is grounded in the Venezuelan Constitution, which empowers Congress to delegate certain areas of national authority as a means to promote administrative decentralization (Article 137). Although the constitution dates back to 1961, decentralization did not gain momentum until 1989, when three key laws were enacted: the law on free elections and the removal of State governors, the law partially reforming the organic municipal regime act, and the organic law on decentralization, delineation, and delegation of authority by public powers.
- 1.9 Of these three laws, the one on decentralization (G.O. 4,153) is the cornerstone in the delineation of authority between the national and state governments and defines the fiscal and political relations between the two levels. Eighteen areas of government responsibility to be gradually transferred to the state governments are defined, including education, public health and nutrition, public works of state interest, urban, rural and low income housing, and civil defense (Article 4).
- 1.10 By contrast with the municipalities, the states do not have their own tax revenues. Their only source of financing is the subsidies paid under the constitution. The same decentralization act provides that in 1990, the subsidy would be 16% of total ordinary revenues to the national budget, followed by 1% annual increments thereafter up to 20% (Article 13). Conversely, the states must

include a municipal subsidy in their own budget laws equivalent to 10% of their ordinary revenues for 1990, here again with annual increments of 1%, up to a total of 20% (Article 14).

- 1.11 In addition to the constitutional subsidies, the states receive resources from two important sources: The Intergovernmental Fund for Decentralization (FIDES) and special allocations for states derived from mines and hydrocarbons. FIDES was established by decree in 1993 and by law in January 1997, and is constituted with 15% to 20% of revenues generated by the luxury tax and the wholesale sales tax. Its purpose is to finance investment projects presented by the states and municipalities. The special appropriations act of December 1996 provides that up to 30% of revenues derived from oil and mining royalties must be distributed among the states, and the producing states in particular.

Resources received by the state governments
(millions of 1997 bolivares) ^{1/}

Year	Constitutional subsidy	FIDES	Special appropriations	Other sources	Total
1995	1,198,695	—	—	230,849	1,429,544
1996	1,272,096	81,818	-	393,819	1,747,733
1997	1,777,957	176,766	69,533	574,583	2,598,839
1998 (e)	2,328,801	186,387	226,883	282,295	3,024,366

- 1.12 Overall, the budget proposal for 1998 provides for the transfer of approximately 27% of the states' and municipalities' total ordinary resources. This significant financial flow requires modern and effective administrative systems ensuring efficient and transparent allocation, use and oversight.

D. Financial administration

- 1.13 For the purposes of this proposal, "financial administration" means a set of systems, each with its own rules, administrative procedures, and data processing engineering, which together form the instrument used for overall administration of public finances. The systems that constitute the individual nucleus of financial administration are budget, treasury, and accounting. Interaction between these systems makes it possible to formulate, program, and execute the budget, administer liquid assets, provide complete and timely information for use in decision making and external monitoring.

^{1/} Source: Central Budget Office; adjusted for inflation.

1. The national level

- 1.14 At the central government level, financial administration is governed by the organic laws for the budget system, public finance, the Office of the Comptroller General of the Republic, and public credit. Draft legislation entitled organic law on the integrated administration and internal control system for public finance, which is intended to streamline the administrative function in public agencies, is currently under consideration by the Congress.
- 1.15 To promote modernization in this area and implement the proposed law following approval, a project was set up, known as the Sistema Integrado de Gestión y Control Financiero [Integrated System for Financial Administration and Control] (SIGECOF), headed up by the Ministry of Finance and partially financed with a loan from the World Bank. The purpose of SIGECOF is to automate the processes for obtaining and allocating resources, and for registering and controlling them, in order to provide timely and reliable information. SIGECOF will help to improve the supply of management information necessary for decision making. Last year, this project made substantial progress, and the system is expected to be operating within the central administration starting January 1, 1999.
- 1.16 In the context of SIGECOF, the conceptual approach to financial administration is defined in such a way, if applied at all levels of government, as to ensure the coherence and integrity of budgetary, financial, and accounting information flows and the adoption of modern and efficient standards and procedures.

2. The state level

a. Governing institutions

- 1.17 The legal framework governing state and municipal financial administration establishes central and decentralized levels of authority. At the central level, the Central Budget Office (OCEPRE), under the Ministry of Finance, is responsible for issuing rules governing the process of preparing and executing state and municipal budgets, as well as issuing a single accounting plan. The Office of the Comptroller General of the Republic has the authority to establish accounting procedures for the states and municipalities and issue related instructions.
- 1.18 For the coordination of these activities with the states and municipalities, OCEPRE has a Dirección General Sectorial de Presupuesto Regionales [General Sectorial Department for Regional Budgets] (DGSPR). The main functions of the DGSPR are to: (i) coordinate and advise during the budget formulation and execution process; (ii) analyze and process budget amendments requested during the fiscal year; (iii) prepare consolidated accounts and statistical information on budget administration; and

(iv) revise and update the manuals, instructions, and forms used in the budget formulation and execution processes.

- 1.19 Independent diagnostics and evaluations prepared by OCEPRE authorities point to deficiencies in the structure, computerization, and technical capacity of the DGSPR to attend to the 23 state governments and more than 300 municipalities in an effective manner. The main weaknesses identified are: (i) a high turnover rate at the managerial level; (ii) lack of a functional organizational framework; (iii) inadequate staff for the volume of work (10 analysts); (iv) inadequate training in budget-related areas such as treasury and accounting; and (v) inadequate number of computer systems.
- 1.20 By contrast, the Office of the Comptroller General of the Republic has a properly structured and functional technical general department whose responsibilities include the issuance of accounting standards. However, these standards have not been updated for more than ten years, and inconsistencies have been identified between the accounting standards and the budget standards, particularly as regards the single accounting plan. The Office of the Comptroller has identified the need for external technical support to update the accounting standards and ensure their consistency with the single accounting plan.

b. The situation in the states

- 1.21 The current situation as regards state financial administration in the country is uneven, with at least three categories of states reflecting individual characteristics:
- a. States that have not received external support. Fourteen states have been identified that have not received any external technical assistance in this area. Some of those states have undertaken individual initiatives in specific areas through consulting firms or foundations, but without the degree of conceptual coherence desired.
- b. States receiving UNDP support. Between 1991 and 1996, the United Nations Development Program (UNDP) executed administrative and financial modernization programs in four states: Anzoátegui, Falcón, Sucre, and Trujillo. Among these four, the only state that appears to have a functional system is Sucre, but all have conducted diagnostics and have laid the groundwork for comprehensive reform.
- c. State receiving PROINSOL support. By means of loan 658/OC-VE, the local social investment program (PROINSOL), the Bank is financing efforts to strengthen financial administration in six states. This project, being executed by the Social Investment Fund of Venezuela (FONVIS) and UNDP, is undertaking technical assistance activities in respect, inter alia, of budget

formulation and control in the states of Barinas, Guárico, Mérida, Nueva Esparta, Portuguesa, and Zulia.

- 1.22 Based on elements taken from a diagnostic covering states in each of the three groups, the following general characteristics of state financial administration were identified: (i) there is no uniform conceptual approach, so there is no assurance of consistency with the SIGECOF at the national level; (ii) the complete information required for consolidation at the central level is not produced; (iii) the procedures applied are highly bureaucratic with little coordination between areas; (iv) there is no link with the decentralized state entities; (v) the level of computerization is low; and (vi) there is no information for public use. 2/
- 1.23 At the individual state level, weaknesses are classified into two main categories: Information systems and administration. As regards the information systems, few states have integrated systems for financial information with regard to the budget, treasury, and accounting. Nor do many states automate internal control or present the eight desirable characteristics (reliability, unity, integrity, verifiability, timeliness, usefulness, transparency and security). In the area of administration, all of the states have weaknesses in at least one of the various aspects of the budget cycle: budget policy, operations programming, budget preparation, execution, control, and cash management, among others.

E. Lessons learned

- 1.24 The proposed program will take advantage of lessons learned from several sources:
- a. The national experience. SIGECOF has developed numerous conceptual, systemic, and methodological innovation that will be applied generally throughout the program. The main lessons learned include: (i) the need for an appropriate legal instrument (Presidential decree) to ensure efficient program execution; (ii) flexible managerial organization, and (iii) a computerization strategy geared towards systems available on the market over and above those developed internally.
 - b. Experience at the state level. The experience of the states of Anzoátegui, Falcón, Sucre, and Trujillo with the UNDP program resulted in an ex post evaluation by the UNDP that conveys valuable lessons, including: (i) important information needed in the formation of executing units in the states; (ii) the need to coordinate activities with the governing bodies; and

2/ Detailed diagnostic are available for the states of Aragua, Falcón, Monagas, and Mérida in the project technical files, and there are general diagnostics for Sucre, Anzoátegui, and Trujillo.

(iii) minimum requirements for high-level support in the participating states.

- c. Experience at the municipal level. A project for supporting the municipalities through the Fundación de Concejos Municipales [Municipal Councils Foundation] (FUNDACOMUN) is currently being executed by specialized consulting firms with World Bank financing. By the end of 1997, an integrated system for financial administration had been introduced in approximately 150 municipalities. Though recent, the project is a source of valuable lessons about the introduction of integrated computer systems and the organization of support programs for large groups of beneficiaries.

F. Government strategy

- 1.25 The government's strategy can be summarized as consisting of two main areas: sustained stabilization and improved productivity from nonoil resources. 3/
- 1.26 The efforts to sustain stabilization include: (i) the program with the IMF; (ii) establishment of a stabilization fund; (iii) establishment of a fund for debt repurchasing; and (iv) the reform of budget legislation. The activities to improve the productivity of nonoil resources include: (i) the privatization of nonoil enterprises; (ii) privatization of the financial system; (iii) reform of the severance pay system; (iv) reform of the social security system; (v) liberalization of the oil sectors; and (vi) reform of the public sector.
- 1.27 The proposed operation is consistent with the general thrust of Agenda Venezuela inasmuch as it is a program to modernize the public sector. In addition, although it does not have a direct impact on reform of the organic law on the budget regime, the program will provide support for the general application of budget control standards, thereby contributing to sustained stabilization.

G. The Bank's strategy

- 1.28 The Bank's strategy in Venezuela has three main objectives: (i) to consolidate fiscal and macroeconomic stability; (ii) to reduce inequality and alleviate poverty; and (iii) to increase the productivity of nonoil resources through development of the private sector. A common element in these three objectives, which is also part of the Bank's operating strategy, is support for national efforts to reform the public sector and public policies.
- 1.29 The proposed operation fits directly into the strategy of supporting public sector reform. The effective management of

3/ Source: Agenda Venezuela.

fiscal resources is a basic function of state governments that impacts directly on the efficiency, effectiveness, and transparency of public service delivery. The program will also have an indirect impact on two additional areas addressed by Bank policy: consolidation of fiscal stability, through better aggregate information on state public spending; and the alleviation of poverty, by better targeting public resources towards priority areas of action.

- 1.30 It should also be noted that this operation is not viewed as limited to action in a single specific area; successful implementation of the execution plan proposed could serve as a model to guide the design of future Bank operations involving more than one level of government.

H. Bank experience in the sector

- 1.31 In the area of subnational financial administration, the Bank has gained considerable experience from three main projects: the National Program for Fiscal Administration of the States of Brazil (980/OC-BR); Program to Strengthen the Territorial Entities of Colombia (977/OC-CO); and the Program in Support of Comprehensive Reform in the Province of Mendoza (AR-0209).
- 1.32 Of these three projects, the first (980/OC-BR) has been the source of numerous lessons for the execution of technical assistance programs for subnational entities through a central executing unit, and the operating regulations for that project have been used as a model for the operation proposed here.

II. THE PROGRAM

A. Main objective

- 2.1 The main objective of the program is to strengthen financial administration at the individual state level, thus contributing to more efficient, effective, and transparent public service delivery in the priority areas of action of the subnational governments.

B. Specific objectives

- 2.2 The specific objectives of the operation are as follows:

- a. To strengthen state financial administration. Efforts will be made to fully modernize financial administration in the participating states, balancing the use of nationally applied concepts, standards, and systems with the particular requirements of each state. The main focus will be on integrating the planning and budget, treasury, and accounting areas within a modern framework of computerization and procedures
- b. To strengthen the coordinating body for regional budgets. OCEPRE/DGSPR will serve as coordinating agency, acting as an interlocutor with the states on technical and regulatory budget matters and as a conduit of state budget information for other users.
- c. To establish a territorial financial information system (SIFT). This system will be located within OCEPRE and will receive budgetary, financial, and accounting information from the states in electronic form for use by OCEPRE, the national accounts, the national accounting system, public finance statistics, and the general public.
- d. To harmonize budgetary and accounting standards for application by the states. Both OCEPRE and the Office of the Comptroller General of the Republic issue standards governing state financial administration. The program is intended to harmonize these standards and the technical instruments for facilitating their application by the states.

C. Main components and activities

- 2.3 The project will provide financing mainly for consulting services (individuals and firms), computer and office equipment, training, and general support during the 36-month period for execution of the following components:

1. Component 1: Program management (US\$2.4 million; estimated duration: 36 months)
- 2.4 Under this component, the program will consist of activities in two main areas:
 - a. Central Coordinating Unit (UCC) (US\$2 million; estimated duration: 36 months): (i) support for the program's Executive Committee as technical secretariat; (ii) design and introduction of a consulting services and technical solutions data bank (BCST); (iii) advisory services for state governments on program procedures; (iv) review, approval, and execution of subsidiary state projects established in the operating regulations; (v) advisory services for the teams of experts of the participating state governments; and (vi) program coordination activities, such as the development of work plans or the selection of consultants.
 - b. Administrative unit. (US\$0.4 million; estimated duration: 36 months): an administrative unit will be created under the UCC whose main responsibilities will be: (i) processing all contracts and procurements under the program in accordance with the procedures established in the loan agreement and within the time frames established in the work plans; (ii) administering the physical and financial resources of the program; (iii) administering finances and accounting; (iv) making payments to suppliers, contractors, and consultants; (v) ensuring the logistical quality of the program facilities; and (vi) providing support in connection with the external audits.
- 2.5 The BCST is a support service offered to states participating in component 2 of the program. It will consist of: (i) a list of prequalified individual consultants for eligible areas of the project; (ii) a list of prequalified consulting firms for the introduction of computer systems; and (iii) a data bank of technical solutions that have been used with success in one state, for application in others.
2. Component 2: Strengthening of state financial administration (US\$6.3 million, estimated duration: 36 months)
- 2.6 This component will finance comprehensive technical assistance projects in up to 18 participating states, to be prepared by the states themselves in cooperation with the program coordinating unit and in accordance with guidelines established in the operating regulations (see section III-B) and the project preparation manual. Each project will meet the specific requirements of the state concerned and will finance the strengthening of financial administration and the implementation of information systems so as to ensure automated, transparent, and auditable management of national transactions while generating information for decision makers.

2.7 The eligible components that could be contained in each specific project are as follows:

- a. Operations programming: Development of methodologies for planning objectives and concrete actions, specifying the related financial requirements. These techniques will facilitate the formulation of multi-year financial plans.
- b. Budgetary policy. Strengthening of the capacity of state governments to define, as a first step in budget formulation, the priorities of the state governments and how they relate to fiscal prospects for that year. Budgetary policy must contain all the elements necessary to formulate preliminary draft budgets.
- c. Preparation, negotiation, and approval of the budget. Support will be provided for the process of budget formulation using modern and easy-to-apply methodologies balancing a flexible approach to public administration with the rigor required for overall financial control. So far as possible, these methodologies must be uniform for all state governments. Advisory services will also be provided to help strengthen legislative negotiations on the budget and introduce the legal reforms necessary to streamline the approval process.
- d. Programming for budget execution and evaluation. Support will be provided for the implementation of a methodology for periodic programming of budgetary execution, as well as mechanisms for controlling execution based on quotas, budget balances, and cash availability. This area is typically a responsibility shared by budget and treasury. The groundwork will also be laid for ex post evaluation of the budget taking into account physical and financial variables and generating information on costs.
- e. Cash management. In the area of liquid asset management by the state governments, the program will provide assistance in applying the cash budget, harmonized and integrated with budget execution. Depending on the specific rules applicable in each state, support could also be included for the development of single account system or "banco del tesoro", administration of temporary surpluses, and other related matters.
- f. Integrated accounting. Support in the area of accounting will focus on the production of tables, classification categories, manuals permitting the generation of all financial information directly from the transactions registry in the information system. The aim is to convert the accounting area into an information management office able to respond in a timely and appropriate manner to management requests for information while complying with legal and formal accounting requirements. This

component also includes support for development of a policy for disseminating financial information to the public.

- g. Legal reform. Support will be provided for the drafting of legal provisions consolidating the reform process, such as the laws on integrated financial administration, budget regulations, etc., as well as all matters pertaining to organizational reform of the coordinating body for state public finance.
- h. Strengthening and coordination of the decentralized agencies. The state projects could include financing for basic financial recordkeeping and control systems in their main decentralized agencies, as well as coordination of the information systems of government agencies.
- i. Integrated financial information systems. States without computerized information systems integrating the budget, treasury, and accounting functions may include within their projects the introduction of a computer information package available on the local market, the hire of consultants to install, adapt, and document the package, and training for users and administrators.
- j. Other related areas. The program could provide a point of departure for broader administrative reform in such areas as human resource management, procurement and contracts, asset management, etc.

2.8 The main activities under this component are: (i) diagnostic of existing regulations, processes, and systems; (ii) design of revised methodologies that promote systems integration, avoiding overlap and duplication; (iii) introduction of methodologies through the issuance of regulatory provisions, comprehensive training for officials, and support for administrative reorganization; (iv) introduction, adjustment, and documentation of the computer systems; and (v) advisory services for state government authorities on other related matter.

2.9 This component will also lay the initial foundation for future projects in support of state comptrollers, strengthening the external oversight function. In this connection, each participating state must submit, as part of its project, an agreement with its comptroller for joint evaluation of the financial administration systems to be introduced. These "systems audits" will help to simplify, reduce, or eliminate the ex ante external control processes.

3. Component 3: Strengthening of OCEPRE and regulatory development (US\$1 million, approximate duration: 18 months)

- 2.10 Support will be provided to OCEPRE/DGSPR through: (i) the development of methodology and regulatory instruments to govern the regional budget system, including revisions to the single plan of accounts and the budget instructions, as well as their harmonization with accounting standards; (ii) introduction and implementation of modern computer systems; (iii) support for organizational reform and the staff required; and (iv) development of a training system on information management issues and integrated financial administration.
- 2.11 This component will also include introduction of the territorial financial information system (SIFT), through: (i) logical design of the system, specifying the communications media to be used; (ii) structuring and programming of the data base; (iii) definition of the output reports and information management routines; (iv) interconnection with other systems of users and with an Internet server to permit access by the public; and (v) startup and final documentation.
- 2.12 Support will also be provided under this component to the General Technical Department of the Office of the Comptroller General of the Republic for the revision and updating of technical standards on state accounting practices, ensuring compatibility with budget guidelines and concepts developed by SIGECOF.

D. Cost and financing

- 2.13 The total cost of the program will be US\$12 million, of which the Bank will provide US\$6 million from ordinary capital resources and the country will provide the remaining US\$6 million. Fifty percent of the local counterpart will come from the national government through OCEPRE and 50% from the participating state governments.
- 2.14 To determine the scale of the operation, the following basic criteria were used:
- a. Component 1: Program administration. Calculation of the operating costs for a central coordinating unit and an administrative unit were based on a period of 36 months, with a total of 402 consultant/months, travel and per diem expenses, computer and office equipment, and basic services (rent, communications, etc.)
 - b. Component 2: Strengthening of state financial administration. The scale of this component was determined on the basis of a preliminary sample of four of the five pilot states (Mérida, Monagas, Aragua, and Falcón). The average cost of each state project was estimated at US\$400,000, which means that 18 states

could receive financing under the program. The cost of each project will be divided as follows: 60% Bank and central government (for consulting services), and 40% participating state (mainly for equipment, training, basic services, and other items).

- c. Component 3: Strengthening of OCEPRE and regulatory development. The scale of this component was determined on the basis of 84 consultant/months, a consulting firm to develop SIFT over a period of 12 months, equipment and training.
- 2.15 The Bank's contribution to the program will be used mainly to hire consulting services (81%), as well as for computer and office equipment for the program administration and OCEPRE strengthening components (3%). The main expenses charged against the contribution from the central government would be the consulting services (61%) and general support (28%). Use of the counterpart funds provided by the states will be determined for each individual project according to the applicable regulations; however, it is estimated that 15% of the counterpart would be used for consulting services, 30% for equipment, 30% for training, and the remaining 25% for general support and improvements in infrastructure.
- 2.16 The general terms and conditions of the loan are set out in the Executive Summary. The following table summarizes the budget by component, main expense categories, and type of financing. A detailed table is available in the project technical files.

CONSOLIDATED BUDGET BY COMPONENT
(in thousands of US\$)

Budget category	IDB/OC	GOV (Central)	GOV (States)	Total	%
<u>Program administration</u>	921	1,456		2,377	19.8
1. Consulting services	833	899		1,732	
2. Equipment	88			88	
3. Training		21		21	
4. General support and services		536		536	
<u>Strengthening of state financial administration</u>	3,555	944	3,000	7,499	62.5
1. Consulting services	3,555	944		4,499	
2. Expenses to be determined ^{1/}			3,000	3,000	
<u>Strengthening of OCEPRE and regulatory development</u>	615	398		1,013	8.4
1. Consulting services	519			519	
2. Equipment	72	88		160	
3. Training	24			24	
4. General support and services		310		310	
SUBTOTAL	5,091	2,798	3,000	10,889	90.7
1. Consulting services	60	72		132	1.1
a. Credit fee		72		72	
b. FIV (1%)	60			60	
2. External audit	200			200	1.7
3. Contingencies	650	130		780	6.1
GRAND TOTAL	6,000	3,000	3,000	12,000	100.0
^{1/} The state counterpart expenses will be determined individually for each state in accordance with the eligibility criteria described in the operating regulations.					

III. PROGRAM EXECUTION

A. Organization and execution

- 3.1 The project will be organized at three levels: the governing level, the coordination level, and the execution level (see Annex III-1). The governing level consists of an Executive Committee set up by presidential decree (technical files) and responsible for periodic oversight of progress with the program, the establishment of strategic guidelines, the signature of agreements and subsidiary contracts with the participating states, the approval of Operating Regulations, and the creation of lower-level joint bodies if necessary. The Committee will be composed of representatives of the Ministries of Finance and the Interior and two representatives of the Association of Governors of Venezuela (AGV). The Office of the Comptroller General of the Republic will be invited to appoint a representative to the committee and specify the character of such representation.
- 3.2 The coordination level is occupied by a Central Coordinating Unit (UCC) placed administratively under the OCEPRE but reporting in functional terms to the Executive Committee. The unit is headed up by a national coordinator to be appointed by the Executive Committee in accordance with its internal procedures, which must be consistent with the Bank's procedures. The UCC will be supported, at least during year one of the program, by a senior technical advisor with experience in the international arena. The advisor will be appointed by the Executive Committee in much the same way as the national coordinator. At the end of year one, the Executive Committee will decide whether to retain the senior technical advisor on a full time basis or to convert the position into short-term consultancies.
- 3.3 The national coordinator will be responsible for direct supervision of Component 3 (Strengthening of OCEPRE), and coordination of the state projects with the state executing units (UEEs). The national coordinator will also be responsible for applying the operating regulations of the program and performing the functions assigned in the technical review of state projects and for advising the technical teams.
- 3.4 The UCC will be responsible for direct supervision of an administrative unit composed of finance and accounting staff, responsible for all the administrative functions necessary for execution of the program (see paragraph 2.4.b).
- 3.5 One of the central elements of the project is to take advantage of recent developments in financial administration and economies of scale that can be realized by implementing similar reforms in a broad group of states. Accordingly, the UCC will be responsible

for establishing mutually cooperative relations with other agencies or projects that can furnish concrete solutions, particularly in the data processing and conceptual areas (SIGECOF, FUNCACOMUN, PROINSOL, etc.), as well as for promoting the dissemination of successful technical solutions among the states.

- 3.6 Execution at the state level is handled by the state executing units (UEEs), established by state government resolutions as a condition precedent to the entry into force of each state agreement. The UEEs are composed of a coordinator, a legal advisor, and an administrator. They will execute state projects based on: (i) the individual consultants and/or consulting firms hired by the UCC, and (ii) the equipment, training, and other resources provided as the state counterpart. The consulting services will be selected by the UEEs from the consulting and technical solutions data base (BCST) maintained by the UCC (see paragraph 2.4.a.ii).
- 3.7 Ultimate responsibility for each state project rests with the state's UEE. During the execution of each project, the UCC will provide technical support and will supervise compliance with the operating regulations; however, the development and execution of projects and fulfillment of the stated objectives are responsibilities of the state.
- 3.8 The Executive Committee will sign agreements with each of the participating states based on the recommendations resulting from the UCC technical analysis. The agreements will be based on the project documents presented by each requesting state government, prepared with the support of the UCC in accordance with the project manual contained in the operating regulations.

B. Operating regulations

- 3.9 The operating regulations of the program will be approved and amended by the Executive Committee subject to nonobjection from the Bank. The first set of operating regulations will be prepared jointly by the Bank and the country, and its approval by the Executive Committee will be a condition precedent to the loan disbursements.
- 3.10 These regulations will contain an explanation of the reasons for the program, including the objectives and general goals. Next, the rules per se are divided into several sections: (i) general provisions; (ii) objectives and description of the program; (iii) requirements for participation by the states and eligibility of the specific project; (iv) use of the program resources; (v) procedures for program execution; (vi) reports and evaluations; and (vii) financing and counterpart limits.
- 3.11 Aside from these rules, the regulations will be accompanied by a project manual which will serve as a guide for states participating

in the program. This manual will provide the states with a model to follow in preparing their specific projects.

3.12 Some of the central elements of the operating regulations will be as follows:

- a. Eligible components. The eligible components for program financing will be those described in paragraph 2.6.
- b. Financing sources. Each state project must contain a 40% contribution from the state government, which will be administered by the state itself. The remaining amount, i.e. the amount beyond the state government's contribution, will be provided by the nation and the IDB in the form of goods and services procured directly by the UCC. The program will not transfer cash resources to the states.
- c. Types of eligible expenses by source of financing. In order to simplify the execution process, the contributions coming from sources other than the state government will finance individual consulting services and, in exceptional cases, material goods. The state counterpart will also be used for consulting services (to a lesser extent), plus equipment, training, basic services, and general support.
- d. Standard executing procedure. In brief, the standard executing procedure will be as follows, in chronological order: (i) development of the state project by the state government; (ii) presentation to the UCC for technical review; (iii) preparation of the agreement by the UCC and submission to the Executive Committee; (iv) approval of the project by the Executive Committee; (v) signature of the agreement by the Executive Committee and the governor of the state concerned; (vi) presentation to the Executive Committee of three candidates for state coordinator; (vii) establishment of the state executing unit; (viii) presentation of documentation on local counterpart resources; (ix) selection of consultants for the BCST by the UCC; and (x) initiation of project activities.
- e. Special procedures. The projects receiving support from PROINSOL/UNDP (see paragraph 1.21) will be executed with the following variants: (i) the executing unit under the PROINSOL/UNDP agreement will coordinate the project, so the establishment of the UEE will not be necessary; and (ii) the state government must submit, as part of the project, an explanation of how the two projects complement one another.
- f. Structure of the state project. The project manual accompanying the operating regulations will specify the form and content of the state project documents. The structure will be as simple and clear as possible, containing at a minimum the objectives and components, the activities and the work plan,

inputs and financing sources, terms of reference for the consulting services, and a table of execution indicators.

- g. Agreements between the states and the Executive Committee. Annex II to the operating regulations will provide a model for the state technical assistance agreement, to be signed by each participating state and the Executive Committee. The agreement will establish the obligations of the Executive Committee and the UCC as well as those of the state. The agreement will give preeminence to the loan contract between the Bank and the nation in the event of conflicts in the conceptualization and execution of the state projects.

C. Pilot entities

- 3.13 In order to gain successful experience that will help pave the way for program startup, five states were selected for participation in a pilot phase. The projects of each state will be prepared in parallel with the processing of this operation, and questionnaires and special instructions (technical files) will be used to guide them in the preliminary phases of formally constituting the project.
- 3.14 The pilot entities are a representative sample of the variety of projects that could be submitted, and are intended to:
 - (i) facilitate determination of the scale of the state projects; and
 - (ii) take advantage of the momentum gained by the governors of the pilot states in providing a demonstration model for viable program execution for other states in the country. The initiation of program activities, however, will not be conditioned upon the completion of concrete steps in the pilot projects. The states selected in principle and the scope of each pilot project are as follows:
 - a. Aragua. The state of Aragua will receive comprehensive support in all areas - in financial administration as well as data processing systems.
 - b. Falcón. Support will be provided to this state in all areas, with emphasis on administration, taking the greatest possible advantage of the existing computer capabilities provided by earlier projects.
 - c. Mérida. The state of Mérida currently receives support from PROINSOL/UNDP. The scope of support for the pilot program will be limited to supplemental areas. In a preliminary phase, the strengthening of financial data processing systems in the decentralized entities has been identified as a priority, together with improved interaction with the state government.
 - d. Monagas. In coordination with the efforts conducted by the state government with support from the specialized entities,

the program will provide complete packages in the areas of administration and data processing.

- e. Federal District. In view of the complexity of the Federal District's administration, the pilot phase will be limited to a diagnostic and the preparation of a project document, which will be considered by the UCC and the Executive Committee in accordance with the regular procedures.

3.15 The pilot states for the program were selected based on the following criteria: (i) political commitment of the state governments to strengthening the decentralized functions; (ii) the states' performance in other Bank projects, and in the particular cases of Aragua, Mérida, and Falcón, their performance in the project to support decentralization; and (iii) the representative character of the pilot states in terms of their participation in other projects with budget administration components. Among the states selected some have received PROINSOL/UNDP program financing while others have not received financing of any kind for such projects.

D. Execution indicators

3.16 The main indicators to be used to measure the program's progress and impact are enumerated in the logical framework (Annex III-1). The following table shows the predominant indicators:

Execution Indicators	
Area	Indicator
Development of state projects	a. Project in the five pilot states prepared by 8/98; b. Projects of at least seven other states executed by 12/1
Budget and accounting standards	a. Standards revised and harmonized by 6/99
Information flows from the states to the central government and the public	a. Data base operating, with at least 80% of state spending by 12/00; b. Connection with institutional users by 1/01; c. Internet page with public information operating by 6/01
Improved efficiency in service delivery as a result of administrative reforms ^{4/}	a. Average savings of 5% in unit service delivery in selected programs, within 12 months following the completion of each state project

^{4/} The reduction in unit costs is expected to result from several factors, including: (i) reduction in the cost of inputs through timely fulfillment of obligations to suppliers; and (ii) the elimination of unproductive expenditures identified in the budget evaluation.

E. Procedure for the procurement of goods and services

- 3.17 Procurement of goods and contracting for construction works. Goods and construction works will be procured in accordance with Bank procedures. International public bidding will be mandatory for procurements in values above US\$350,000 for goods and US\$5 million for construction works. These limits are justified in that, for similar projects in the country, foreign bidders participate when the amounts exceed these figures. Bidding on lesser amounts will be conducted in accordance with national legislation, which is compatible with Bank's procedures.
- 3.18 Selection of individual national consultants. Individual national consultants will be hired by means of competition announced in the press. On the basis of this competition, candidates to be included in the BCST will be preselected. States may then select consultants from the BCST list for their specific projects as needed.
- 3.19 It is recommended that the requirement of prior consultation with the Bank be maintained only in the case of individual consultants selected and hired for amounts in excess of US\$50,000. The Bank's Country Office will review contracts ex post by simple random sample to ensure their conformity with Bank procedures. If they are not in conformity, the Bank will not recognize the corresponding expenditures as part of the financing. The sample would then be widened and the prior consultation requirement could even be reestablished.
- 3.20 Selection of the consulting firms. Consulting firms for the installation of the state data processing systems will be preselected following advertisement in the national press for contracts in amounts less than US\$200,000. Contracts with consulting firms are not expected to exceed this amount. Once the firms have been preselected, they will be entered in the BCST and the beneficiary state will make the final selection. The requirement of prior consultation with the Bank will be maintained for all contracts with consulting firms.
- 3.21 The consulting firm hired to develop the SIFT, under the component for the strengthening of OCEPRE and regulatory development, will be selected in accordance with the applicable national legislation, without going through the BCST preselection process.
- 3.22 National legislation. National legislation (which applies in the case of goods as well as services), allows for private bidding (by invitation) for amounts between Bs. 7 million and Bs. 70 million; and public bidding in amounts above Bs. 70 million.

F. Disbursement timetable

- 3.23 The following table shows the estimated disbursement timetable, in millions of dollars:

**DISBURSEMENT TIMETABLE 5/
(millions of US\$)**

Component	1998			1999			2000			2001		
	IDB	NAC	EST	IDB	NAC	EST	IDB	NAC	EST	IDB	NAC	EST
1. Administration and coordination	0.1	0.1		0.3	0.5		0.3	0.5		0.2	0.4	
2. Strengthening of state financial administration	0.2		0.3	1.2	0.4	1.2	1.5	0.4	1.1	0.6	0.1	0.4
3. Strengthening of OCEPRE and regulatory development	0.1	0.1		0.4	0.1		0.2	0.1				
4. Other expenses		0.1		0.3	0.1		0.2	0.1		0.4		
TOTAL	0.4	0.3	0.3	2.2	1.1	1.2	2.2	1.1	1.1	1.2	0.5	0.4

G. Revolving fund

- 3.24 It is recommended that provision be made for a revolving fund equivalent to 5% of the total loan amount. The fund would be replenished at the request of the borrower, upon presentation of the related documentation. The country office would then determine whether the expenditures are eligible for Bank financing.
- 3.25 Thirty days prior to the date of final disbursement of the loan, the borrower must furnish final justification of the payments made with resources from the revolving fund. All amounts not accounted for must be returned to the Bank prior to the date of the final loan disbursement.

H. External audit

- 3.26 The borrower will furnish the Bank with audited financial statements on the project annually throughout the period of project execution, until all of the project resources (Bank funds and local counterpart) have been disbursed. These audits will be financed with proceeds from the Bank loan, in accordance with the Operations Manual, section 4.19.
- 3.27 The UEE must provide the UCC with audited annual financial reports in accordance with the provisions of section VI.A(c) of the operating regulations. The cost of these audits will be recognized as part of the state's contribution.

I. Recognition of expenses and retroactive financing

- 3.28 Up to US\$60,000 may be recognized as part of the local contribution if spent during the 18 months before loan approval. In addition, prior to signature of the contract, all expenditures by the borrower, starting from the date of loan approval, will be recognized or financed retroactively by the Bank, as the case may

5/ Note: NAC = national government; EST = state governments.

be, provided that they fulfill the requirements established in the aforementioned contract.

- 3.29 The contribution from the states for execution of projects approved by the UCC and the Executive Committee will be recognized as part of the local counterpart. The Bank may review a sample of the state projects and object to the recognition of expenses as part of the local counterpart if it considers that the guidelines established in the program operating regulations have not been fulfilled.

J. Special conditions

- 3.30 The conditions precedent to the first disbursement are as follows: (i) signature of the presidential decree creating the Executive Committee and Central Coordinating Unit, and designation of the representatives to the Executive Committee; (ii) approval of the program operating regulations by the Executive Committee; (iii) selection of the national coordinator by the Executive Committee; and (iv) assignment of physical space suitable for the UCC's operations. Also, submission, to the Bank's satisfaction, of a plan for strengthening the DGSPR will be a condition precedent to the disbursements for component 3 of the program (strengthening of the OCEPRE).

K. Final evaluation of the results

- 3.31 In accordance with Bank policy, the borrower and executing agency were consulted and it was decided that the executing agency would not perform an ex post evaluation as part of the program activities. If the Bank should decide to conduct such an evaluation, it would be conducted on the basis of the indicators set forth in the logical framework (see Annex III-2).

IV. PROGRAM FEASIBILITY

A. Institutional feasibility

- 4.1 Although OCEPRE does not have concrete experience in the execution of an operation of this scope, the program is considered institutionally viable because the Executive Committee and Central Coordinating Unit, responsible for implementing the program, will be established by presidential decree and will be able to apply all rules and procedures required for a practically independent operation. The Ministry of Finance has similar experience and is operating successfully with a similar approach (the SIGECOF project, financed by the World Bank).

B. Financial feasibility

- 4.2 The program is financially viable because: (i) the Umbrella Act of 1998 is to be amended to include an appropriation for this program; (ii) OCEPRE will have approximately \$200,000 (in cash and kind) for the 1998 local contribution; and (iii) the states are in a position to provide counterpart resources from its own budgetary resources, in kind, through FIDES.

C. Technical feasibility

- 4.3 The project is technically feasible because: (i) experience in other countries has already demonstrated the technical viability of a program in support of subnational entities through a central coordinating unit; (ii) the country has gained important experience in integrated financial administration, at the national and municipal levels (SIGECOF and FUNDACOMUN projects respectively); (iii) consulting firms and individual consultants with experience in this area can be recruited from the market; and (iv) the project will be directed by an Executive Committee with the involvement of all the entities concerned in the issuance of technical rules and standards.

D. Impact on low-income population

- 4.4 The program will have an indirect impact on low-income population by improving the allocation and use of budget resources by the states in delivering social services. The savings generated will also expand the volume of resources available for this sector.

E. Benefits

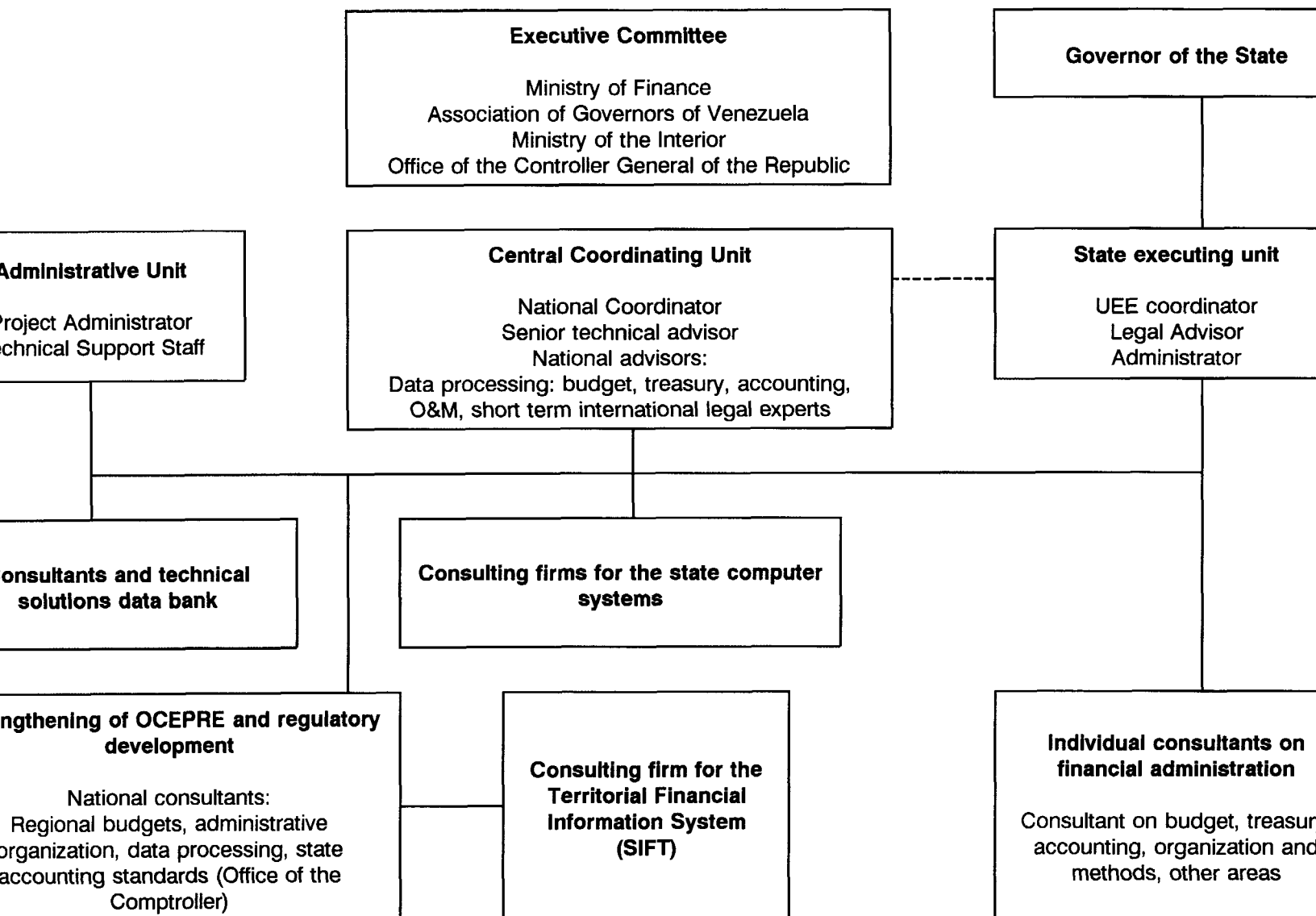
- 4.5 The main benefits derived from the program are as follows:

- 4.6 Measurable improvement in the quality and quantity of state-level public services. The efficient and effective use of budget resources and larger volumes of better information on which to base decisions – combined with growing state-level public investment with FIDES funds and funds from the special appropriations act – will lay the foundation for higher productivity in sectors receiving priority attention from the states. On average, the unit cost for service delivery by the states should be reduced by an estimated 5%.
- 4.7 Creation of an operational model for cooperation between the central governments and the states suitable for application in other areas. The program establishes an innovative mechanism for joint decision making and implementation by the various levels of government. Its main characteristic is balanced participation by the states and the central government, combining central coordination with decentralized execution and governed by an equitably representative Executive Committee. If successful, this operational model can be used in other areas forming part of the functional and fiscal decentralization process in the country.
- 4.8 Contribution to the process of consolidating democracy in the states. Inasmuch as the democratic election of governors is a recent phenomenon, public institutions in the individual states are still not fully adapted to the practices of transparent and accountable administration. This program is intended to improve the transparency of financial management and will be an initial step towards involving oversight bodies, the state legislative branches, and civil society in day-to-day state public affairs.
- F. Risks
- 4.9 The main risks of the operation and the measures to mitigate them are as follows:
- 4.10 Inadequate functioning of the Executive Committee. There is a risk that the heterogeneous nature of the program's Executive Committee, designed as a joint decision-making body, could obstruct rather than facilitate decisions.
- 4.11 To mitigate this risk, at least partially, the Office of the Comptroller General of the Republic has been invited to join the Committee. The Comptroller's Office has strong technical expertise in the issues addressed by the project and could serve as an implicit arbitrator to facilitate decision-making.
- 4.12 Legal reforms complicating implementation of the program. Draft legislation entitled integrated financial administration and control system act, currently under legislative consideration, would define the lead role of OCEPRE in establishing the regional budgets. Although the issues does not appear controversial, there

is a possibility that a change in this lead role might call certain program activities into question.

- 4.13 National authorities and the Bank are both following this legislative proposal and discussions have been held with members of Congress and officials in the Ministry of Finance to clarify the scope of the planned operation.
- 4.14 Difficulty of procuring consulting services within the required time frames. Inasmuch as the pace of implementation for this operation is determined essentially by demand from the individual states, it could prove difficult to recruit all of the consultants needed during periods of peak demand.
- 4.15 The program provides for a pilot process of public bidding at the national and individual state levels for the recruitment of national consultants with experience in the areas covered. This bidding process will be conducted in the second quarter of 1998 and will result in a regularly updated consultant information bank for use by the individual states.

STRUCTURE FOR PROJECT EXECUTION VE-0087



LOGICAL FRAMEWORK
PROGRAM TO STRENGTHEN PUBLIC FINANCE IN THE STATES OF VENEZUELA (VE-0087)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
efficiency, effectiveness, and public service delivery in the activity of the subnational	a. 5% reduction in the unit cost of priority programs in the participating states, within 12 months of completion of each specific state project. b. Allocation and use of budget resources for key service delivery activities. c. Presentation of complete and timely accounting statements to the state controllers and legislative branches. d. Availability of state financial information for civil society.	a.1 Budget evaluation reports for years before and after the completion of each project. b.1 Comparative budget execution reports, by activity. c.1 State financial reports. d.1 Territorial information system accessible to the public via Internet.	1. Reform of financial administration in the participating states is carried out. 2. Harmonized rules for state and accounting management are enacted. 3. The states take a managerial approach to the priority projects.
state financial administration, budget, treasury, and management within a modern data processing framework.	a. Reforms introduced in three pilot states, including data processing systems, legal reforms, methodologies and procedures, and trained staff by 6/00. b. Reforms introduced in at least seven other states by 12/01. c. National provisions for state financial administration prepared by 6/99.	a.1 Program progress reports. b.1 Program progress reports. c.1 Program progress reports; Official Journal.	1. At least three pilot projects are approved by the Executive Committee. 2. The state presents, and the Committee approves, at least three projects. 3. The central coordinating unit and state executing units operate. 4. Counterpart resources are available in accordance with the project guidelines.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Program administration			
ent of the Executive and the central coordinating	1.a Presidential decree issued by 8/98. 1.b Executive Committee operating, by 9/98. 1.c National coordinator and senior technical advisor selected and hired by the Executive Committee by 9/98. 1.d Internal regulations approved by the Executive Committee, by 9/98. 1.e The Administrative Unit is in operation by 10/98.	1.a Official Journal. 1.b Initial minutes of the Executive Committee. 1.c Service contracts. 1.d Minutes of the Executive Committee. 1.e Project report.	1. The presidential decree is im on a timely basis by the prop authorities. 2. Suitable candidates are iden key posts.
ation of the consulting and technical solutions data (T).	2.a Consultant data bank with at least 200 prequalified curriculums vitae, by 12/98. 2.b At least four information systems consulting firms prequalified, by 12/98. 2.c Documentation of computer solutions for related systems, by 6/00. 2.d Documentation of conceptual solutions for the financial administration areas, by 6/00.	2.a Project report; BCST documentation. 2.b Project report; BCST documentation. 2.c Project report; BCST documentation. 2.d Project report; BCST documentation.	1. The procedures for selecting are carried out. 2. The criteria for selecting con applied properly.
Strengthening of state financial administration			
n of the agreements with the to the Executive Committee.	1.a Project documents prepared and presented in accordance with the internal regulations, by 8/98.	1.a Minutes of the Executive Committee; project documents.	
n of the agreements with the s to the Executive Committee.	2.a Project documents prepared and presented in accordance with the internal regulations.	2.a Minutes of the Executive Committee; project documents.	1. The participating states have to produce project document accordance with the internal
ent of the state executing	3.a Enactment of state standards for the establishment of the UEEs one month after the projects are presented to the Executive Committee.	3.a The Official Journal in each state.	1. The legal provisions are impl within a reasonable period of

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
tion of the computer system ed financial administration.	<p>4.a Consulting firm selected from the BCST at least 45 days prior to initiation of the state project.</p> <p>4.b Computerized, automated, and integrated functioning of the processes for formulation, execution, and registration of the state budget.</p> <p>4.c Computer systems documented, for users as well as administrators.</p> <p>4.d At least two users in each of the areas concerned trained in the use of the system.</p> <p>4.e Signed agreements with the consulting firms for maintenance and updating of the system.</p>	<p>4.a Reports from the UCC.</p> <p>4.b Monitoring reports on the state projects.</p> <p>4.c User, administration, and program source manuals.</p> <p>4.d Monitoring reports on the state projects.</p> <p>4.e Contracts with the consulting firms; reports from the UCC.</p>	<p>1. Specialized consulting service sufficiently available.</p> <p>2. Coordination with the consulting administration area is smooth.</p> <p>3. The proper computer equipment available within the required time.</p>
nt of mechanisms for programming and ve organization.	<p>5.a Development of budgetary action networks and program structures.</p> <p>5.b State agency reorganization proposals presented to state authorities.</p>	<p>5.a Project reports; state budget laws.</p> <p>5.b Reorganization proposals.</p>	<p>1. State executive branches take managing-by-results approach.</p>
nt of the technical tion for budget on.	<p>6.a Methodologies and process redefined.</p> <p>6.b Classification categories and tables updated.</p> <p>6.c Documentation prepared.</p>	<p>6.a Project reports; manuals.</p> <p>6.b Project reports; manuals.</p> <p>6.c Manuals, regulations, and other documentation in use.</p>	
of budget execution	<p>7.a Methodologies and processes redefined.</p> <p>7.b Classification categories and tables updated.</p> <p>7.c Documentation prepared.</p>	<p>7.a Project reports; manuals.</p> <p>7.a Project reports; manuals.</p> <p>7.c Manuals, regulations, and other documentation in use.</p>	
n of integrated accounting.	<p>8.a Methodologies and processes redefined.</p> <p>8.b Classification categories and tables updated.</p> <p>8.c Documentation prepared.</p> <p>8.d Financial and accounting statements issued in automated form, based on transactions entered into the computer system.</p>	<p>8.a Project reports; manuals.</p> <p>8.a Project reports; manuals.</p> <p>8.c Manuals, regulations, and other documentation in use.</p> <p>8.d Conversion tables; accounting and financial statements; project reports.</p>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
of financial information from decentralized agencies (DA) of the governments.	9.a Incorporation of an average of three decentralized agencies per state. 9.b Type, format, quantity, and periodical intervals for DA financial information defined. 9.c Computer support systems installed in the DAs. 9.d Financial information flowing to the various state governments, in terms of time and content.	9.a Project reports. 9.b Project reports. 9.c Project reports. 9.d State financial reports; project reports.	
d strengthening of related administration of property, resources, procurement and , etc.).	10.a Basic computer systems developed and installed in states requesting them. 10.b Basic reforms implemented in the related systems. 10.c Work plans for future action prepared.	10.a Project reports; systems documentation. 10.b Project reports. 10.c Work plans.	
the state legal framework.	11.a Laws, regulations, and other provisions appropriate for the conceptual and operational characteristics of the system. 11.b Legal alignment with national provision applicable at the state level.	11.a States official journals. 11.b States official journals.	1. The amendment formalities a completed on a timely basis
administrative-financial staff.	12.a Training in the use of the computer system, management concepts, and new methodologies and procedures for a critical mass of state civil servants.	12.a Project reports.	
pplemental support for states ed integrated systems.	13.a Special procedures defined for structuring and approving projects for these states, by 12/98. 13.b Project for the state of Mérida prepared and approved as part of the pilot exercise, by 12/98.	13.a Internal regulations; project reports; minutes of the Executive Committee. 13.b Project document; minutes of the Executive Committee; agreement.	1. The administrative and finan projects financed by other o are properly carried out and

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Strengthening of OCEPRE and regulatory development			
on of the functions of s regulatory agency for the et system, in accordance with ble law.	1.a Legal provision regulating the organic law on the budget regime or the SIGECOF law.	1.a Official Journal.	1. An institutional consensus is the scope of the regulatory f
d updating of the rules and s concerning the formulation ion of state budgets under ty of OCEPRE.	2.a Instructions and regulations approved and transmitted to the states for application, by 8/98. 2.b The tables in the computer systems affected by the regulatory reform updated.	2.a Issued instructions; Official Journal. 2.b Project reports.	1. The legal provisions are imp a timely basis.
d updating of the single plan s according to the nts of each state government.	3.a Single plan of accounts reformed and/or published for application by the states, by 12/99.	3.a Instructions on the single plan of accounts for the state governments.	
ing of OCEPRE/DGSPR.	4.a DGSPR reorganization strategy approved, by 8/98. 4.b DGSPR staffing plan approved and implemented, by 8/98. 4.c Modern computer systems installed, by 6/00. 4.d Regional budget analysis methodologies implemented, by 12/98. 4.e Staff trained.	4.a Legal instrument enacted. 4.b Plan approved by the Ministry of Finance and OCP; budget reflecting additional staffing. 4.c Project report. 4.d Project report. 4.e Project report.	1. Authorities are willing and th available to staff the DGSPR
of the accounting standards at the state level, issued by of the Comptroller General of lic.	5.a Publication 20 revised, updated, and published in a manner compatible with the budget guidelines and the single plan of accounts, by 6/99.	5.a Publication 20 revised.	1. The General Technical Depa Office of the Comptroller ena revised rule.
n of the territorial financial n system (SIFT).	6.a SIFT data base operating within OCEPRE, by 6/00. 6.b Flows of computer information to the SIFT covering at least 80% of aggregate state spending, by 12/00. 6.c Computer information flows covering at least 80% of expenditure, by 6/01. 6.d Connections established with the institutional users (SIGECOF, PEFP, Central Bank, etc.) by 1/01. 6.e State financial information available to the general public via Internet, by 6/01.	6.a Project report. 6.b Project report. 6.c Project report. 6.d Project report; on site validation. 6.e Internet page in operation.	1. Specialized consulting servic available.

**PROGRAM TO STRENGTHEN PUBLIC FINANCE
IN THE STATE OF VENEZUELA
(VE-0087)**

PROCUREMENT PLAN

Main procurements	Financing	Type	Prequalification	Public notice
Component 1. Program Administration				
<u>Consulting services</u> Individual consultants: US\$1.8 million (average for individual contracts: US\$125,000)	48% IDB 52% GOV	NB	-	Yes Third quarter of 1998
Component 2. Strengthening of state financial administration				
<u>Consulting services</u> Management consultants: US\$3.3 million (estimated average for individual contracts: US\$36,000) Data processing consulting firms: US\$1.2 million (estimated average for individual contracts: US\$100,000)	72% IDB 28% GOV 100% IDB	DC NB	- yes	Yes Third quarter of 1998
<u>Computer equipment</u> Approximately US\$900,000 (estimated average per lot: US\$50,000)	100% GOV	NB	-	-
Component 3: Strengthening of OCEPRE				
<u>Consulting services</u> Individual consultants: US\$400,000 (average for individual contracts: US\$44,000) Consulting firm for the development of the Territorial Financial Information System (SIFT): US\$168,000	100% IDB 100% IDB	DC NB	- -	- -
<u>Computer equipment</u> Approximately US\$160,000 in two lots	45% IDB 55% GOV	NB	-	Yes Fourth quarter of 1998

NB = national bidding.

DC = direct contracting

PROPOSED RESOLUTION

VENEZUELA. TECHNICAL COOPERATION LOAN ___/OC-VE
TO THE REPUBLIC OF VENEZUELA

(Strengthening of Public Finances in Venezuelan States)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Venezuela, as Borrower, for the purpose of granting it a loan to cooperate in the execution of a program for the Strengthening of Public Finances in Venezuelan States. Such loan will be for the amount of up to six million United States of America dollars (US\$6,000,000), from the Single Currency Facility of the ordinary capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.