

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:	<u>US\$ 5,000,000</u>
	Total:	US\$25,000,000
Terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 1/2 years
	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.

I. BACKGROUND

A. The fiscal environment

- 1.1 Bolivia implemented a series of macroeconomic policies and structural reforms during the 1990s that enabled it to reduce inflation to single-digit levels, strengthen its balance of payments and achieve real GDP growth of around 4% during that decade. The public-sector deficit remained fairly large (an average of 3% of GDP from 1994 on), however (Table I-1), due to the impact of the country's reform of its pension system, a downturn in tax revenues and, in 2000, the approval of an economic package containing emergency measures that drove up current expenditure. The municipal governments' fiscal deficit is estimated to have averaged 0.13% of GDP in 1997-2000.

Table I-1: Public-Sector Fiscal Deficit (% of GDP)

	1994	1995	1996	1997	1998	1999	2000
Fiscal deficit	-3.2	-2.6	-1.9	-3.5	-2.7	-3.3	-3.9

Source: IMF and the Ministry of Finance.

B. Decentralization and financial management at the municipal level

- 1.2 The political decentralization process in Bolivia officially began with the passage of the Municipalities Act in 1985, which grants political autonomy to municipal governments and establishes procedures for the election of councilpersons.¹ The administrative decentralization process, for its part, began in 1994 with the passage of Citizen Participation Act 551,² which was part of a structural reform package designed to modernize the State, set up a framework for municipal development whose core elements are administrative and financial decentralization to municipalities and citizen participation in the management of public resources at the municipal level. From a fiscal standpoint, decentralization has entailed the transfer of 20% of the National Treasury's tax revenues (tax-revenue sharing) and

¹ The municipal governments now hold legal status in their own right, independently of the central government, and thus have exclusive powers and the authority to collect their own taxes.

² Following the passage of the Citizen participation Act, the following measures were enacted: (1) Executive Order 23813, which establishes regulations for the application of the Citizen participation Act; (2) Administrative Decentralization Act 1654 of July 1995, which transfers and delegates areas of technical and administrative authority to the prefectures; (3) Executive Branch Organizational Act 1788 of September 1997, which structures governmental functions on the basis of its policy objectives; and (4) Municipalities Act 2028 of October 1999, which reaffirms the municipal governments as the primary geographical unit for the application of public policy.

of the presumptive income tax on asset holders (urban real estate, rural real estate and motor vehicles) to the country's 314 municipal jurisdictions.³

- 1.3 The placement of additional fiscal resources amounting to about 3% of GDP in the hands of municipalities, most of which have exhibited serious institutional weaknesses, has made it necessary to create appropriate administrative and monitoring capabilities to ensure the success of the decentralization process. This was, in point of fact, the spirit of the Citizen Participation Act, which provides that the management of municipal funds must, just like any other public resource, comply with the basic rules and regulations of the systems regulated by the government management and control act.⁴ Within this framework, the national government, working through the Ministry for Sustainable Development and Planning as well as several development funds,⁵ has assumed responsibility for promoting and supporting institutional strengthening of municipalities as the cornerstone for the success of the decentralization process.
- 1.4 The geographically-based management model defined by the government, which combines a deconcentrated sector (the prefectures [regional governments]) with a decentralized sector (the municipalities), functions poorly because municipal revenues are low, accountability with respect to expenditures needs to be distributed more suitably, and the system for transfers from the central government to subnational governments is unsatisfactory. In addition, the prefectures are just one level of departmental administration, lack legal status and do not have the authority to levy taxes, all of which limits their resource-management functions.
- 1.5 In all, 98 of the country's 314 municipalities have fewer than 5,000 inhabitants. The scale and complexity of these districts' finances are not great enough to warrant an integrated form of fiscal management. Under the Municipalities Act now in effect, these municipalities are to pool their resources so that they can benefit from revenue-sharing arrangements. It is expected that the unification process will move ahead more rapidly thanks to the provisions contained in the National Dialogue Act

³ Under the provisions of the Citizen participation Act, for the purposes of the technical assistance to be provided to municipal governments, the Ministry of Finance has classified these 314 municipalities according to their populations: Category A includes those municipalities having up to 5,000 inhabitants (98 municipalities); Category B is for municipalities having more than 5,000 but less than 15,000 (129 municipalities); Category C covers those with populations having 15,000 or more but less than 50,000 (72 municipalities); and Category D corresponds to municipalities with populations of over 50,000 (15 municipalities). This classification is to be modified once the results of the 2001 National Population Census are known.

⁴ Act 1178 of July 20, 1990—also known as the SAFCO Act—established the governing bodies and chief regulatory principles for the operational programming systems of all Bolivian government agencies: administrative organization; budget; personnel management; administration of goods and services; treasury and public credit; integrated accounting; and domestic and external government oversight.

⁵ The National Fund for Regional Development (FNDR), the Campesino Development Fund (FDC) and the Social Investment Fund (FIS).

of July 31, 2001, which directs the Executive Branch to work through the Ministry for Sustainable Development and Planning to establish a policy providing incentives to promote the territorial integration of sparsely populated municipalities and to encourage them to pool their resources.

C. Current financial management functions of municipalities and areas in which they need to be strengthened

1.6 Seven years into the decentralization process, it appears—when viewed from the vantage point of the transfer of responsibilities for the management of public spending—to be fairly well advanced. For example, only 34% of total public investment in the past three years is being conducted by national agencies (chiefly cabinet ministries and the National Roads Service) and the rest by subnational bodies (prefectures, municipalities, and regional and local firms) (Table I-2).

Table I-2: Public Investment, 1998-2000
(% of total investment, by level of government)

Level of government	1998	1999	2000
Central government	31.3%	36.8%	36.0%
Prefectures and other regional agencies	42.6%	42.5%	47.2%
Municipalities	25.0%	19.8%	16.7%
Public enterprises	1.1%	0.9%	0.1%

Source: Ministry of Finance

1.7 Despite the central government's institutional strengthening efforts,⁶ shortcomings in the area of financial management continue to prevent the decentralization process from having a greater impact:

- a. A lack of timely information and of reliable financial statements, together with a failure to bring municipal procedures into line with existing administrative and supervisory statutes and procedures. This situation hampers government oversight via external audits. Table I-3 shows how few municipalities, broken down by department, had submitted financial statements on time as of March 31, 2000. Furthermore, a significant number of the statements that were submitted were flawed in ways that prevented audits from being conducted.

Table I-3: Municipalities submitting financial statements

Department	No. of Municipalities	Have financial statements	%
La Paz	75	16	21
Santa Cruz	50	3	6
Cochabamba	44	3	7
Oruro	34	11	32
Chuquisaca	28	10	36
Potosi	39	6	15
Tarija	12	6	50
Beni	18	3	17
Pando	14	0	0
TOTAL	314	58	18

Source: Comptroller-General of the Republic

⁶ For example, computer systems for tracking receipts and expenditures have been installed in more than 200 municipal governments, and systems for collecting municipal revenues have been furnished, primarily through the Ministry for Sustainable Development and Planning. The most widely used systems are the Integrated Municipal Accounting System (SINCOM) and the Integrated Municipal Revenue System (SIIM); these systems have, however, been found to be incomplete and unreliable by the Comptroller-General of the Republic himself.

- b. Even in those municipalities that have set up financial information systems for the entry of revenues and expenditures, very little use is made of these systems for management purposes. For the most part, entries are made at the close of each fiscal year solely for the purpose of preparing the financial reports which the municipalities are required to submit. What is more, these accounting systems are neither integrated nor compatible with one another and therefore do not generate comparable fiscal data. This, in turn, prevents the consolidation and analysis of this information.
- c. The absence of municipal financial management systems to underpin fiscal discipline is also reflected in instances where municipal debt exceeds legal borrowing limits. Subnational governments' total debt as of the end of 2000 was over 5% of GDP; of that total, 45% corresponded to prefectures and 55% to municipalities. Municipalities' total debt increased by 45% between 1997 and 1999, thus reaching levels that jeopardized their financial flows, since as much as 47% of their current revenues are absorbed by the annual servicing of that debt.⁷ Table I-4 gives debt indicators for the country's major municipalities (the capitals of the corresponding departments) as of December 31, 1999. Another reason for this rising level of debt is that the decentralization process has not been coupled with an effective system of central government coordination and monitoring.
- d. Municipalities' implementation of the management and control procedures set forth in the SAFCO Act continues to be very poor. This is attested to by the failure to submit financial statements on time and to submit budget performance reports to the Ministry of Finance (only 10% of municipal governments are in compliance) and by the findings issued by the Comptroller-General of the Republic (CGR).⁸ In the past six years, the CGR has conducted 252 special audits of municipalities' management and control systems. The serious failings that were detected were attributed to **the absence or weakness of financial management systems, insufficient human resources training in financial management, high staff turnover, and the unsuitability of many staff members**. All of these deficiencies were found to generate "risk environments conducive to administrative corruption".⁹
- e. Weak municipal financial management and internal control mechanisms have also prevented civil society from monitoring the management of municipal governments more closely or effectively.

⁷ Some estimates put the total municipal debt at over US\$250 million, of which US\$94.5 million is accounted for by the FNDR's current portfolio. The total debt is considerably greater than the equivalent of one year's worth of receipts from existing tax-revenue sharing arrangements.

⁸ See www.cgr.gov.bo.

⁹ See the 1999 Annual Report of the Comptroller-General.

- 1.8 This failure to organize and adjust municipal finances is a cause of concern for national government authorities both because it could detract from the success of the decentralization process and because it militates against efforts to balance fiscal accounts. Given the fact that the municipalities handle total resources amounting to approximately US\$500 million each year,¹⁰ the extent of the risk is considerable. Furthermore, this sum will increase substantially if, as provided for under the Bolivian Poverty Reduction Strategy, municipalities are called upon to administer the funds to be provided under the expanded Heavily Indebted Poor Countries (HIPC II) debt relief initiative (Table I-4).

Table I-4: The Expanded Heavily Indebted Poor Countries (HIPC II) Debt Relief Initiative within the Framework of the Bolivian Poverty Reduction Strategy

The Heavily Indebted Poor Countries (HIPC) initiative developed by the IMF and the World Bank, in coordination with the IDB, is designed to increase social expenditure in heavily indebted poor countries that are undertaking State reforms by providing them with a significant degree of external debt relief.

Bolivia has qualified for the HIPC II initiative because, among other factors, its external debt was equivalent to more than 200% of the value of its exports as of 1999. In order to become eligible for HIPC II, Bolivia had to improve its social and poverty-reduction indicators and to develop and institute the Bolivian Poverty Reduction Strategy (EBRP) on a participatory basis.

One of the lessons learned from the HIPC I initiative, under which Bolivia obtained nominal debt relief amounting to a US\$760 million reduction in interest and amortization payments, was the importance of establishing resource-use control, appraisal and monitoring mechanisms. This came about because it was seen that, even though the country did meet the social targets established as part of HIPC I, there was no observable or verifiable relationship between the HIPC funds that were provided and the development of specific social programs or projects. Given this situation, in 2000 a national dialogue was conducted in order to define the main thrust of the EBRP, as a result of which it was agreed that the municipalities would be the main beneficiaries and administrators of the HIPC II resources (paragraph 1.22).

The additional debt relief to be provided is expected to total around US\$110 million per annum over the next 15 years (approximately 50% of the annual resources transferred to the municipalities under existing revenue-sharing arrangements). The National Dialogue Act provides that 20% of these HIPC II funds will be used to improve educational services, 10% will be used for health care and 70% for the municipalities' production infrastructure programs.

The National Dialogue Act reaffirms provisions contained in the SAFCO Act by making it mandatory to use the management and control systems set forth in the latter statute for planning, programming, implementing and monitoring the use of HIPC II funds.

D. Government strategy for organizing and modernizing municipal financial management operations

- 1.9 To deal with this situation while maintaining the administrative autonomy of Bolivia's municipalities, the Ministry of Finance, which is the oversight agency for

¹⁰ US\$200 million in revenue-sharing, US\$100 million in disbursements from official funds, US\$80 million in own resources, and US\$120 million in other transfers, grants and borrowings.

the management systems mandated by the SAFCO Act,¹¹ has placed priority on organizing and modernizing municipal financial management operations. The Ministry has been developing a strategy for accomplishing this which is in keeping with the economic program agreed upon with the IMF and with the support that the government receives from the IDB, the International Development Association (IDA) and other donors. This strategy's main components are as follows:

- 1.10 *Implementation of a regulatory framework to foster greater fiscal accountability on the part of municipalities.* Under Budgetary Management Act 2042, caps have been placed on municipal borrowing (20% of current income for debt servicing and 200% of the total debt's present value), regulations have been established concerning the compilation and submission of fiscal statistics, and procedures dealing with such functions as internal audits and reporting have been strengthened (Act 2028). The Ministry of Finance has also instituted external controls on municipal borrowing by issuing "borrowing certificates," which are required before financial institutions can grant loans to municipalities. In addition, only 15% of the proceeds from revenue-sharing arrangements may be used to finance current expenditure, and limits have been set, up to 2003, on current spending as a percentage of the municipalities' own resources (20%-30%, depending on the size of the municipality in question).
- 1.11 *Putting municipal finances on a sound footing in municipalities with debt overhangs.* The Financial Realignment Plan (PRF) has been implemented. Under the PRF, municipalities experiencing problems with respect to their level of debt and their fiscal sustainability are required to submit to strict fiscal controls and adjustment measures in order to be eligible to receive financial assistance from the National Treasury. The expected outputs of the PRF are the adjustment of municipal debts to conform to the caps mentioned in the preceding paragraph, the creation of debt payment capacity and the achievement of a sustainable level of debt. As part of the PRF's implementation, municipalities are required to submit adjustment programs that provide for the following: (a) the steps to be taken to boost their own resources and thus reduce their dependency on other agencies; (b) current spending cuts; (c) the rationalization of investment and its alignment with existing resources; and (d) implementation of the Integrated Administrative Modernization and Management System (SIGMA). For its part, the National Treasury makes a commitment to provide funds to refinance matured debt with suppliers, contractors and the FNDR for social aims. The resources needed to refinance municipal debts will be drawn from concessional funds obtained from international lending agencies, including IDA.

¹¹ During the present Administration, the Vice Ministry for Strategic Planning and Citizen participation of the Ministry for Sustainable Development and Planning has been in charge of strategic planning and grassroots participation, while the Ministry of Finance has been responsible for coordinating and organizing municipal finances.

- 1.12 *The implementation of systems for providing municipalities and the central government with accurate information on the results of municipal financial management measures (including the actual composition and level of debt), systems for facilitating closer and more effective monitoring by the Ministry of Finance and the Comptroller-General of municipal financial management, and systems for assisting municipalities to improve their financial planning.* To this end, the Government of Bolivia issued Executive Order 25875 of August 2000, which makes the implementation of SIGMA compulsory in all of the country's public-sector agencies, including municipalities. To date, SIGMA is functioning in various agencies in the central government's civil service. The proposed program is to be focused on backstopping the Ministry of Finance in its efforts to carry out this initiative and, more specifically, to support the implementation of SIGMA at the municipal level. Other efforts being made in this area include the implementation of the Debt Management and Administration System (SIGADE), which provides means of registering, analyzing, monitoring, and administering public debt resources. This system will not be implemented in the municipalities but, through an interface with SIGMA, it will nonetheless have the capability to monitor municipal debt, since the relevant information will be fed into it through the SIGMA system operating in the municipalities. These efforts will supplement the support that IDA is providing to the Ministry of Finance in order to fund the implementation of SIGMA in the country's prefectures, which is scheduled for completion in 2003.

E. The Integrated Administrative Modernization and Management System (SIGMA)

- 1.13 In order to overcome the shortcomings of public-sector financial management described in preceding sections and carry forward reforms in the administration of public funds, in August 2000 the Ministry of Finance embarked upon the implementation of SIGMA in the central government civil service with technical and financial support from IDA (Table I-5).

Table I-5: The Integrated Administrative Modernization and Management System (SIGMA)

As a public-sector management tool, SIGMA is a package of policies, principles, regulations, technical procedures, information technology, other media and/or resources, and agencies that deal with the planning, management and monitoring of public funds.

This resource management system is designed to achieve the greatest possible degree of transparency, to speedily generate useful and reliable information, and to ensure economical, efficient and effective public management by interlinking the financial management system with internal and external controls.

SIGMA features the following: (i) regulatory centralization and operational decentralization; (ii) a consolidated registry of transactions; (iii) procedures that define functions and assign levels of responsibility; (iv) simultaneous generation of budgetary, economic, financial, accounting, and management information; (v) managerial data; and (vi) integration.

Within this framework, SIGMA combines budgetary, personnel management, procurement and contracting, asset management, treasury, public credit and accounting systems. In addition, it integrates information technology capabilities with established procedures and links registration centers (implementation units) with each of the administrative offices of central government agencies, decentralized bodies, business firms, universities or municipalities. All of these bodies are then integrated with the Ministry of Finance. This structure enables SIGMA to have an impact on all sectors and functions of the organization.

- 1.14 The main features and advantages of SIGMA over previous management systems are as follows:
- a. **It rationalizes the management of fiscal resources and modernizes the treasury and public credit system.** This is accomplished by making the Treasury's consolidated account mechanism for deposits of all fiscal resources and current account credits both universal and obligatory. This mechanism is based on the use of electronic transactions via the banking system for the payment of all obligations incurred by the various units authorized to undertake public expenditures. This significantly reduces the number of institutional bank accounts and the use of checks, which are limited to the management of revolving funds for minor expenditures.
 - b. **It incorporates and integrates procedures for the management of goods and services.** This process embraces everything from the requisitioning stage to the receipt, administration and custodianship of the goods and services acquired and includes the reengineering of procedures within each agency. For example, in government ministries, the process involved in making a minor purchase used to involve anywhere from 37 to 55 steps. The implementation of SIGMA has reduced this to 9 steps and provides for proper identification of the users involved in each one and the tracking of the exact amount of time taken up by the operation. This constitutes a tangible improvement in the effectiveness and transparency of government procurement procedures as well as progress in the effort to combat corruption and unfair business practices.

- c. **It incorporates and integrates the personnel management system at all stages in the process.** This includes settlement and remuneration payments for personnel services.
- d. **It reengineers administrative procedures in such a way as to promote “electronic management” and significantly reduce the use of paper records for administrative transactions.** The aim here is to streamline and de-bureaucratize the civil service for the benefit of its users.
- e. **It integrates all information on civil service functions.** The purpose of this step is to facilitate the monitoring and evaluation of these functions by supervisors, internal control units and the various external oversight mechanisms and groups, including civil society, which is the end user of civil service outputs.
- f. **The System is easy to use because its operational procedures are very simple.** These procedures are primarily designed for the users responsible for information entry.

F. Conceptualization of the program

- 1.15 The government’s decision to place priority on SIGMA’s implementation in municipalities and the Bank’s involvement in supporting the Bolivian government in this effort are based upon a number of considerations. These factors include the urgent need to address and rectify shortcomings in municipal financial management that adversely affect the effectiveness and impact of the decentralization process, impede the achievement of fiscal stability and hinder governance at subnational levels; the legal obligation to implement integrated management and control systems in all municipalities; and the observable benefits afforded by SIGMA’s implementation in central government agencies.¹²
- 1.16 The proposed program will underpin the institutionalization of SIGMA in the General Accounting Office (DGC),¹³ thus helping to ensure the sustainability of the efforts made to strengthen municipal financial management. It is foreseen that as the program proceeds, the central government will discontinue the strategy it has

¹² To date, SIGMA has been implemented in the Office of the Vice President, in 14 government ministries, in the Bolivian Senate, and in the Department of Mines (a total of 39 executing units). As a result, reliable, real-time financial information is now available for the first time in the history of Bolivia’s public sector.

¹³ The Office of the Comptroller-General is attached to the Office of the Deputy Minister for Budgetary and Accounting Affairs in the Finance Ministry. It is the technical unit responsible for the administration of the Integrated Administrative Modernization and Management System. The legal basis for the Comptroller-General’s functions is Act 1178 as amended by Act 1788, which defines the authorities of the Ministry of Finance as the agency responsible for overseeing the formulation, execution and supervision of policies on budgetary matters, taxes, the treasury and accounting functions, public credit, public investment and external finance. The Office of the Comptroller-General’s jurisdiction with respect to SIGMA is set forth in articles 12 and 23 of Act 1178.

used in recent years of assisting municipalities to set up relative simple, automated systems, since these systems have proven to be unreliable, incomplete and lacking in integration.

- 1.17 The implementation and institutionalization of SIGMA will help to directly address two of the four problems identified by the CGR (paragraph 1.7.d) as being the source of the marked weakness and administrative shortcomings of Bolivia's municipalities: the absence of financial management systems, and municipal civil servants' limited training in this area. Another factor identified by the CGR—the unsuitability and a lack of honesty on the part of some civil servants —will also be addressed to some extent through the introduction of management tools, routines, and procedures that will increase the transparency of municipal government management and permit its effective monitoring, particularly with respect to all processes involved in the administration and procurement of municipal goods and services.
- 1.18 The government is aware that SIGMA's implementation in municipalities will not be enough in and of itself to strengthen the management of Bolivia's municipalities and that it will have to be accompanied by other activities to support the integral development of these organizations and their human resources. The program will therefore be conducted in close coordination with the national agencies responsible for promoting the institutional strengthening of municipalities, such as the Ministry for Sustainable Development and Planning and the Consolidated Funds Division (DUF), especially in connection with human resources management and the development of public policy execution capacity at the municipal level. To this end, in order to allow the Ministry and the DUF to target their institutional strengthening activities, the program will report to this Ministry and to the DUF on a regular basis regarding the progress being made by the various municipalities in introducing SIGMA (paragraph 3.4).
- 1.19 While SIGMA is to be implemented throughout the entire national and subnational public sector, it will be necessary to move forward by stages and based on the implementation capacity existing at the local level; consideration will also have to be given to the viability of tackling large numbers of municipalities at a time without jeopardizing the program. The program is a vehicle for the provision of the Bank's support for the Government of Bolivia's initial efforts to implement SIGMA at the municipal level. In determining the scale of the proposed program, consideration has been given to these aspects and priority has been placed on identifying a segment of municipalities that will make up a sufficiently large meta-group whose economic significance, capacity to incorporate and use SIGMA in the short run, and geographic accessibility are such that the program achieves its objectives and has the desired impact. The determination of the program's scope has also been based on the targets for SIGMA's implementation agreed upon by the Bolivian Government with the IMF and IDA.

G. Lessons learned

1.20 The program's design incorporates lessons that have been learned in the course of similar institutional strengthening programs, such as:

- a. **It is essential to set realistic deadlines, taking into account the agencies involved in program execution.** The Bank's team has worked with the executing agency in assessing the risks of delays in the program's implementation. It has been concluded that the 48-month timetable set for implementation is a suitable one. As a primary input for defining this time frame, the specific indicators to be used in monitoring the progress of each program component have been identified and agreed upon with the relevant authorities.
- b. **Maximizing the use of that portion of the executing agency's existing technical and implementation capacity that has proven to function satisfactorily is an efficient course of action and is to be recommended.** The execution of the proposed program as outlined in the following chapters will rely to a significant degree on the SIGMA Central Technical Unit of the Ministry of Finance, which has conducted similar activities very satisfactorily and on schedule in the past and which has been heading up the implementation of financial management systems in Bolivia's public sector since the passage of the SAFCO Act. The further strengthening of this Central Technical Unit will serve as a vehicle for the preparatory stage of the institutionalization of the System in the DGC.
- c. **The prioritization of support activities will help ensure the program's sustainability.** The program as a whole will assign priority to measures to ensure the sustainability of its outputs. These measures will place emphasis on the institutionalization of SIGMA in the DGC rather than on outsourcing some of its SIGMA management functions because it is felt that, in the long run, this approach will be more sustainable in terms of the consistency and homogeneity of the results, since outsourcing such functions has not yielded positive outcomes in the area of public financial management in Bolivia.
- d. **It is important for the government to be directly involved in the program's management and operation.** The preparatory work for the program has been conducted in close coordination with the executing agency, and this has increased the latter's sense of program ownership. The staff who will direct its implementation have been actively involved throughout the design process.

H. Bank strategy and the justification for its participation

1.21 The Bank's strategy in Bolivia is aimed chiefly at combating poverty. It entails three lines of action which are, in turn, aligned with three of the four pillars of the 1997-2002 Operational Plan for Government Action: (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.

- 1.22 By the same token, the modernization of financial management at the municipal level as provided for by this program is in line with the Bolivian Poverty Reduction Strategy, which will be backstopped by the Bank through a sectoral program that is currently being prepared (BO-0203). The Bolivian Poverty Reduction Strategy calls for greater decentralization in Bolivia and provides that an increasing percentage of public investment is to be carried out by the country's prefectures and municipalities. The prefectures and municipalities will also be the ones to determine which programs and projects will receive resource allocations. The implementation of the government's new decentralization policy therefore creates an immediate need for the reinforcement of the municipalities' financial management capacity and is thus fully in line with the program's objectives. This decentralization policy, which was approved in November 2000, assigns the municipalities a key role and is being supported with substantial funding from other donors (International Development Association, the Governments of the Netherlands, Denmark and Sweden, United States Agency for International Development, Deutsche Gesellschaft für Technische Zusammenarbeit [German Agency for Technical Cooperation], Andean Development Corporation, Kreditanstalt für Wiederaufbau [German Bank for Reconstruction]).
- 1.23 The proposed operation to promote the modernization of municipal financial management in Bolivia is also in keeping with the Bank's strategy for supporting the development of subnational governments (document GN-2125), which puts priority on the Bank's participation in four main areas: (1) the structure of intergovernmental relations; (2) governance; (3) subnational governments' institutional capacity; and (4) financing mechanisms for subnational governments. The proposed program is compatible with these areas. This is particularly true of support in improving the institutional capacity of subnational governments, which entails providing assistance in harmonizing subnational financial management systems with the central government's systems and practices, as well as increasing the transparency of budgetary processes. In addition, the generation of timely, more accurate, transparent, and more readily available information on municipal financial management will also contribute to improved intergovernmental fiscal relations and to better governance at the municipal level (by promoting greater accountability), thereby paving the way for municipalities to secure access to new sources of financing.
- 1.24 The Bank has been providing support to the Government of Bolivia in these areas through mutually complementary projects such as the Governance Support Program (loan 976/SF-BO) and the Support for Local Development and Fiscal Accountability Program (loan 1075/SF-BO). The achievement of these programs'

objectives will be facilitated and their impact will be heightened to varying extents if Bolivia's municipalities have a system in place that enables them to manage public resources in a fully transparent manner. The program will, in particular, complement the activities being supported by loan 1075/SF-BO, which entail the preparation of institutional adjustment plans by the municipalities receiving those loan funds. These plans must include, among other elements, projects aimed at the improvement of municipal operational efficiency and at the achievement of financial targets (Table I-6).

Table I-6: Institutional Adjustment Plans (PAIs)

Objectives: The chief objective of the PAIs is to help strengthen municipal governments' management capacity so that they can perform their institutional duties efficiently on a sustainable basis. The PAI also seeks to integrate institutional strengthening with municipal investment.

Description: The PAI is a tool for analyzing a municipal government's institutional and financial status and for formulating strategies and measures for improving it. These plans are divided into two components: (1) the analysis of the municipal government's institutional and financial problems; and (2) the definition of a strategy and performance goals for improving the existing institutional and financial situation. The PAI takes the form of an agreement which each municipal government signs with the Consolidated Funds Division. Progress must be made toward meeting the targets and fulfilling the commitments set out in his agreement in order for the municipalities filing PAIs to be eligible to receive Loan 1075/SF-BO funds and financing from other donors.

To date, over 300 municipal governments have filed PAIs which, as one of the institutional strengthening measures to be adopted by these governments, provide for the implementation of SIGMA.

- 1.25 The proposed program also ties in with the technical cooperation being provided to assist in strengthening the Finance Ministry's Office of the Deputy Minister of the Treasury and Public Credit (ATN/SF-7197-BO) and draws upon the technical cooperation being furnished for the conceptual design of SIGMA (ATN/SF-7164-BO), which is funding this aspect of the System to be implemented in small and medium-sized municipalities. This technical cooperation, which is based on the findings of surveys and analyses of the problems experienced by municipalities, will permit the SIGMA subsystems and modules developed for the central government to be adapted to conditions in small and medium-sized municipalities. This operation is in line with the existing priorities of the Finance Ministry, which plans to complete the implementation of SIGMA in the first group of medium-sized municipalities in 2003.
- 1.26 The proposed initiative will backstop the economic program agreed upon between the Bolivian government and the IMF regarding structural fiscal reforms. More specifically, under the latest version of the economic program (Article IV, June 2001), the implementation of SIGMA constitutes a structural adjustment indicator. Along the same lines, the economic and financial policy paper issued by the Bolivian Government in May 2001 pledges to implement SIGMA in approximately 100 municipalities.

- 1.27 The program also complements the support being provided to the Government of Bolivia by IDA in connection with the modernization of the State. IDA has been assisting the country in modernizing its public sector's financial management functions ever since the passage of the SAFCO Act, and the proposed initiative will be particularly complementary to the US\$60 million sector program for decentralization recently approved by IDA, whose policy matrix includes conditionalities relating to the implementation of SIGMA in subnational bodies within a time horizon that is compatible with the implementation timetable for the proposed operation.

Table I-7: Implementation of SIGMA in Subnational Bodies Not Covered by the Proposed Program

Over the long term, SIGMA is to be implemented in 9 prefectures and 314 municipalities. Using resources drawn from its Sectoral Decentralization Support Program, IDA has been financing the implementation of SIGMA in the country's prefectures. This operation is scheduled for completion in 2003. SIGMA's implementation in the municipalities not covered by the proposed initiative (mainly those with a population of less than 5,000 persons) will depend upon the results of the 2001 population census, which will serve as the basis for a reclassification of the country's municipalities, and upon the institution of the National Dialogue Act, which, in article 15, stipulates that municipalities having populations of under 5,000 must form associations with other municipalities before they can qualify for HIPC II funds. Once these processes have been completed and the new configuration of municipalities is known, the government will establish the strategy and timetable for SIGMA's implementation in those municipalities not covered by the proposed program. In principle, IDA is maintaining the preparation of a project to fund implementation at that level in the program concept stage.

- 1.28 The program's technical files contain information on the proposed operation's complementarity with other support initiatives in the sector that are being promoted by the Bank and IDA and with the relevant levels of government and the agencies responsible for their implementation.

II. THE PROGRAM

A. Objectives

- 2.1 The program's overall objective is to help increase 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 introduction and implementation of SIGMA in municipalities and the institutionalization of the System's management within the DGC. These objectives will be achieved through the implementation of the following two components:

B. Description of program components

1. **Development and implementation of SIGMA and integration of communications between the central government and municipalities (US\$16.9 million)**
- 2.2 The purpose of this component is to design and implement SIGMA in 91 municipalities. A number of different versions of the System will be developed so that it can be adapted to the conditions existing in the various municipalities. This component will also be geared to facilitating integration, communication and coordination between the various municipalities and the central government through the establishment and implementation of a telecommunications network designed to optimize the operations, usefulness and impact of SIGMA and other institutional strengthening systems for municipalities.
- 2.3 ***Municipality selection criteria.*** Municipalities will be selected to participate in the program on the basis of the following criteria: (i) *Size*—In accordance with the considerations set forth in paragraph 1.5, only those municipalities having populations of over 5,000 persons will be considered; (ii) *Municipalities experiencing problems in financial management*—these municipalities will be identified using information available in the CGR and the Office of the Deputy Minister for Citizen Participation; (iii) *Size of municipal budgets*—within each category of municipality, priority will be given to those municipalities that handle the largest amount of funds, as determined on the basis of information from the Ministry of Finance; and (iv) *Municipalities that have filed PAIs* (paragraph 1.24). In addition, among those municipalities experiencing debt problems, priority will be given to those that are participating in the Financial Realignment Program.
- 2.4 ***Strategy for implementing SIGMA.*** In the implementation of SIGMA, an effort will be made to develop new human resources with the potential and an interest in working in the public sector. To this end, mechanisms will be instituted to encourage the participation of young professionals. These mechanisms will include

the conclusion of agreements with Bolivian universities¹⁴ that will permit the top graduates to do internships as junior consultants in the Ministry of Finance. During these internships, they will have the opportunity to work on tasks relating to SIGMA's implementation in municipalities.

- 2.5 Following the junior consultants' selection, an intensive training program covering the conceptual foundations and applications of the system will be conducted by senior consultants working on the ATN/SF-7164-BO technical cooperation activities.
- 2.6 Once the municipalities where SIGMA will be introduced have been identified, based on the criteria set forth in paragraph 2.3, teams will be formed of senior consultants (team leaders), information technology consultants and junior consultants. Each team will be assigned responsibility for implementing SIGMA in a given number of municipalities. Geographical proximity will be a consideration in the formation of these municipal groupings. The number of team members in each case will be determined on the basis of the size of the municipalities in question.
- 2.7 This strategy will serve four purposes: (1) to attract qualified human resources who are committed to the program's objectives; (2) to attain economies of scale by enabling the first junior team members to convey, in the field, the theory and practical experience they have acquired to newly recruited professionals and to their counterparts in the municipalities, thereby reinforcing the training provided under the program and making it more productive; (3) to reduce the program's cost, given the young age of the junior professionals to be recruited; and (4) to contribute to the development of young human resources who will acquire fungible skills that will enable them to go on to work in other areas of the civil service.
- 2.8 *Development of training activities.* Under the SAFCO Act, training in governmental management and control systems is the responsibility and duty of the CGR. With the support of the Finance Ministry's SIGMA Central Technical Unit, the CGR is currently training central government civil servants. It is also developing curricula for hands-on workshops to train municipal civil servants in management and control systems. These workshops are scheduled to begin in late 2001 and will take each municipality's cultural environment into account (for example, some of the workshops and training materials will be presented in the Aymara language). The program consultants belonging to SIGMA implementation teams will support and supplement, as appropriate, the training provided by the CGR at the municipal level.
- 2.9 This component will include the following four subcomponents:

¹⁴ To date, interest in participating in the program has been expressed by the Universidad Mayor de San Andrés, the Universidad Católica Boliviana, the Universidad Privada del Valle and the Universidad Privada Nuestra Señora de La Paz.

a. Subcomponent 1: Development and implementation of SIGMA in large municipalities

2.10 The purpose of this component is to develop and implement a version of SIGMA that has been adapted for use by the municipalities of the country's 12 largest municipalities (populations of over 50,000), which account for 50% of the total population and have the highest fiscal deficit and debt indices.¹⁵ The System will function independently in the municipal facilities and will encompass all the SIGMA modules, including those designed for the relevant municipal treasury's consolidated account and for payment via transfer to creditor bank accounts, as well as the existing goods and services management and personnel management subsystems. To this end, the following major activities will be undertaken:

- a. *Detailed survey of administrative and infrastructural procedures.* The procedures currently being used in the country's largest municipalities will be analyzed with a view to modifying or supplementing them in preparation for the new System's introduction. At the same time, the inputs needed to make adjustments in the conceptual model of SIGMA used for the central government will be obtained. An analysis and assessment of the physical and technological infrastructure, including technical staff of the municipalities, will be conducted in order to determine the specifications and exact nature of the investments that will need to be made in the areas of consultancies, training programs, equipment and facilities, and local communications networks.
- b. *System development.* Based on the results of the survey and drawing upon the programs developed for SIGMA's implementation in the central government, steps will be taken to adapt the necessary modules for the large municipalities and to develop any new modules that they may require.
- c. *Training.* Municipal government staff will receive instruction about the municipal SIGMA model's conceptual basis, and the staff directly involved in the System's operation will be trained in the specific functions of the System and each of its modules in order to ensure the viability and sustainability of its implementation.
- d. *Implementation and follow-up.* The System's operation will be supervised by municipal government staff who have been properly trained to do so by the program. Ongoing follow-up and monitoring of the systems' operation will provide useful inputs for the solution of any problems that may arise and for the

¹⁵ For the purposes of the program's and SIGMA's implementation, it has been determined that the municipal SIGMA modules should be introduced in only 12 of the country's 15 largest municipalities. Because the financial management tasks of the other three large municipalities (Riberalta, Sacaba, and Achacachi) are less complicated, the program will treat them as medium-sized municipalities and will therefore include them in the second subcomponent, where a simplified municipal version of SIGMA is slated for introduction.

adjustment of any aspects of the System's design or implementation that may be necessary. As a parallel line of action, the DGC will be strengthened so that it can gradually assume responsibility for the System's management under the relevant legal terms of reference, as outlined in the section on the program's second component (paragraph 2.17).

b. Subcomponent 2: Implementation of the simplified municipal SIGMA model in medium-sized municipalities

- 2.11 The purpose of this component is to develop a simplified municipal version of the SIGMA model and implement it in 40 municipalities having populations of between 15,000 and 50,000. This model will minimize the amount of investment and funding required for its design and operation. While it is possible that the simplified version may include all the modules provided in the system developed for the central government and large municipalities, the number of steps and operations involved in each process will be reduced substantially. In order to fulfill this component's objectives, the following main activities will be undertaken:
- a. *Development of the simplified municipal SIGMA model.* The software component of SIGMA will be developed for medium-sized municipalities based on the conceptual design formulated in the course of the ATN/SF-7164-BO technical cooperation initiative.
 - b. *Training.* Municipal government staff will receive instruction about the simplified municipal SIGMA model's conceptual basis, and the staff directly involved in the System's operation will be trained in the specific functions of the System and each of its modules in order to ensure the viability and sustainability of its implementation.
 - c. *Pilot implementation.* A total of 12 medium-sized municipalities will be selected. An effort is being made to ensure that this sample group will be representative of the range of administrative and contextual features of municipalities having between 15,000 and 50,000 inhabitants. The simplified municipal SIGMA model will be implemented in these municipalities as a pilot project. This will serve as a basis for subsequent adjustments in the system and possibly the preparation of more than one version of the model to accommodate different types of medium-sized municipalities; if this approach is used, steps will then be taken to optimize the various versions of the model being implemented in the selected municipalities.
 - d. *Large-scale implementation and monitoring.* The optimized versions of the simplified municipal SIGMA model will be replicated in the remaining 28 municipalities in order to reach the total target figure established for this subcomponent. Program resources will be used to provide the necessary technical support and to monitor the operation of the systems that have been set

up. The DGC will continue to implement SIGMA in the remaining municipalities and to perform the corresponding support and maintenance functions for the System. To this end, as the program proceeds, the relevant staff will be trained and the technical staff of the program will gradually be transferred to the DGC as necessary to maintain the System and carry it forward.

c. Subcomponent 3: Implementation of the municipal SIGMA model in small municipalities

2.12 The purpose of this component is to implement modules of the simplified version of the municipal SIGMA model in 39 municipalities having populations of between 5,000 and 15,000. These modules will be designed to permit the entry and updating of information on receipts and outlays as well as the data needed to monitor municipal funds and assets and to prepare consolidated reports for the DGC. The system will be designed to permit the central management of programs and databases in combination with its decentralized operation from work stations located in municipalities connected to central servers via a telecommunications network. To achieve this component's objectives, the following major activities will be undertaken:

- a. *Design and development of software modules.* Survey findings and the outputs and results of the technical cooperation provided for the conceptual design of a simplified version of SIGMA (ATN/SF-7164-BO) will be used to adapt it to small municipalities. Based on this information and the above activities, applications will be designed and installed for the income/expenditure and the municipal funds and assets control modules. The applications for these modules, which will be geared specifically to small municipalities, will then be tested and certified.
- b. *Training.* Municipal government staff will receive instruction about the simplified municipal SIGMA model's conceptual basis, and the staff who are directly involved will be trained in the operation and specific functions of the modules that have been installed in order to ensure the viability and sustainability of the System's implementation.
- c. *Pilot implementation.* A total of eight municipalities will be selected. An effort is being made to ensure that this sample group will be representative of the range of administrative and contextual features of municipalities having between 5,000 and 15,000 inhabitants. The above modules will be implemented in these municipalities as a pilot project. This will serve as a basis for subsequent adjustments, all of which will be made on the basis of the centralized management of the applications in question.
- d. *Large-scale implementation and monitoring.* The modules of the simplified municipal SIGMA model for small municipalities will be replicated in the

remaining 31 municipalities in order to reach the total target figure established for this subcomponent. Program resources will be used to provide the necessary centralized technical support and to monitor the operation of the systems that have been set up.

d. Subcomponent 4: Development and implementation of a municipal telecommunications network

2.13 The purpose of this subcomponent is to set up and maintain a telecommunications network to permit a flow of information among the country's municipalities and various central government agencies. Initially, the network will be used to support the operation of the financial management modules installed in the 39 municipalities covered by Subcomponent 3, but provision should be made for its possible expansion in the event that financial management systems are eventually introduced in more municipalities than originally planned and/or additional applications are required by other government agencies responsible for strengthening municipalities, such as the Ministry of Sustainable Development and Planning. To achieve this subcomponent's objectives, the following major activities will be undertaken:

- a. *Design of the network.* The design of the network will begin with the determination of its layout and the estimation of the capacity that will be required for the implementation of the municipal SIGMA modules in the 39 small municipalities as well as the future installation of other centralized information systems that can be run concurrently. The principal technical specifications will be determined for the hardware to be installed at network nodes and for the communications services required to link them up.
- b. *Installation of the network and the central communications unit in the Ministry of Finance.* The necessary nodes, hook-ups and hardware will be installed, and a small central communications unit will be set up in the Ministry of Finance to manage the network and supervise the services to be provided under contract. This unit will report to the DGC, and responsibilities will be transferred to the DGC in stages so that it can gradually take over the management of the network and the central communications unit.
- c. *Communications service delivery and supervision of services to be provided under contract.* Communications service delivery will be initiated under the management and supervision of the central communications unit set up in the DGC. The expansion of that service will be promoted and administered with a view to maximizing its utilization by all the information systems (both those already in existence and those in the pipeline) geared to institutional strengthening of municipalities.

2. Consolidation and institutionalization of SIGMA (US\$5.5 million)

2.14 The purpose of this component is to optimize the use of SIGMA and ensure its sustainability by: (i) maintaining and developing the central government's existing technical capacity for supporting integrated management systems; and (ii) strengthening the DGC and readying it to gradually assume responsibility for SIGMA's management.

2.15 In order to fulfill this component's objective, activities will be undertaken within the framework of the following two subcomponents:

a. Subcomponent 1: Complementary training and maintenance of the SIGMA Central Technical Unit

2.16 The program will support the further strengthening of the SIGMA Central Technical Unit within the Finance Ministry through the provision of specific training to selected technical staff, procurement of the tools needed to develop and install the various versions of SIGMA, and financing of the technical consulting staff required until SIGMA management responsibilities are fully transferred to the DGC.

b. Subcomponent 2: Strengthening and institutionalizing SIGMA in the DGC

2.17 The program will train the DGC human resources who are to be in charge of SIGMA's management and will provide consultancy resources as needed to facilitate the gradual transfer of the System's management to the DGC. Since the program's execution will be backstopped by the SIGMA Central Technical Unit of the Ministry of Finance and since the DGC is attached to the same Ministry, the steps taken to strengthen the DGC will be coordinated on a joint basis. The core group of technical consultants who will work on the transitional stage of SIGMA's management will be absorbed by the DGC, and their posts will be institutionalized during program execution (paragraphs 4.14 and 4.15). Training of DGC personnel has already been begun through the incorporation into the SIGMA Central Technical Unit of six DGC staff members who have been working on the System's implementation.

C. Expected outputs

2.18 Upon completion of the program's execution, the following outputs are expected:

a. SIGMA will have been introduced and will be operating in the 91 municipalities covered by the program;

- b. The telecommunications network linking the different administrative units will have been set up and will be operating, thereby permitting improved coordination and integration and a greater flow of information;
- c. Municipal financial statements and budget performance reports will be submitted more promptly;
- d. At least 91 municipalities will submit auditable financial statements to the CGR;
- e. Ex post supervision by the CGR of the management of municipal government resources will have improved.
- f. SIGMA will have been institutionalized and consolidated within the DGC;
- g. SIGMA-generated financial statements will be published in various media available to the general public.

D. Program cost and financing

- 2.19 The total cost of the program is estimated at US\$25 million. IDB financing will amount to US\$20 million in FSO resources, and the Government of Bolivia would supply the remaining US\$5 million. The projected cost is justified in the timetable included in the program's technical files and in the estimates of the required inputs.
- 2.20 The program's estimated cost is disaggregated by expenditure category and financing source in the following table:

**Table II-2: Program budget, by component
(in US\$)**

Budget category	IDB	Local contribution	Total	%
Development and implementation of SIGMA and integration of communications between the central government and municipalities	13,519,340	3,441,560	16,960,900	67.8
1. Consulting services	5,978,850	-	5,978,850	
2. Training	80,000	400,000	480,000	
3. Hardware	7,460,490	3,041,560	10,502,050	
Consolidation and institutionalization of the municipal version of SIGMA	5,398,317	78,704	5,477,021	22.0
1. Consulting services	4,985,118	-	4,985,118	
2. Training	-	-	-	
3. Hardware	413,199	78,704	491,903	
Program management and administration	588,100	630,000	1,218,100	4.8
Contingencies	169,243	724,736	893,979	3.6
Auditing	125,000	125,000	250,000	1.0
Financial costs (inspection and oversight)	200,000	-	200,000	0.8
Total	20,000,000	5,000,000	25,000,000	100.0
%	80	20	100	

- 2.21 The program will draw upon the IDB financing provided to pay the fees, travel expenses, and per diem allowances of individual consultants or consultancy firms and trainers, and to purchase the necessary training materials and the software and hardware required to develop the required computer applications and to implement SIGMA. Per diem will be set according to the scale used by the Bank, and may not exceed US\$88 equivalent.

III. PROGRAM EXECUTION

A. The borrower and executing agency

- 3.1 The program borrower will be the Republic of Bolivia. The executing agency will be the Ministry of Finance. Within this Ministry, a program execution unit will be established. This unit will be staffed by a general director, a technical coordinator, an administrative/financial specialist and a legal advisor. The terms of reference for the unit's members are contained in the technical files for the project. The unit will also be able to draw upon technical and administrative support needed to implement the program. **As a condition precedent to the first disbursement, the executing agency must submit evidence that the program execution unit has effectively been established according to the terms agreed upon with the Bank.**
- 3.2 The program execution unit will have the following principal duties:
- a. *Technical duties:* (i) direct the conceptual development of the municipal version of SIGMA for large, medium-sized and small municipalities; (ii) direct the design and development of the computational tools needed to implement the municipal version of SIGMA in large, medium-sized and small municipalities; (iii) implement the municipal SIGMA model in the 91 municipalities selected for this purpose; (iv) direct the activities needed to implement the municipal telecommunications network; (v) direct and coordinate supervision of SIGMA's operation in the municipalities where it has been introduced; (vi) undertake the necessary activities to strengthen the DGC and to gradually transfer the responsibility for managing SIGMA to it; and (vii) coordinate the program's implementation with other projects funded by the Bank that have an impact in the area of government financial management.
 - b. *Operational duties:* (i) coordinate the fulfillment of the conditions precedent to the first loan disbursement; (ii) prepare the program's operational work plans and progress reports; (iii) assist the executing agency with the scheduled procurement of goods for the program's execution; (iv) handle the arrangements for the issuance of contracts to individual consultants and to consulting firms, and authorize payment for their performance; (v) arrange for the establishment of the Bank's revolving fund and for the receipt of counterpart funds, administer these resources, draw up the corresponding accounts, and arrange for the replenishment of the revolving fund; (vi) keep the corresponding accounts, prepare the supporting documentation, and draw up the program's financial statements for auditing, together with any other reports required for the program; (vii) coordinate the execution of the program components with the municipalities participating in it; (viii) ensure that the program is conducted in accordance with the procedures and with the contractual terms and conditions agreed upon with the Bank and the Republic of Bolivia; (ix) come to agreement with international

organizations or other agencies regarding the specific activities to be conducted under the program; and (x) select the consultants who, in addition to their technical implementation duties, will provide liaison with the municipalities participating in the program.

B. Operating procedures

1. Implementation of components

3.3 **Program coordination committee.** A coordination committee will be established to advise the program execution unit on the implementation of the program. The committee will be composed of the Deputy Minister for Budgetary and Accounting Affairs, the Deputy Minister of the Treasury, and the Director-General of the program. **As a condition precedent to the first disbursement, the executing agency must submit evidence that the program execution unit has effectively been established.**

3.4 The coordinating committee will backstop the program execution unit in coordinating the program with other bodies such as the Office of the Deputy Minister for Citizen Participation of the Ministry for Sustainable Development and Planning and the Consolidated Funds Division, and other cooperation projects at the municipal level that are being funded by the Bank and IDA. The coordinating committee will also be responsible for supervising the linkages and complementarity of SIGMA's implementation in the municipalities participating in the proposed program with the Support for Local Development and Fiscal Accountability Program (loan 1075/SF-BO), the IDA-funded Decentralization Support Program and Institutional Reform Program.

2. Program agreements with municipalities

3.5 For purposes of the program activities' implementation, *interagency technical assistance and cooperation agreements for the implementation of the Integrated Administrative Modernization and Management System* will be signed by the municipalities participating in the program, as represented by their mayors, with the Ministry of Finance, represented by the Minister of Finance, and the Director-General of the program. These agreements will, inter alia, set forth the following responsibilities:

a. Ministry of Finance and the program:

- (i) Implement SIGMA and transfer, free of charge, of ownership of the equipment and accessories required for SIGMA's proper operation to the municipalities;

- (ii) Provide instruction to municipal staff in the conceptual basis of SIGMA, and train staff in the use and maintenance of the System, in coordination with the CGR;
- (iii) Ensure the optimal operation of SIGMA in terms of both its conceptual and computational aspects, including any adjustments that may be required to adapt SIGMA to the particular conditions associated with each size of municipality.

b. Municipalities:

- (i) Each municipal council must approve the agreement covering the implementation of SIGMA before the agreement can be declared to have entered into effect;
- (ii) Authorize the Finance Ministry and the Bank to inspect the equipment and the facilities where SIGMA is operating, and provide the Ministry and the Bank with the information needed to verify their maintenance and use;
- (iii) Authorize the Finance Ministry to deduct any sums from the tax revenues corresponding to the municipal government under the revenue sharing system which may be required to correct any faults in the maintenance of SIGMA facilities and/or equipment that have not been promptly rectified by the municipal government, or to cover any expense occasioned by damage or harm sustained by these facilities and/or equipment or caused by the revocation of the agreement on grounds of non-compliance by the municipality.

- 3.6 The Ministry of Finance will draw upon program resources to implement SIGMA only in those municipalities for which the above-mentioned agreements are in effect. These agreements will remain in effect until such time as the Executive Branch substitutes another system for SIGMA and, to that end, amends or repeals Executive Order 25875, under which the mandatory nature of the use of SIGMA in the Bolivian public sector is established. **As a condition precedent to the first disbursement, the executing agency must submit the model agreement as stipulated by the Bank, the content of which will be replicated in the agreements to be signed by the municipalities participating in the program.**

3. Annual operational work plans

- 3.7 Program activities will be planned on an annual basis and will be implemented using operational work plans that are consistent with the program's logical framework (Annex I). The plans will take the form of reports containing the following elements: (a) a detailed list of the activities to be carried out in a given

year; (b) quarterly objectives and goals, broken down by category of activity, and the indicators to be used to measure performance; (c) a quarterly timetable for the activities' implementation that includes the relevant costs; and (d) the financing requirements for the period in question. **As a condition precedent to the first disbursement of the proposed loan, the program execution unit must submit an operational work plan for the first year of the program.** The operational work plans for the second and third years are to be submitted to the Bank within 60 days before the end of the previous calendar year. The Bank will monitor the program's implementation based on these reports.

4. Operational timetable for program components

- 3.8 The following timetable has been prepared for SIGMA's implementation in the 91 municipalities that will be participating in the program. This timetable has been aligned with the levels of technical and administrative support that will be made available to the program execution unit and is in keeping with the government's commitments to the IMF and IDA regarding the decentralization and reform of fiscal management functions:

Table III-1: Timetable for implementation of SIGMA in municipalities

Number of municipalities	2002	2003	2004	2005	Total
Large	9	3	-	-	12
Medium-sized	-	18	22	-	40
Small	-	-	17	22	39
Total	9	21	39	22	91

C. Monitoring and evaluation

1. Reports and supervision

- 3.9 The program execution unit will submit semiannual reports to the Bank on the program's execution within sixty (60) days of the completion of the corresponding six-month period. Each report will cover the indicators used to monitor the implementation of the program and included in the operational work plans, in line with the logical framework previously agreed upon with the Bank, for the activities scheduled for the six-month period corresponding to the assigned targets. These reports will also include copies of the interagency technical cooperation and assistance agreements for the implementation of SIGMA that have been signed with municipalities during the reporting period.
- 3.10 The program will be supervised by the IDB Representative in Bolivia. In addition, the Bank will conduct a midterm review 24 months into the program or when 50% of the financing being provided by the Bank has been disbursed. The purpose of this review will be to update the scheduling of pending activities and, if necessary, reallocate funds among the various components and activities.

2. Auditing and oversight

- 3.11 During the program's execution, the borrower will be required to submit audited annual financial statements for the program within 120 days after the close of the relevant accounting period. These financial statements will be audited by a Bank-approved independent auditing firm in accordance with previously established terms of reference. The cost of these external audits will be defrayed by the Bank.

3. Ex post evaluation

- 3.12 Following consultation with the executing agency, it has been decided that an ex post evaluation of the program, to be financed by the executing agency, will be undertaken between 12 and 18 months after the date of the final disbursement. In addition, throughout the program's implementation, the executing agency will have on hand a series of progress reports, the findings of the midterm review and the results for the indicators specified in the logical framework so that the Bank will be able to monitor the initiative on a regular basis.

D. Procurement

- 3.13 The selection and hiring of all services and the procurement of all goods provided for under the program are to be conducted in accordance with Bank procedures. The procurement of goods for US\$350,000 or more and the awarding of construction contracts for US\$3 million or more and consulting services for US\$200,000 or more are to be conducted 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 paid for with local counterpart funds and will be carried out in accordance with standard Bank procedures for such projects. The program's procurement plan is set forth in Annex II.
- 3.14 Consultancy services will be contracted in accordance with standard Bank procedures and those indicated in document GN-1679-3, with the exception of the recruitment of approximately 67 consultants at an estimated cost during the implementation of the program of US\$3.2 million. These consultants, who are currently staffing the SIGMA Central Technical Unit in the Ministry of Finance, have been implementing the System in the central government and were recruited in accordance with the contracting procedures of IDA, which is funding SIGMA's implementation in the central government. Detailed information on the positions held by these consultants may be found in the program's technical files.
- 3.15 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 the program, since there is no guarantee that other technical consultants having sufficient familiarity with and experience in the work involved in implementing and fine-tuning SIGMA could be found in the near future.

- 3.16 In the quality- and cost-based selection of consulting firms for this program, their cost will carry a weight of no more than 30% as an evaluation criterion while the technical quality of the services will need to be weighted at no less than 70%.
- 3.17 Six months after the first program disbursement, and once it has been demonstrated that the procurement of goods and the contracting of services have been conducted in accordance with the Bank's policies, practices and procedures, the IDB may, on the basis of a well-documented request submitted by the executing agency, consider the possibility of changing over to an ex post arrangement for the review of such transactions. In that event, an ex post review will be conducted, using sampling procedures, of contracts for less than US\$50,000 issued for individual consultants and contracts for less than US\$100,000 issued for consulting firms, the procurement of equipment for sums of less than US\$350,000, and construction projects involving sums of less than US\$100,000. If the ex post review of the documentation and procedures used for the selection and contracting of consulting services and procurements reveals deviations from Bank policies, the activities in question will not be funded out of program resources. In addition, if such a situation arises, this procedure may be discontinued and the program may revert to prior reviews or may set ex post review thresholds at different levels.

E. Retroactive financing

- 3.18 The Ministry of Finance has asked the Bank to acknowledge up to US\$4.1 million in expenses incurred since August 22, 2001 in connection with the start-up of activities (e.g., consultancy contracts and the procurement of hardware needed for the implementation of SIGMA in the municipalities of La Paz,¹⁶ Santa Cruz, Cochabamba and El Alto) as chargeable against Bank financing. Retroactive financing will proceed until such time as the program loan is taken under consideration by the Bank's Board of Executive Directors. Since the expenses to be covered with retroactive financing will be part of the program, the project team recommends that they be acknowledged, providing that all such expenses are found

¹⁶ To date the executing agency has submitted requests for the procurement of goods and awarding of consulting contracts totaling US\$700,000 for SIGMA implementation in the Municipality of La Paz. The requests are being reviewed by the Country Office of the Bank in Bolivia. The Bank has indicated its nonobjection to the procurement of goods and services for the information technology activities for which the program execution unit is responsible.

to have been incurred in accordance with procedures substantively analogous to those that will be stipulated in the loan contract.

F. Disbursements and revolving fund

- 3.19 A revolving fund amounting to up to 5% of Bank financing will be established in the form of a special bank account for program disbursements. Semiannual progress reports on the revolving fund are to be submitted within 60 days of the end of each six-month period.

G. Execution period and disbursement timetable

- 3.20 The program will take four years to implement, and the disbursement period will last four and one half years. The projected disbursement timetable is as follows:

Table III-2: Annual disbursement timetable

SOURCE OF FINANCING, BY COMPONENT	TOTAL	2001	2002	2003	2004	2005
Development and implementation of SIGMA and integration of communications between the central government and municipalities						
1. IDB	13,519,340	3,135,271	6,354,044	3,490,025	270,000	270,000
2. Local	3,441,560	967,549	1,147,456	786,555	270,000	270,000
Consolidation and institutionalization of SIGMA						
1. IDB	5,398,317		1,699,899	2,468,220	720,120	510,078
2. Local	78,704		51,904	26,800	-	-
Executing unit						
1. IDB	713,100		287,300	287,300	107,250	31,250
2. Local	755,000	30,000	321,250	301,250	31,250	71,250
Contingencies						
1. IDB	169,243			56,415	56,414	56,414
2. Local	724,736			241,579	241,579	241,578

IV. PROGRAM VIABILITY, BENEFITS, AND RISKS

A. Institutional viability

- 4.1 The program has been designed to fit in seamlessly with the Ministry of Finance's functions and areas of authority. All the activities to be conducted fall within the terms of reference and jurisdictions granted by law to the executing agency (paragraph 1.16). Furthermore, the content and scope of the program activities have been developed with the active participation of, and in coordination with, the Ministry officials who will be involved in the implementation of the program components. This approach gives rise to the necessary program ownership to ensure that the operation will be well received and that it can be implemented smoothly.
- 4.2 Through the SIGMA Central Technical Unit, which is responsible for implementing the System in Bolivia's public sector, the Ministry of Finance has taken part in other IDB, IDA, USAID and bilateral technical assistance projects in the field of financial management. The Ministry consequently has staff members who are familiar with the execution and management of this type of operation, which will facilitate the proposed program's implementation. Recent IDA evaluations of how the Ministry has used the funding provided to support SIGMA's implementation in the central government rates the SIGMA Central Technical Unit's performance as satisfactory.

B. Benefits

- 4.3 The program's direct beneficiaries will be the municipalities and the central government agencies responsible for coordinating, supervising and monitoring their financial management. The immediate benefit afforded by the program will take the form of the financial management systems with which the municipalities will be equipped. At present such systems are either entirely lacking or are not integrated enough to serve their purpose satisfactorily. The new systems will serve as one of the main pillars of a more efficient and transparent form of municipal fiscal and administrative management. The introduction and use of SIGMA at the municipal level will have a directly positive impact on the reform of the national and subnational civil service and will help to further Bolivia's decentralization process.
- 4.4 The introduction of SIGMA will also help the Finance Ministry to coordinate and monitor the public resources administered by municipalities more effectively. One of the effects of this, in its turn, will be to heighten the impact of the Financial Realignment Plan. It will also facilitate the CGR's ex post supervision of the management of those resources. In addition, SIGMA will promote greater accountability on the part of municipalities by permitting and promoting the regular dissemination of information on its management performance to the general public.

- 4.5 The program will provide support for the technical training of municipal staff by providing instruction in the use of the SIGMA systems. This will complement and supplement the Bolivian government's efforts to strengthen subnational governments' financial management capabilities.
- 4.6 SIGMA's use will contribute to close monitoring and greater transparency in the use of HIPC II funds by providing procedures and tools for tracing the relationship between the use of those funds and the financing of programs executed by municipalities. This will assist Bolivia to fulfill its commitments as a beneficiary of the HIPC II initiative.
- 4.7 The program will have a significant impact on the development of strategic plans for municipalities, which have been very limited in both number and composition until now. Having tools that allow them to manage their finances in a more systematic manner will enable municipalities to use longer planning horizons, which will enhance the government's subnational institutional strengthening efforts.
- 4.8 SIGMA will also feed useful, up-to-date information into the information systems being set up at various administrative levels as part of the government's strategy for overseeing the efficient use and management of public resources within the framework of the decentralization process. These systems include the Government Procurement System (SICOES), the National Personnel Management System (SNAP), the Bolivian State Assets Service (SENAPE), the Performance-Based Management Assessment System (SISER), and the Investment Information System (SISIN).

C. Risks

- 4.9 The ultimate impact of the program will depend to some extent on the performance of bodies other than the executing agency. This is because the impact of the efforts being made to modernize municipal financial management operations will be influenced by the actions taken by other bodies at a more aggregate level to promote the development of municipalities (e.g., measures to help upgrade planning capabilities or the financing of programs to improve administrative management and technical support so that municipalities will be able to boost their internal capacity to generate funds). The possibility that the activities to be carried out by bodies other than the Ministry of Finance may take a different course and thus diverge from the required focus, or may proceed at a slower pace than is called for in the timetable for SIGMA's implementation, does not constitute a risk for the program's execution *per se*, but it could weaken its long-term impact. This situation could be mitigated if the program's coordinating committee (paragraphs 3.3 and 3.4) takes steps to promote the compatibility of efforts in this sphere and sets up an effective channel for maximizing and supplementing the mutual reinforcement of actions taken by other government agencies and the program's activities. The program will also provide incentives to generate the necessary support, chiefly

through the telecommunications network's links with the small municipalities, which will be its main users. This network will also serve as a platform for larger-scale initiatives that are now in the design stage, such as the introduction of not only administrative and financial information systems but systems that will also be of use in management follow-up and monitoring (e.g., systems that generate information on the student population that has completed baccalaureate degree requirements, or the number of patients served by health care centers).

- 4.10 A lack of support for the program or even outright resistance to it on the part of municipalities is a potential risk that could impede not only the provision of the information needed to design the System and/or its adaptations, but also its successful implementation and use. The spontaneous requests that are being received demonstrate, however, that the program is gaining the endorsement of municipal authorities, particularly in the larger municipalities. To date, the Ministry of Finance has signed an agreement for SIGMA's implementation in the municipality of La Paz and has received official requests from the governments of seven large municipalities to have the System installed in the near future.
- 4.11 The risk of a potential lack of support from municipalities may also be mitigated by: (1) the existence of suitable legal statutes under which the implementation of SIGMA throughout Bolivia's public sector—including municipalities—is mandatory and under which public-sector institutions are required to provide economic and financial information to the DGC on a regular basis (which will be easier for them to do if they are using SIGMA); and (2) the presence of the necessary incentives to encourage municipalities to support and contribute to the design of the municipal version of SIGMA and to assist with its implementation. These incentives include, by way of example, the provisions of Executive Order 25737, under which municipalities must have an external audit done each year as a prerequisite for any type of debt refinancing and/or fresh credits. In order to fulfill this obligation, a municipal government must first have reliable, up-to-date financial information in a format suited to the public sector's record-keeping systems, and this would be precisely one of the outputs of the introduction and use of the municipal version of SIGMA. In addition, the terms and conditions of loan 1075/SF-BO require that any municipalities wishing to receive those funds must make satisfactory progress in implementing their institutional adjustment plans, which entail the implementation of internal management control and information systems and the achievement of financial targets. All of these elements are in keeping with the focus and thrust of the proposed program (paragraph 1.24).
- 4.12 Once SIGMA has been implemented in these municipalities, the equipment acquired under the program will become the property of those municipalities. This introduces an element of risk, since the possibility exists that some municipalities may not provide that equipment with the required maintenance. This risk may be mitigated by: (a) including a clause in the bidding conditions making it mandatory for suppliers to provide maintenance services at their own expense for a three-year

period; (b) making provision, as part of the program's contingency funds, for the possibility of updating and replacing approximately 10%-15% of the hardware supplied to medium-sized and small municipalities; and (c) incorporating clauses in the program agreements 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 (paragraph 3.5).

- 4.13 Turnover of municipal staff is a potential constraint with regard to the effectiveness and sustainability of the program's achievements. This risk can be dealt with primarily by designing SIGMA training programs and modules that can then be institutionalized within the municipalities participating in the program so that they can easily be replicated for new staff members as required. In addition, one of the expected outcomes of the steps taken to strengthen the DGC is the creation of an effective response capacity so that municipalities can meet basic and refresher training requirements in connection with SIGMA.
- 4.14 Strengthening the DGC and institutionalizing SIGMA's management will require the full incorporation, as permanent DGC staff members, of the core group of specialists taking part in the program in order to ensure the continuity of all versions of the SIGMA operation. To that end, the government has made the following staffing commitment and has conducted a positive evaluation of its budgetary impact:

Table IV-1: Commitment and timetable for the recruitment of new staff in the Ministry of Finance (DGC)

Year	Number of program specialists to be recruited as permanent staff members of the Ministry of Finance (DGC)	Estimated budgetary impact (cumulative, in US\$)
2003	44	518.400
2004	6	698.400
2005	30	908.442
2006	10	1.418.520
Total	90	

- 4.15 As part of a broader strategy for strengthening the DGC and supporting the fulfillment of the above-mentioned commitment, the Ministry of Finance has requested the IDA Institutional Reform Program (IRP) to prioritize and to provide technical and financial support for the DGC's institutionalization process. This will entail, *inter alia*, the optimization of its entire organizational structure, the definition and adaptation of staff profiles, and the use of competitive recruitment procedures. Documentation concerning this request and the implications of the IRP is available in the program's files.

D. Social and environmental impact

- 4.16 Given the nature of the activities to be financed by 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 expenditure.

LOGICAL FRAMEWORK **MUNICIPAL FINANCIAL MANAGEMENT MODERNIZATION PROGRAM**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>to the efficiency, control and management operations.</p>	<p>Improved quantity and quality of the financial statements to be audited by the CGR as well as the budget performance reports to be submitted by the municipalities of at least 91 municipalities</p> <p>The actual level and composition of the debts of at least 91 municipalities are known</p> <p>At least 91 municipalities are brought into compliance with the borrowing caps established under the Budgetary Management Act</p>	<p>DGC circulars</p> <p>CGR rulings</p> <p>Annual report of the CGR</p> <p>Web page of the CGR</p> <p>Municipal financial statements</p> <p>Official Finance Ministry publications on municipal financial management</p>	<p>Political will exists at the municipal level to carry out administrative reforms and to implement the strategy to be developed by the program</p>
<p>enhance financial management at the subnational levels through the creation and implementation of the Administrative Modernization Management System (SIGMA) in the municipalities and its institutionalization in the Central Accounting Office (DGC) of the Ministry of Finance</p>	<p>Nine municipalities in which SIGMA is on stream submit their financial statements by March 3, 2003; 30 municipalities in which SIGMA is on stream are doing so by March 31, 2004; 69 municipalities in which SIGMA is on stream are doing so by March 31, 2005; and 91 municipalities in which SIGMA is on stream are doing so by March 31, 2006</p> <p>SIGMA generates and makes available useful information to other systems used by the government, such as: the Government Procurement System (SICOES), the National Personnel Management System (SNAP), the Bolivian State Assets Service (SENAPE), the Performance-Based Management Assessment System (SISER), and the Investment Information System (SISIN)</p> <p>By the project's completion, the relevant information on the 91 municipalities in which SIGMA is on stream is accessible to the public</p>	<p>Regular program performance reports</p> <p>DGC Circulars</p> <p>CGR Reports</p> <p>Semiannual reports of the Ministry of the Office of the President and the Ministry of Finance on the operation of other systems that are fed by or use information from SIGMA</p> <p>Web page of the Ministry of Finance</p> <p>Official publications of the central government and municipalities</p>	<p>Political support continues to exist and suitable human resources and technical assistance are available for the program's implementation</p> <p>Municipalities are abandoning their former attitude of inactivity and are willing to change</p> <p>Government efforts to provide training in financial management at the subnational level are proceeding satisfactorily</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development and implementation of SIGMA at the municipal level and coordination of communications among the central government and municipalities</p> <p>Coordination and institutionalization of SIGMA in the DGC of the Ministry of Finance</p>	<p>SIGMA has been implemented and is in operation in 30 municipalities by the end of 2003, in 69 municipalities by the end of 2004, and in 91 municipalities by the end of 2005</p> <p>Integration, communications and coordination among departmental governments, municipalities and the central government by December 2003</p> <p>44 project specialists are on the DGC's permanent staff by the end of 2003</p> <p>6 additional project specialists are on the DGC's permanent staff by the end of 2004</p> <p>30 additional project specialists are on the DGC's permanent staff by the end of 2005</p> <p>10 additional project specialists are on the DGC's permanent staff by the end of 2006</p>	<p>Semiannual program performance reports</p> <p>Annual operational work plans for the program</p> <p>An intranet linking the various civil services</p> <p>Evidence of regular information flows among the various civil services</p> <p>Semiannual program performance reports</p> <p>Information to be provided by the Finance Ministry regarding the progress being made in the institutionalization of the DGC, including an account of the number of specialists added to the Ministry's permanent staff during the relevant period</p>	<p>Political support for the implementation continues</p> <p>The Ministry of Finance provides suitable human, financial and technical assistance resources for the program's implementation</p> <p>Qualified consulting services are available</p> <p>Resistance to organizational change is waning</p>

PROCUREMENT PLAN
MUNICIPAL FINANCIAL MANAGEMENT MODERNIZATION PROGRAM (BO-0196)

DESCRIPTION	Method	Publication SPN		
		Semester/Year	Publica	
			Int.	
for individual consultants to develop SIGMA for implementation in large municipalities consultants: 13 US\$240,000	OCP	2001-IV		
t of equipment for development of SIGMA for implementation in large municipalities 1 US\$47,350	DCB	2001-IV		
for individual consultants to provide training and to implement and monitor SIGMA in large es consultants: 64 US\$1,134,920	OCP	2001-IV		
t of equipment for implementation of SIGMA in large municipalities 16 US\$4,310,000	LCB and DCB	2001-IV/ 2002-I		
t of equipment for training activities in large municipalities 1 US\$20,000	DCB	2002		
t of materials for SIGMA training and information activities in large municipalities 4 US\$170,000	DCB	2002		
for individual consultants to develop SIGMA for implementation in medium-sized municipalities consultants: 20 US\$365,600	OCP	2001-IV		
t of equipment for development of SIGMA for implementation in medium-sized municipalities 1 US\$47,350	OCP	2001-IV		
for individual consultants to provide training and to implement and monitor SIGMA in medium-sized es consultants: 60 US\$1,899,200	OCP	2002-I		
t of equipment for implementation of SIGMA in medium-sized municipalities 6 - Total sum: US\$1,200,000 3 - Total sum: US\$1,280,000	LCB, DCB and ICB	2001-IV/ 2002		X

DESCRIPTION	Method	Publication	
		Semester/Year	SPN
			Publication Int.
t of equipment for training activities in medium-sized municipalities 1 US\$30,000	DCB	2002-I	
t of materials for SIGMA training and information activities in medium-sized municipalities 4 US\$130,000	DCB	2002/2003	
r individual consultants to develop SIGMA for implementation in small municipalities ultants: 19 US\$223,470	OCP	2002-II	
t of equipment for development of SIGMA for implementation in small municipalities 1 US\$47,350	DCB	2002-II	
or individual consultants to provide training and to implement and monitor SIGMA in small es ultants: 55 US\$1,693,260	OCP	2002-III	
t of equipment for implementation of SIGMA in small municipalities 5 - Total sum: US\$650,000 1 - Total sum: US\$600,000	LCB-DCB ICB	2002-III	X
t of equipment for installation of telecommunications network 2 US\$700,000	ICB	2002-II	X
r communications services for the operation of the telecommunications network 3 - Total sum: US\$620,000 2 - Total sum: US\$1,000,000	LCB-DCB ICB	2002	X
t of equipment for the SIGMA Central Technical Unit of the Ministry of Finance 9 US\$491,903	LCB-DCB	2001/2003	

ic procurement notice
 tional competitive bidding
 competitive bidding
 t call for bids
 call for proposals

PROPOSED RESOLUTION

**BOLIVIA. LOAN /SF-BO TO THE REPUBLICA DE BOLIVIA
MODERNIZATION OF THE MUNICIPAL FINANCIAL ADMINISTRATION PROGRAM**

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 República de Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Modernization of the Municipal Financial Administration Program. Such financing will be for the amount of up to US\$20,000,000, or its equivalent in other currencies, except that of Bolivia, which are part of the Fund for Special Operations resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.