

**IMPLEMENTATION OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM FOR THE
PUBLIC SECTOR**

(PE-0192)

EXECUTIVE SUMMARY

**BORROWER
AND GUARANTOR:** Republic of Peru

EXECUTING AGENCY: Ministry of Economic Affairs and Finance (MEF)
through its Sector Lending Coordination Unit [Unidad
de Coordinación de Préstamos Sectoriales] (UCPS)

AMOUNT AND SOURCE: IDB: US\$1,500,000 (OC)
Local counterpart funding: US\$1,250,000
Total: US\$2,750,000

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Disbursement period: 18 years
Interest rate: variable
Inspection and supervision: 1% of the loan
Credit fee: 0.75% of the undisbursed
balances
Currency: United States dollars
from the Single Currency
Facility

OBJECTIVES: The program's objective is to modernize public
administration by strengthening State financial
management. The specific objective is to
consolidate, improve and enlarge the SIAF-SP by
expanding it to cover more of the public sector and
combining it with the other administrative systems.

DESCRIPTION: The three components conceived to accomplish the
program's objectives are: (i) completion of the
development and introduction of the SIAF-SP financial
modules; (ii) consolidation and institutionalization
of a permanent support capability for the SIAF-SP;
and (iii) design and implementation of the management
software.

**ENVIRONMENTAL AND
SOCIAL REVIEW:** This project has no environmental or social effects.

BENEFITS: The program's chief benefit is timely, reliable
information providing good coverage of the public
sector's budgetary and financial operations and a
permanent overall picture of the financial resources

available to the State to enable it to perform better.

RISKS:

No significant risks are anticipated with the operation, given the government's support and the progress made. Nevertheless, some additional effort is still needed from the highest-ranking national authorities to underwrite the costs of the change that the SIAF-SP involves. However, the risk here is lessened to some extent by the fact that the MEF is using resources from its own budget to operate the SIAF-SP.

At the present time, the SIAF-SP is a parallel but unofficial system, which is why it is not more widely used to keep records. The nature of the system is such that its integrity and coverage are essential. If it is not made an official, mandatory system in 1998, efforts to consolidate it may fail. Once it has been operating officially for three months, alongside the other state financial management records systems, the SIAF-SP will have to replace them entirely. Without this sequence of events, it will be unable to perform properly in 1999.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Condition precedent to the first disbursement:
Evidence must be presented showing that the SIAF-SP has been instituted as an official, mandatory records system. The plan is for the Office of the Deputy Minister of Finance to pass a resolution making the SIAF-SP the official, mandatory system (special condition) (see paragraph 2.22).

Special conditions relating to execution: (i) the program's revolving fund is to be the equivalent of 10% of the loan (see paragraph 2.24); (ii) up to the equivalent of US\$350,000 in expenditures effected since June 1, 1998, will be recognized as eligible for reimbursement, under the program, and chargeable to the loan proceeds (see paragraph 2.23); (iii) the plan and timetable for making the SIAF-SP a permanent part of the MEF's organizational structure is to be presented (see paragraph 2.28); (iv) midterm and final reports are to be presented (see paragraph 4.1); and (v) midterm and final evaluations of the program are to be presented (see paragraphs 4.2 and 4.3).

**EXCEPTIONS TO
BANK POLICY:**

None

POVERTY TARGETING: No direct effects on the low-income population are anticipated.

**BANK STRATEGY
IN THE
COUNTRY:**

In the 1996-2000 period, the Bank's resources are focusing on the following strategic areas in Peru: (i) assisting the country with tasks vital to economic modernization, while prioritizing structural reforms that help generate private investment; (ii) reducing poverty, and (iii) supporting efforts to modernize the State. The program promotes greater efficiency and efficacy in the public sector and fits into the modernization process that the government has under way. Hence, it is consistent with the priorities established in the Bank's strategy for Peru.

PROCUREMENT:

The procurement of goods and related services and the contracting of consulting services financed with proceeds of the loan will be done according to Bank procedures for procurement and for selection and contracting of consultants. The goods procured under the program will be mainly computer of hardware and software.

Because of the wide range of distributors for the numerous suppliers of goods of this type in the country, and because service and maintenance must be available in the country, international competitive bidding is recommended when the amount involved is US\$350,000 or higher. Procurement for lesser amounts will be conducted in accordance with domestic legislation.

I. BACKGROUND INFORMATION

A. General background information

- 1.1 The present program fits into the process of modernizing the Peruvian State's institutions and the procedures and systems by which they operate.
- 1.2 The operations of the agencies functioning within the Peruvian State 1/ are governed by budgetary and financial regulations and standards issuing from the economic and financial sector. Together they make up the public finance system that this program targets.
- 1.3 A 1995 diagnostic study of the public finance system found that the three national systems (budget, treasury and accounting) were not operating in unison, with each one having its own procedures, directives and forms. Because of the problems this situation creates, the timely and reliable information needed to make decisions and monitor the budgetary process is lacking. Also, resources are being wasted in the executing units (EUs) 2/ and in the agencies in charge of the financial sector.
- 1.4 The study also found that the EUs were spending much time and effort feeding each system with information; the same data were frequently entered into the record several times over, increasing the chances of error. At the same time, the National Public Budget Administration [Dirección General de Presupuesto Público] (DNPP), the Treasury Administration (DGTP) [Dirección General de Tesoro Público] and the National Public Accounting Office [Contaduría Pública de la Nación] (CPN), the bodies in charge of the State's financial management, must invest time and effort in checking, processing, integrating and consolidating data, thereby spending resources that could have gone toward analyses and evaluations.
- 1.5 The study also discovered that significant gaps in the reporting, monitoring and other phases of the overall cycles of public income and outlays made it impossible to get the timely financial and accounting information needed to make decisions.
- 1.6 The system has also been laboring under the burden of too many rules, procedures and requirements relating to budgetary, financial and accounting information that were of little use because the agencies in charge were ill-equipped to process the data, organize it systematically and use it for better decision-making. In

1/ The Peruvian State is made up of the executive, legislative and judicial branches of government, autonomous agencies under the Constitution, and the regions and municipalities.

2/ The executing units (EUs) are the smallest government agencies with administrative capacity to execute the national budget.

addition, there was no official system that pulled together data on treasury, budget, and accounting transactions.

B. The integrated financial management system for the public sector (SIAF-SP)

- 1.7 To improve management of public finances, the Ministry of Economic Affairs and Finance (MEF) has designed and introduced a financial information system that consolidates and standardizes government information. That system is called the integrated financial management system for the public sector (SIAF-SP).

1. Description of the SIAF-SP

- 1.8 The SIAF-SP is a system for recording government revenue and spending transactions, parallel operations (such as accounting entries), and the progress made toward tangible goals (kilometers of road completed, for example). With the SIAF-SP, the data are entered one-time only, from their point of origin. This system draws data on budgetary and financial performance and accounting from: (i) the government agencies that steer the system of public finance, namely the DNPP, the DGTP and the CPN; (ii) sector agencies, line-item agencies, and executing units, and (iii) other institutions like the General Accounting Office (CGR), the National Tax Administration (SUNAT) and the National Customs Service (ADUANAS). The latter two use their own systems to feed revenue-related data to the SIAF-SP.
- 1.9 The SIAF-SP also makes it possible: (i) to provide government agencies with timely and reliable information; (ii) to monitor the various phases of budgetary performance; (iii) to prepare reports containing budgetary, financial and accounting statements; (iv) to provide a constant overview of the public resources available; (v) to better allocate these resources; and (vi) to improve decision-making.
- 1.10 The users of the SIAF-SP are the aforementioned agencies that run the systems associated with management of the State's financial affairs, which are under the authority of the MEF's Deputy Minister of Finance; various areas of the Office of the Deputy Minister for Economic Affairs, sector agencies, line-item agencies and 506 EUs. Other client institutions are agencies under the authority of the Office of State Institutions and Agencies [Oficina de Instituciones y Organismos del Estado] (OIOE), the Office of the Comptroller General, Congress, and the SUNAT.

2. Present status of the SIAF-SP

1.11 As of May 1998, the SIAF-SP's chief accomplishments were the following:

- a. The country's 506 EUs had been equipped with computers, software and trained personnel. Of these, 480 are already electronically processing data from over 90 communities on daily budgetary and financial performance. The rest send in their information by other means, such as diskette.
- b. The performance data are properly entered at every executing unit and are sent in, checked and entered into the ORACLE database at the MEF.
- c. As of May 1998, the SIAF-SP had recorded around 40% of the financial transactions associated with the national budget, which are being electronically reported on a daily basis from the EUs. Over the course of the year, that percentage is expected to increase gradually to approximately 80%. Included in the remaining 20% are the operations of the ministries of Defense and the Interior and the EUs that report their information by other means. It is important to point out that some 150 OIOE-supervised agencies are not part of the SIAF-SP, nor are the many transactions of the municipalities (over 1800 municipalities), which represent less than 15% of the national budget.
- d. The authorities of the MEF, DGTP and DNPP are being given support in the form of a records-access module. This module makes it possible to check records by simply accessing the database, which allows one to track the progress in record-keeping measured by a number of criteria that can be combined to suit the user's needs or approach. In effect, records can be accessed by month of execution, function, program, source of financing, generic spending group, sector, line-item agency and executing unit, or by a combination of these criteria. Authorities will also have the necessary records-access manual.
- e. The DGTP's programming area is using the SIAF-SP to monitor the level of execution in relation to the authorizations given.
- f. The MEF is also supplying the EUs with assistance in the form of:
of: (i) resident consultants who answer problems *in situ*;
(ii) consultants from headquarters who travel to the locations of the EUs and provide operational technical support; (iii) a service bureau at headquarters to answer operational questions; and (iv) a team of consultants (also at headquarters) doing operational quality control.

3. SIAF-SP challenges and needs

- 1.12 At the present time, the SIAF-SP is functioning alongside other records systems, and will continue to do so until late 1998. Starting in early 1999, the SIAF-SP will become the only official system for keeping records on execution of the budget of government revenues and outlays. The SIAF-SP will cover 100% of the EUs in the budget.
- 1.13 However, for the SIAF-SP to establish itself as the exclusive, permanent, and official records system, measures of two types are required: those geared to getting the SIAF-SP fully introduced and all necessary adjustments made, and those geared to consolidating the SIAF-SP and expanding it so that it covers the entire public sector.
- 1.14 As for completing the SIAF-SP's introduction and making the necessary adjustments, the following remains to be done:
 - a. Complete the introduction of the SIAF '98 records module, including the accounting records system; this involves dissemination and training in accounting procedures and in the intensive use of the SIAF-SP records system at the DGTP, DNPP, CPN, and the SUNAT;
 - b. Finalize development and introduction of the modules for programming, draft and payment authorizations, accounting and revenue at the DGTP, with the necessary interfaces with the Banco de la Nación;
 - c. Develop and introduce the SIAF-SP records module in 10 OIOE-supervised agencies and, by the end of this year, design and develop the version of the SIAF 99 program that interfaces with the EUs' other management systems (supplies, staffing, assets and documents, etc.), as well as the possibility of working as a network.
- 1.15 The following will be needed to consolidate the SIAF-SP and spread it to the rest of the public sector for timely, reliable information covering all budgetary and financial transactions:
 - a. A permanent support capability will have to be established within the economic and financial sector to serve the EUs' needs nationwide. This means upgrading the MEF's ability to develop new functions that have arisen as a result of the SIAF-SP's operation in the Treasury, such as coordination of government funds, data processing support, and control and monitoring of the system's operation;
 - b. The information from the SIAF-SP will have to be used to improve decision-making and public policy-making; the reliability of the records will have to be checked first and

then the minimum in the way of administrative documentation to substantiate income and outlays will have to be ascertained, and

- c. The SIAF-SP will have to be expanded to the rest of the public sector: on the one hand, more of the OIOE-supervised agencies and institutions in the public finance sector will have to be brought under the SIAF-SP umbrella; and on the other, a pilot project will have to be introduced among municipalities.
- 1.16 Finally, the pertinent standards and provisions that will have to be enacted to make the SIAF-SP the official record of budgetary and financial transactions in the public sector will help establish it once and for all. Once these provisions are in place, reporting data to the SIAF-SP will be mandatory and the SIAF-SP will replace the financial management records systems used by each EU.

C. Justification of the proposed program

- 1.17 This operation is part of the government measures mentioned in section B.3 to finalize introduction of and adjustments to the SIAF-SP as an integrated system and to begin to consolidate and expand it to encompass the entire public sector.
- 1.18 The proposed operation will help ensure the sustainability of a system that provides timely and reliable financial information that can be used to make decisions on government budgetary and economic policy.
- 1.19 During the Bank's programming mission on February 20, 1998, the government and the Bank agreed to add the present operation to the latter's program of operations. The program the Bank's strategy for Peru, articulated in the CP approved by the Board of Executive Directors on April 22, 1998, and is one of the operations included in that document.

D. Strengthening budgetary and financial management

1. The Bank's involvement in Peru

- 1.20 A reimbursable technical cooperation operation (678/OC-PE) approved by the Bank in 1992 for institutional strengthening of and technical assistance to the institutions participating in the financial sector program was instrumental in getting the SIAF-SP designed and launched. The support for the SIAF-SP came under the budgetary and financial management strengthening component (BFMSC) that was part of that operation. US\$4.0 million in loan proceeds were earmarked for the BFMSC, along with another US\$2.5 million from the Treasury. As of the present time, approximately 95% of the proceeds from the Bank's contribution toward that component have been disbursed; section B.2 describes what those resources accomplished.

2. Programs similar to the SIAF in other countries

- 1.21 In the area of integrated financial management systems, the Bank is active in 13 countries in the region: Argentina (0826/OC-AR), Brazil (1095/OC-BR), Colombia (1053/OC and 0977/OC), Costa Rica (1030/OC-CR), the Dominican Republic (1093/OC-DR), El Salvador (0941/OC-EL), Mexico (ATN/SF-5647-ME), Nicaragua (ATN/SF-4666-NI), Panama (1004/OC-PN), Paraguay (0726/OC-PR), Suriname (ATN/SF-5030-SU), Uruguay (0936/OC-UR), and Venezuela (0945/OC-VE). The systems in these countries are at varying stages of development, but all are integrated systems like the SIAF-SP.
- 1.22 Based on the Bank's experience in other countries with systems similar to the SIAF, in later stages of the system's development subnational government levels should be brought into the system as well. Also, in the more advanced projects, a consolidated government financial statement can be issued and then audited and circulated within the community, either by way of the Internet or some other means, thus lending these projects greater transparency.

II. OBJECTIVE, DESCRIPTION, COSTS, EXECUTION, AND SUSTAINABILITY

A. Objective

- 2.1 The purpose of the proposed program is to modernize public administration by strengthening State financial management. The specific objective is to consolidate, improve and enlarge the SIAF-SP, expanding it to cover more of the public sector and combining it with other management systems.

B. Description

- 2.2 Three components have been planned to accomplish the program's objectives: (i) completion of the development and introduction of the SIAF-SP modules; (ii) consolidation and institutionalization of a support capability for the SIAF-SP; and (iii) design and introduction of management software.

1. Completion of the development and introduction of the SIAF-SP modules (US\$1,165,000)

- 2.3 **Objective.** Under this component, the program would complete the SIAF-SP modules needed to ensure that every institution enters the data on its budgetary and financial performance properly and that the data are sent, checked and entered into the MEF's database.
- 2.4 **Goals.** The three goals of this subcomponent are: (i) to implement the SIAF-SP at the Treasury Administration (DGTP), the National Public Budget Administration (DNPP), the National Public Accounting

Office (CPN) and the National Tax Administration (SUNAT); (ii) to introduce the modules for programming, draft and payment authorizations, accounting and revenues at the DGTP, and (iii) to introduce the SIAF 99 records module at the executing units (EUs).

- 2.5 **Activities.** The activities intended to complete the SIAF-SP's development and introduction are as follows: (i) completing the introduction of the SIAF 98 records module in the executing units, including accounting records; (ii) completing the introduction of the modules for programming, draft and payment authorizations, accounting and revenues for the DGTP and the interfaces with the Banco de la Nación; (iii) developing and introducing the SIAF-SP records module at 10 OIOE-supervised entities; (iv) designing and developing the SIAF 99 records module to interface with the other administrative systems and for possible networking, and (v) consolidating the SIAF-SP and undertaking its expansion to the rest of the public sector, perhaps even some local governments on a pilot basis.
- 2.6 **Scope.** The SIAF-SP will supply reliable, timely data providing good coverage of budgetary and financial operations.

2. Consolidation and institutionalization of a permanent support capability (US\$825,000)

- 2.7 **Objective.** The purpose of this component is to establish a permanent support capability within the economic and financial sector so that the needs of the EUs nationwide can be addressed.
- 2.8 **Goals.** The component's chief goal is to establish a permanent SIAF-SP support capability within the economic and financial sector.
- 2.9 **Activities.** The activities to be financed under this component include institutionalization of the following within the economic and financial sector: (i) a capacity to provide service to the EUs; (ii) an informatics capacity for automatic processing of MEF data and communications, and (iii) coordination of public finances, analysis, maintenance and ongoing supervision of the SIAF-SP.
- 2.10 **Scope.** This component includes the activities needed to enable the economic and financial sector to maintain a permanent SIAF-SP operating capability.

3. Design and implementation of management software (US\$375,000)

- 2.11 **Objective.** The purpose of this component is to develop other tools, using the SIAF-SP database, to assist decision-making in the public sector.

- 2.12 **Goals.** The component will identify individual needs, provide equipment where necessary, and tailor the software in the high-level departments of the 26 sectors and the 13 line-item agencies. Those high-level departments will be linked directly to the SIAF-SP database by way of dedicated lines or similar means of connection, thus enabling them to oversee their EUs. Using data from the SIAF-SP database, computer models will be built to monitor the financial performance of government spending and the tangible progress made, and to evaluate the EUs' performance.
- 2.13 **Activities.** The following activities will be carried out under this component: (i) identifying individual equipment and information requirements; (ii) supplying equipment and tailoring computer programs for managerial monitoring of budgetary execution; (iii) building the tools that, using SIAF-SP data, assist decision-making in the public sector, and (iv) checking the authenticity of the data entered into the system.
- 2.14 **Scope.** The activities are geared to using the SIAF-SP data to improve decision-making so that the State can better perform its functions.

C. Cost and financing

- 2.15 The program's cost is an estimated US\$2.75 million. Of this amount the Bank will cover US\$1.5 million, while the MEF will supply US\$1.25 million. The government will cover interest accruing on the loan during program duration.
- 2.16 The Bank loan will come from its ordinary capital resources and will be disbursed under the single currency facility, as requested by the government.
- 2.17 The local counterpart funding will come from the national treasury. No difficulties are anticipated in this regard, since the MEF has resources budgeted to administer the SIAF-SP for the duration of the program.

CONSOLIDATED BUDGET PER COMPONENT (in thousands of US\$)				
Budget item	IDB/OC	GOV	Total	%
Completion and introduction of the modules	770,000	395,000	1,165,000	42.36
1. Consultants	580,000		580,000	21
2. Training	25,000	50,000	75,000	3
3. Travel and per diems	120,000		120,000	4
4. Computer equipment and programs	45,000	345,000	390,000	14
Consolidation and institutionalization of a support capability	510,000	315,000	825,000	30
1. Consultants	385,000		385,000	14
2. Travel and per diems	45,000		45,000	2
3. Computer equipment and programs	80,000	315,000	395,000	14
Design and implementation of management software	115,000	260,000	375,000	13.64
1. Consultants	40,000		40,000	1
2. Training	15,000	15,000	30,000	1
3. Travel and per diems	60,000		60,000	2
4. Computer equipment and programs		245,000	245,000	9
Program administration	75,000	280,000	355,000	12.91
1. Administration and supervision	75,000		75,000	3
2. Infrastructure		280,000	280,000	10
SUBTOTAL	1,470,000	1,250,000	2,720,000	99
Contingencies	30,000		30,000	1
OVERALL TOTAL	1,500,000	1,250,000	2,750,000	100

D. Execution

1. Borrower, executing agency and means of execution

- 2.18 The loan will be granted to the Republic of Peru. The MEF will be the executing agency and the party ultimately responsible for conducting the program. It will carry out the program's activities through its Sector Loan Coordination Unit, which has been attached to the MEF since 1991 and has managed, to the Bank's satisfaction, three sector loans to Peru: (trade (631/OC-PE and 665/OC-PE), finance (677/OC-PE and 678/OC-PE) and investment (985/OC-PE), as well as the loan for the Customs Service (1036/OC-PE) awarded in 1997 and the public investment improvement loan (902/OC-PE).

- 2.19 The UCPS will administer the Bank loan, which means it will hire consultants and administer the resources earmarked for these purposes and the bidding on equipment and software.
- 2.20 The program will have a coordinator working out of the UCPS. His/her functions will be: (i) to coordinate the program's daily operations; (ii) to monitor for achievement of the goals established for each component; (iii) to design the specific work programs based on the established objectives, goals and activities; and (iv) to prepare the terms of reference for the consultants to be hired and the specifications for the goods to be procured. The coordinator will have one technical assistant and one administrative assistant.

2. Periods of execution and disbursement

- 2.21 The period of execution for the program will be an estimated 12 months, and the disbursement period 18 months.
- 2.22 As a condition precedent to the first disbursement, the SIAF-SP will be made an official, mandatory system in 1998. According to plan, the Office of the Deputy Minister for Treasury Affairs is to pass a resolution making the SIAF-SP the official, mandatory system (special condition).
- 2.23 Up to an estimated US\$350,000 in expenditures incurred since June 1, 1998, will be recognized as eligible under the program, and chargeable to the proceeds of the Bank loan (special condition).
- 2.24 Given the nature of the SIAF-SP operations, the volume of activity that will be under way simultaneously, the small size of the loan and the executing agency's good performance record, the amount of the program's revolving fund should be increased to 10% to facilitate execution (special condition).

3. Procurement and consultant contracting

- 2.25 Procurement of goods and related services and the recruitment of consulting services with program resources will be done according to the Bank's procedures for procurement and for selecting and contracting consultants. The planned purchases will be primarily hardware and software.
- 2.26 Because of the wide range of distributors for the numerous suppliers of goods of this type in the country, and because service and maintenance must be available in the country, international competitive bidding is recommended when the amount involved is US\$350,000 or higher. Domestic law will be applicable for contracts and purchases in lesser amounts.

E. Sustainability

- 2.27 The sustainability of the SIAF-SP will basically depend on the MEF's capacity to make the system's operation and maintenance an integral part of its organizational structure. This will mean: (i) strengthening some existing areas; (ii) putting together a highly qualified technical team to administer, operate and continuously improve the system, and (iii) upgrading the MEF staff's skills in analysis and management so that they can perform the new functions that integration of the systems related to state financial management will involve.
- 2.28 To ensure the program's sustainability, the borrower, by way of the executing agency, will present to the Bank, within six months of the date of the loan contract, a plan and timetable for incorporating the SIAF-SP into the MEF's permanent, organizational structure, according to the guidelines set out in the next paragraph, which will be discussed and confirmed as the program's evaluations are conducted (special condition).
- 2.29 With the following measures, the MEF will ensure that the SIAF-SP becomes an integral part of its permanent organizational structure:
- a. The MEF's senior officials will meet on a monthly basis to monitor the program, constantly reviewing the SIAF and steering its activities. They will have the advisory assistance they need to develop new systems or ensure that any substantive change in the procedures now in use are consistent with the SIAF-SP's main objectives.
 - b. The Deputy Minister of Finance will have the following levels of authority:
 - (i) A financial management coordination group headed by the Deputy Minister and in charge of proposing guidelines and directives for approval by the Minister of Economic Affairs and Finance; the group will be composed of the directors of the treasury and budget, and one representative from the Public Accounting Office.
 - (ii) A technical secretariat for SIAF-SP analysis and quality control; a bureau will also be established to answer any problems that the executing units may encounter.
 - c. The Public Treasury Administration will develop the additional capability needed to provide the EUs with daily service.
 - d. The data processing office will develop the additional capability needed to operate and maintain data processing in all areas of the MEF, including the SIAF.

- 2.30 The activities under component 2 of the program are geared to formally establishing, within the MEF, a permanent SIAF-management capability.

III. BENEFITS AND RISKS

- 3.1 The introduction of the SIAF-SP can be likened to a shift in the paradigm of public administration. Its benefits and risks have to be interpreted with that as a given.

A. Benefits

- 3.2 The chief benefit of the operation is derived from timely and reliable information providing good coverage of the public sector's budgetary and financial transactions and a permanent overview of the financial resources available to the State to enable it to perform its functions better.
- 3.3 Thanks to the wealth of information that the SIAF-SP provides on public finances, decision-making can be improved, as can implementation of public policy in general and modern and efficient management of public finances. This new approach emphasizes not only bookkeeping and administration of payments, but also the analysis of alternatives and optimum use of resources. Consolidation of the SIAF-SP and its integration with the rest of the administrative systems will bring about savings, increase overall efficiency and create greater homogeneity and standardization among all public administration systems.
- 3.4 Institutional benefits will accrue to the MEF in the form of greater operating efficiency with: (i) an information system that improves resource-allocation and decision-making; (ii) a core body of civil servants trained in how to supply timely and reliable financial information to the MEF, and (iii) a system for reporting spending obligations, expenses incurred and, rounding out the budgetary cycle, the payments actually made.
- 3.5 Finally, the SIAF-SP will help lay the groundwork for moving forward with the modernization of public management and State reform, by bringing order, transparency, efficiency and control to the EUs.

B. Risks

- 3.6 Given the support from the government and the progress already made, no significant risks are anticipated with this operation. That having been said, some additional willingness will be required on the part of the authorities at the highest levels of government to underwrite the costs of the change entailed by the SIAF-SP

operation. This risk is mitigated somewhat by the fact that the MEF is using funds from its own budget (which are now part of the local counterpart funding for the program) to operate the SIAF-SP.

- 3.7 At the present time, the SIAF-SP is a parallel but unofficial record, which is why its record-keeping is not as high as it might be. The nature of the system is such that it must eventually preclude all others and its coverage must be all-inclusive. If it is not made an official, mandatory system in 1998, efforts to consolidate it may fail. Once it has been operating officially for three months, in combination with the other State financial management records systems, the SIAF-SP will have to replace them entirely. Without this sequence of events, it will be unable to perform properly in 1999.

IV. EVALUATION

1. Reports

- 4.1 The UCPS will prepare a midterm report six months after the first disbursement, and a final report upon completion of the program. Those reports are to describe the activities from the start of the operation, the results obtained and correspondence between the results and the program objective, as established in the attached logical framework. They should also examine the units created by the government to absorb the SIAF-SP into the MEF's organizational structure.

2. Evaluations

- 4.2 **Midterm:** Within eight months of the first disbursement of loan proceeds, and using the midterm report prepared by the UCPS as a basis, the project team will conduct a mission to evaluate the program.
- 4.3 **Final:** Within 90 days of the last disbursement, the project team will conduct another mission to evaluate its results based on the final report presented by the UCPS.
- 4.4 **Audit report:** The financial statements of the program for its duration will be prepared by the CGR or by a firm of independent public accountants acceptable to the Bank.

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(PE-0192)**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Modernization of the public financial management system	<p>Savings on public financial administration sufficient to recoup the investment by the end of the year 2000.</p> <p>Execution of outlays and tangible goals achieved up to 25% over the planned level.</p> <p>Savings of US\$1.5 million on isolated expenditures. ^{1/}</p>	<ul style="list-style-type: none"> - Identification of the phases of the income and outlay cycles. - Elimination of float. - Elimination of overdrafts. - Return on the Treasury account balances. 	<p>A permanent capability created within the MEF to absorb the institutional changes developed by the program.</p> <p>The EUs are able to have resources disposed easily and in a scenario of efficiency and transparency.</p>
Improve and enlarge the SIAF-SP, covering more of the public sector with the other administrative systems	<p>The SIAF-SP's central database must contain 70% of the budgetary and financial operations of the entire nonfinancial public sector by June 1999, local governments excluded.</p> <p>The system is processing 100% of the DGTP's draft and payment authorizations by the end of 1999.</p>	<ul style="list-style-type: none"> - Evaluation of the coverage and accuracy of the information recorded in the SIAF-SP, by examining the data in the central database. - Audit opinions prepared by the Office of the Comptroller General. 	<p>The SIAF-SP becomes the only compulsory register among the systems associated with state financial management.</p> <p>The EUs internalize the purpose and use of the SIAF-SP and use it properly.</p> <p>The SIAF-SP effectively replaces existing systems.</p>
Completion of the modules' development and implementation: complete the SIAF-SP to ensure that the data are properly at each institution and the MEF database, which will enable agencies that need it to perform functions better.	<ul style="list-style-type: none"> - The SIAF 98 records module is to be introduced, bookkeeping included, at the DGTP, DNPP, CPN, and SUNAT, and 10 agencies under the authority of the Office of State Institutions and Agencies (OIOE). - The DGTP modules for programming, authorization of draft and payment, accounting and income are to be introduced and in operation. - The SIAF 99 module is to be designed and introduced in the rest of the public sector, including some pilot municipalities. 	<ul style="list-style-type: none"> - The number of participants being trained in the philosophy and operation of the SIAF-SP. - On-site inspection of a random representative sample of EUs, some OIOE-supervised agencies and the agencies in charge. - Effective replacement of the obligations registered at the DNPP. 	<ol style="list-style-type: none"> 1. The agencies in charge of the SIAF-SP associated with financial management are effectively working in coordination with one another. 2. A high-caliber, professional and coordinated team is formed. 3. The SIAF-SP is regarded as a management tool and not as a competing system.

For the SIAF-SP, the monies that many public agencies are now putting toward developing or purchasing information systems will be saved, since the Ministry of Economy will implement the SIAF-SP throughout the public sector and standardize all systems.

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	<ul style="list-style-type: none"> - The necessary interfaces with other administrative support systems are to be established and software operating in a client server environment at the EUs that require it. 	<ul style="list-style-type: none"> - Replacement of the COA register at SUNAT. 																													
<u>Expansion and institutionalization of a capability:</u> institutionalize the support capability in the public and financial sector	<ul style="list-style-type: none"> - A permanent capability to answer queries from the EUs to develop new functions that arise as a result of the SIAF-SP's operation in financial administration. - An information network that links the MEF with over 500 EUs, some OIOE agencies and municipalities. 	<ul style="list-style-type: none"> - Integration of accounting information in preparing the general accounts of the nation. - Confirmation of the seminars held and the publications released. - The SIAF operation's control and monitoring system. 																													
<u>Implementation of management</u> Using the SIAF-SP database, development of additional tools to assist the working process in the public	<ul style="list-style-type: none"> - Adequate systems for better crafted public tariff policy, tax policy, internal and external financing, foreign trade policy, salary and wage policy and monetary and exchange policies. - Reliable records and administrative documentation that substantiates income and outlays. - The high-level administrations of the 26 sectors and 13 line-item agencies see an increase in the volume of operations and are directly linked to the SIAF-SP database. 	<ul style="list-style-type: none"> - Better designed macroeconomic policies. - The high-level administrations are using the information from the SIAF-SP for better control of the EUs under their supervision and to improve decision-making. 																													
<u>Completion of the modules' development and introduction</u> Complete the introduction of the records module. Complete the introduction of the software for programming, draft and authorizations, accounting and Introducing SIAF 98 in 10 OIOE-ized agencies. Complete the SIAF 99 software Complete the SIAF-SP's expansion into the public sector	BUDGET (in US dollars) <u>Completion of the modules' development and introduction</u> <table> <tr> <th></th><th>Bank</th><th>Local</th><th>TOTAL</th></tr> <tr> <td></td><td></td><td>Counterpart</td><td></td></tr> <tr> <td>Consultants</td><td>580,000</td><td></td><td>580,000</td></tr> <tr> <td>Training</td><td>25,000</td><td>50,000</td><td>75,000</td></tr> <tr> <td>Travel and per diems</td><td>120,000</td><td></td><td>120,000</td></tr> <tr> <td>Computer equipment and programs</td><td>45,000</td><td>345,000</td><td>390,000</td></tr> <tr> <td></td><td></td><td></td><td>1,165,000</td></tr> </table>		Bank	Local	TOTAL			Counterpart		Consultants	580,000		580,000	Training	25,000	50,000	75,000	Travel and per diems	120,000		120,000	Computer equipment and programs	45,000	345,000	390,000				1,165,000	<ul style="list-style-type: none"> - Intensive use of the SIAF record at the DGTP, DNPP, CPN and SUNAT. - Recording and direct assignment to the State suppliers' accounts. - Operation of the software in a client/server environment at the EUs - The General Accounts of the Republic. 	
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PROPOSED RESOLUTION

PERU. LOAN ____/OC-PE TO THE REPUBLICA DEL PERU

(Implementation of the Integrated Financial Management System for
the Public Sector)

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 del Perú, as Borrower, for the purpose of granting a financing to cooperate in the execution of a Program for the Implementation of the Integrated Financial Management for the Public Sector. Such financing will be for the amount of up to one million five hundred thousand dollars of the United States of America (US\$1,500,000) from the Single Currency Facility of the Ordinary Capital Resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.