

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

**PROGRAM OF SUPPORT FOR THE NATIONAL PUBLIC
INVESTMENT SYSTEM**

(BO-L1006)

LOAN PROPOSAL

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Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Portfolio in execution and loans approved	http://ops/Approvals/PDFs/BOen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=BO&L=EN
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=605004
Budget	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=579918
Information available in the RE1/SC1 technical files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=593773

ABBREVIATIONS

AWP	Annual work plan
CENCAP	Centro Nacional de Capacitación de la Contraloría [National Training Center of the Office of the Comptroller General]
CESI	Committee on Environment and Social Impact
DESNIP	Dirección de Desarrollo del SNIP [SNIP Development Office]
DGFE	Dirección General de Financiamiento Externo [Directorate General of External Financing]
DGIP	Dirección General de Inversión Pública [Directorate General of Public Investment]
e-SISIN	Sistema de Información sobre Inversiones en ambiente web [Web-based investment information system]
FDI	Foreign direct investment
FSO	Fund for Special Operations
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
NGO	Nongovernmental organization
PAM	Programas de Acción para los Municipios [Municipal action program]
PAP	Programas de Acción para las Prefecturas [Prefecture action program]
PCD	Project concept document
PPMR	Project progress monitoring report
PTI	Poverty-targeted investment
RFCP	Reglamento del Fondo Concursable para el Financiamiento de Estudios de Preinversión [Regulations of the competitive fund for the financing of preinvestment studies]
SEQ	Social equity enhancement
SGP	Sistema Gerencial de Proyectos [Project management system]
SIGMA	Sistema Integrado de Gestión y Modernización Administrativa [Integrated management and administrative modernization system]
SISCA	Sistema de Información de Seguimiento a la Capacitación [Training information and monitoring system]
SISFIN	Sistema de Información sobre Financiamiento Externo [External financing information system]
SISIN	Sistema de Información sobre Inversiones [Investment information system]
SNIP	Sistema Nacional de Inversión Pública [National public investment system]
SNIPPRE	Programa de Apoyo a la Descentralización del Sistema Nacional de Inversión Pública y Financiamiento de la Preinversión [Program to support decentralization of the national public investment system]
TGN	Tesoro General de la Nación [General Treasury of the Nation]

UEP	Unidad Ejecutora del Programa [Program executing unit]
VIPFE	Office of the Deputy Minister of Public Investment and External Financing

PROJECT SUMMARY

BOLIVIA PROGRAM OF SUPPORT FOR THE NATIONAL PUBLIC INVESTMENT SYSTEM (BO-L1006)

Financial Terms and Conditions																
Borrower: Republic of Bolivia			Amortization period:	40 years												
Guarantor: Republic of Bolivia			Grace period:	10 years												
Executing agency: Office of the Deputy Minister of Public Investment and External Financing			Disbursement period:	5 years												
Source	Amount in millions of US dollars	%	Interest rate:	1% grace period 2% thereafter												
IDB (FSO)	13.0	80.7	Inspection and supervision fee:	1%												
Local	3.1	19.3	Credit fee:	0.5%												
Total	16.1	100.0	Currency:	FSO currencies, except for Bolivian currency												
Project at a glance																
<p>Project objective: The program's general objective is to help improve the quality of public investment in the national, departmental, and municipal government domains, laying foundations to ensure that the public investment projects undertaken lead to greater economic and social benefit.</p> <p>Special contractual conditions (paragraph 3.41): <i>Precedent to the first disbursement:</i> (i) Appointment of the National Public Investment System Development Office (DESNIP) as project executing unit (UEP); (ii) Presentation of the annual work plan (AWP) for the first year of execution; and (iii) approval of the program's Operating Regulations by the Office of the Deputy Minister of Public Investment and External Financing (VIPFE). <i>Other special conditions:</i> (i) As a condition precedent to disbursements in the preinvestment studies component, the UEP must demonstrate to the Bank's satisfaction that the regulations for the competitive fund for the financing of preinvestment studies (RFCP) have been approved and published; and (ii) before any disbursements are made to beneficiaries in the preinvestment studies component, the UEP must demonstrate to the Bank's satisfaction that the interagency financing agreement with the beneficiary in question has been signed. This agreement will establish the terms and conditions of beneficiary participation, including a commitment to provide the local counterpart contribution and procedures for doing so.</p> <p>Exceptions to Bank policies: The project does not involve exceptions to Bank policies.</p>																
<table style="width: 100%; border: none;"> <tr> <td style="width: 30%;">Project consistent with country strategy:</td> <td style="width: 15%;">Yes [X]</td> <td style="width: 15%;">No []</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td>Project qualifies as:</td> <td>SEQ []</td> <td>PTI []</td> <td>Sector []</td> <td>Geographic []</td> <td>Headcount []</td> </tr> </table> <p>Procurement: See paragraphs: 3.36, 3.37, 3.38, 3.39 Verified by CESI on: 29 April 2005</p>					Project consistent with country strategy:	Yes [X]	No []				Project qualifies as:	SEQ []	PTI []	Sector []	Geographic []	Headcount []
Project consistent with country strategy:	Yes [X]	No []														
Project qualifies as:	SEQ []	PTI []	Sector []	Geographic []	Headcount []											

I. FRAME OF REFERENCE

A. Trend of public and private investment

- 1.1 The economic and political crisis that Bolivia suffered in the first half of the 1980s made it necessary to establish a new national development model, based on an economic stabilization program and structural reforms, implementation of which was intensified in the 1990s.
- 1.2 The reforms included privatization and capitalization of public enterprises, reform of the pension system, administrative decentralization and the popular participation process, and educational and health reforms. The reforms had a major impact on the vigor and composition of total investment. In 1992-2002, when they were being implemented most intensively, total investment rose from 12.4% to 20.8% of gross domestic product (GDP). Thereafter, from 2003 onward, total investment declined, falling to 16.3% of GDP in 2004. This is largely explained by the reduction in foreign direct investment (FDI) and the economic slowdown of the last few years.

1. Development of private investment

- 1.3 The processes of privatization and capitalization of public enterprises generated a substantial increase in the share of private investment in the 1990s, mainly in the services and productive sectors, but also in other export-oriented sectors, particularly hydrocarbons.¹
- 1.4 The private investment as a share of total investment grew from 34% in 1990 to 64% in 2002, representing 4.2% and 9.4% of GDP, respectively; but in 2003, private investment slipped back to 6.4% of GDP, partly reflecting the reduction in FDI commitments in the capitalized firms.

2. Development and composition of public investment

- 1.5 In 1992-2004, public investment grew by 13% to reach a cumulative total of US\$7.125 billion. At the sector level, social investment displayed the strongest growth, increasing by 25% during the period; as a result, 37% of public investment in 2004 related to improvements in the various dimensions of unmet basic needs, such as education, water and basic sanitation, health, and housing (see Figures 1 and 2).
- 1.6 The infrastructure sector grew by 6.8% during the period, maintaining its 49% share of total public investment (see figures 1 and 2). In this sector, transport was the engine of growth, expanding by 18%, with highways in particular absorbing the largest share of public investment (averaging 34% of the total). Nonetheless, Bolivia continues to suffer from the low density of its highway network, lack of

¹ In 1995-1997, a total of 53 firms were privatized for a total of US\$97.5 million.

regional integration, poor access and transitivity, inadequate maintenance, an urgent need to incorporate rural populations into the economic circuit, and local demands that are arising from urban expansion. Elsewhere, the energy and communications sectors declined by 10% and 3%, respectively, during the same period.

- 1.7 The so-called “multisector” grew by 3.9% during the period, increasing its relative share of total public investment from 2% in 1992 to 5% in 2004.
- 1.8 Lastly, public investment in the productive sector shrank sharply by 23.3%, following hydrocarbons privatization, and its share in total public investment slumped from 34% in 1992 to just 9% in 2004.² The only growth within this sector occurred in industry and tourism, which expanded by 0.4%.

Figure 1: Growth of public investment by sector (1992-2004)

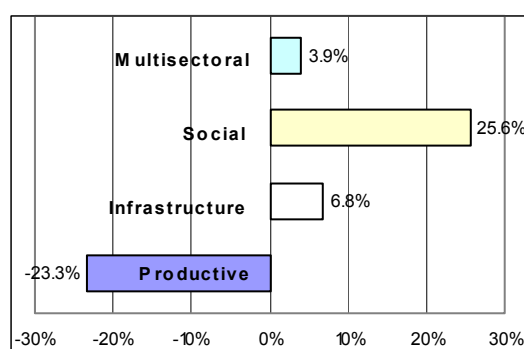
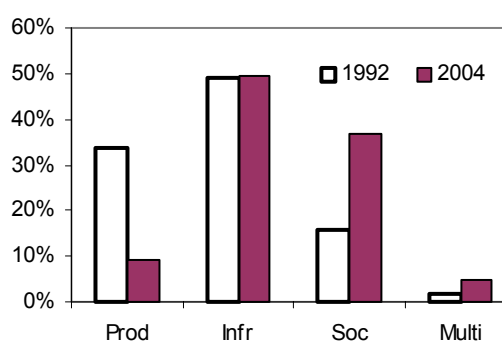


Figure 2: Share of public investment by sector (1992 and 2004)



Source: Ten years of public investment in Bolivia. VIPFE 2003 and Millennium Report on the Economy 2004.

- 1.9 The main financing sources for public investment are: (i) funds from the General Treasury of the Nation (TGN) managed by central government, which are transferred to central government agencies and to the Royalties Compensation Fund to finance the public investment budget; (ii) earmarked funds received and managed by public bodies to finance their public investment budgets; and (iii) external resources obtained through multilateral financial institutions, international cooperation agencies, and bilateral agencies, which are transferred to governments to finance the public investment budget.
- 1.10 In 1992-2004, cumulative domestic funding for public investment amounted to US\$3.349 billion (47% of total public investment), while cumulative external financing totaled US\$3.776 billion (53% of the total). Of the latter, 75% consisted

² The decrease in this sector was mainly due to a reduction in energy investments, while the share of highway infrastructure investment held steady at an average of 32%, representing the largest segment of total public investment.

of loans (US\$2.832 billion) and 25% came in the form of grants (US\$944 million). External financing gave significant support to social and infrastructure investment.³

B. The National Public Investment System (SNIP) and its decentralization

- 1.11 The SNIP, development and implementation of which began in 1987, consists of a set of common regulations, instruments, and procedures for all public sector bodies, through which they inter-relate and coordinate to formulate, evaluate, prioritize, finance, and execute the investment options that represent the best alternatives from the economic and social standpoints, in the framework of national development plans. The system was developed at a time when public investment was centrally planned and executed, and investment was channeled into large projects. Responsibility for regional economic development was vested in nine departmental development corporations, which, along with government ministries, were integrated into the SNIP. In this way, the total amount of public investment was distributed across an average of 720 projects per year.
- 1.12 The administrative decentralization undertaken since 1994 aimed to transfer and delegate technical-administrative powers to the departments and municipios. In the public investment area, the Administrative Decentralization Law (No. 1.654) and the Popular Participation Law (No. 1.551) redefined the allocation of public funds and the respective competencies.
- 1.13 The structure of public investment by government level was altered substantially. Investment policy was based on regulatory centralization and operational decentralization, with funds for public investment being distributed to meet the priority regional and local development needs. This made it necessary to regulate and organize the investment process and to foster a public investment process that would increase social welfare.
- 1.14 Following the allocation of new resources and the transfer of new responsibilities, departments and municipios had decision-making capacity over the use of public investment funds within their jurisdictions. This implied responsibility for investment prioritization and the formulation and execution of projects, and resulted in larger amounts of public investment being executed by departmental and municipal governments.
- 1.15 During the years of decentralization, central government investment as a proportion of total public investment declined from 72% in 1992 to 29% in 1998 (see Table 1), while departmental and local governments saw their share increase from 22% to 52%. Nonetheless, central government investment regained lost ground from 1999

³ The main external funding sources include the IDB, the World Bank (WB), and the Andean Development Corporation (ADC). Germany, Belgium, Japan, Holland, and the United States, provided the largest amounts of bilateral cooperation to Bolivia.

onward, rising 50% of total public investment in 2004, with investment in the departmental and local areas accounting for the other half.

Table 1: Structure of public investment by levels of government (%)

	1992	1994	1996	1998	2000	2002	2004
Central government	72%	65%	43%	29%	44%	41%	50%
Ministries and other bodies	10%	7%	10%	13%	23%	21%	15%
SNC	22%	31%	19%	15%	21%	20%	34%
Public enterprises	39%	28%	14%	1%	-	-	-
COF. REGIONAL	7%	13%	19%	18%	13%	17%	-
Departmental government	20%	12%	16%	27%	25%	21%	20%
Local government	2%	9%	22%	25%	18%	21%	30%

Source: Ten years of public investment in Bolivia. VIPFE 2003; Millennium report on the economy.

- 1.16 Decentralization not only meant resource transfer but also the handover of competencies that mainly required capacity building for planning and executing plans and projects for the management of financial and oversight instruments, which in many cases were nonexistent. The public decentralization process has thus posed a major challenge for the authorities, because of capacity shortcomings in the following areas:
 - a. Institutional and technical: Political changes and the slow civil service career process hinder institutional and human resource development. It has also been necessary to adapt human resources and adapt the organizational structure to deal with the new and broader responsibilities.
 - b. Administrative: Not only have the authorities have had to cope with the lack of basic management tools to undertake new activities, but changes have also had to be made in administrative and decision-making procedures.
 - c. Financial: Lack of capacity to develop a larger base of internally generated resources, without relying mainly on funds transferred from national government under revenue-sharing arrangements.
- 1.17 In view of this challenge, the authorities sought Bank support to implement the SNIP decentralization process and develop preinvestment studies; and Bank financing was arranged to implement SNIP instruments in nine departmental prefectures and 11 municipios (nine departmental capitals, plus El Alto and Montero). The program to support decentralization of the national public investment system and preinvestment financing (SNIPPRE) was approved by the Bank (loan 993/SF-BO). This included major support for promoting the decentralized SNIP implementation process, addressing the most critical aspects relating to the availability of preinvestment studies to underpin the economic, financial, institutional, technical, and environmental viability of the projects to be funded.

- 1.18 As a result, SNIP decentralization included technical assistance on investment, equipment for operating the information system, training in the project cycle, and the financing of preinvestment studies. This stage focused on the development of regulatory, technical, and methodological instruments to support the preparation and evaluation of projects to meet the investment demands of decentralized bodies and local governments.
- 1.19 Although the government, with Bank support, has succeeded in developing and implementing basic norms and regulations for decentralized implementation of the SNIP, and the preparation of technical-methodological instruments for project evaluation, these have been implemented gradually in the different departmental and municipal governments.
- 1.20 The Office of the Deputy Minister of Public Investment and External Financing (VIPFE) has made it one of its goals to consolidate the system at the central, prefecture, and departmental levels and in the 327 municipal governments. The following issues also need to be tackled: (i) strengthen coordination among the agencies participating in the system, to ensure that efforts to improve the efficiency of public investment, through rigorous application of the regulations on project preparation and evaluation, are reflected when incorporating investment projects into the general national budget (PGN); (ii) adjust methodological tools to respond to the types of investment projects that are undertaken at those levels of government, in the framework of departmental and municipal development plans, and reflect progress made in terms of fiscal and administrative decentralization across the country; (iii) help strengthen a project culture that emphasizes technical capacity for preparing preinvestment studies, and the project management system in decentralized bodies, moving toward efficient allocation of public resources and establishment of a results culture; (iv) press ahead with the integration of information systems operating in the SNIP, in order to link the preinvestment stage with the budget cycle, i.e. the planning, budget, and financial systems; and (v) help to establish an investment project bank at the decentralized level, along with aggregate forward-looking analysis of preinvestment at the national, departmental, and municipal levels, to make it possible to present investment projects to different funding sources according to their economic and fiscal impact.

C. Strategy and basis for the Bank's involvement

1. The Bank's strategy with the country and sector

- 1.21 The Bank's strategy with Bolivia for 2004-2007 identifies the following priority action areas: (i) improvement of State management capacity and transparency; (ii) support for the competitiveness and sustainable development of the private sector; and (iii) improvement of efficiency and equity in the provision of social services. The proposed operation would form part of the first line of action, since it will help improve State management and efficiency, by consolidating the

decentralized SNIP and improving the profitability and efficiency of public investment.

- 1.22 The Bank's strategy in the modernization of the State identifies five action areas: (a) development and strengthening of civil service systems; (b) strengthening of the State's fiscal capacity and improvement of the efficiency and transparency of expenditure management; (c) improvement of capacity for formulation and coordination of strategies and public policies; (d) modernization of public service management modalities; and (e) exploitation of the potential of the knowledge society and information technologies. This project forms part of the second and third areas mentioned.

2. The experience of the Bank and other agencies

a. The Bank's experience

- 1.23 **The program to support SNIP decentralization and preinvestment financing (SNIPPRE - loan 993/SF-BO).** The SNIPPRE was approved on 23 April 1997, with the respective contract being signed on 10 September and declared eligible on 18 March 1998. Program execution ended on 15 April 2005.
- 1.24 The program's objectives relate to the process of streamlining the public investment process and improving preinvestment management, as part of the administrative and financial decentralization of the Government of Bolivia. The detailed results of program execution are available in the Bank's files, and the most important aspects are summarized below.
- 1.25 To achieve its objectives, the SNIPPRE contained three components: (i) SNIP decentralization; (ii) preinvestment financing; and (iii) support for program execution.
- 1.26 The first component, SNIP decentralization, received US\$2.5 million in loan funds and achieved its objectives. In fact, the established targets were actually surpassed, with technical-methodological instruments being developed to consolidate the SNIP decentralization process, including: (i) development of project preparation and evaluation methodologies for seven sectors rather than the six originally envisaged. The sectors with this instrument are: energy (rural electrification), basic sanitation (drinking water, sewerage, solid waste), transport (construction of interurban highways and neighborhood roads), agriculture (irrigation and support for production), education, environment (conservation, natural resource management and environmental quality), and health (construction and equipment, and other health programs); (ii) preparation of a general minimum profile methodology and minimum profiles for seven sectors, instead of the four proposed at the design stage (health, education, basic sanitation, urban highways, neighborhood roads, rural

electrification, and agriculture); and (iii) preparation of a methodology to prepare terms of reference for procuring preinvestment studies.

- 1.27 Within this first component, funding was provided for the following: (i) establishment of cost-efficiency parameters for projects targeting basic sanitation, health, education, environment, electric energy, transport, and the agriculture sector; (ii) expansion of the investment project information network, giving decentralized agencies access to the databases of the investment information system (SISIN);⁴ (iii) preparation and implementation of nine prefecture action programs (PAPs) and 10 municipal action programs (PAMs), thereby making it possible to implement the SNIP at the decentralized level and to finance preinvestment studies; and (iv) training in project preparation and evaluation, the project management system (SGP),⁵ and the SISIN, for 1,802 technical staff⁶ rather than the 100 public-sector technical staff initially envisaged.
- 1.28 The final program evaluation established⁷ that the products of the aforementioned activities had been fully achieved at a very high technical level. The program has made it possible to train human resources from a uniform conceptual base, and to speed up implementation of SNIP decentralization, having surpassed the targets set for the number of technical personnel to be trained. The SNIP regulations and methodologies developed were widely disseminated and publicized. The SNIP governing body has the knowledge needed to periodically update efficient shadow prices⁸ for the socioeconomic evaluation of public projects. Implementation of interagency financing agreements signed in the PAP and PAM framework resulted in the preparation, approval and implementation of 19 specific regulations for mandatory implementation of basic and regulatory standards in the project cycle (preinvestment, investment, and operation) consistent with the SNIP, in local governments and decentralized bodies. In addition, seven ministries (Agriculture and Rural Development; Housing and Basic Services; Government; Health and Social Security; Economic Development; Education, Culture and Sports; and Sustainable Development), and the National Institute of Statistics (INE) approved their respective regulations.

⁴ SISIN makes it possible to compile, store, process, and disseminate financial and nonfinancial information on the life cycle of each project and its financing. The registration of public investment projects in the SISIN is the first mandatory requirement prior to their incorporation into the public investment program (PIP).

⁵ The SGP makes it possible to analyze the investment phase through programming, monitoring, and oversight of the components and activities resulting from the analytic structure of the public investment project. Its aim is to provide indicators of physical and financial progress enabling the project manager to take appropriate decisions.

⁶ Trainees were distributed as follows: 818 from prefectures, 594 from municipios, 114 from ministries, 175 from investment and development funds, and 101 from the private sector (consultants, NGOs, and university teachers).

⁷ An external evaluation of the SNIPPRE program was performed in March 2005, and a closing workshop was held in April. The main conclusions are described in this document.

⁸ These represent the average cost per unit benefit of a given alternative; i.e. the measured cost in terms of cash outflows, per unit of service, product, and/or beneficiaries at market prices.

- 1.29 The second component, on preinvestment financing, received US\$5.3 million from the program. This component aimed to finance preinvestment and consultancy studies to encourage adoption of the SNIP in decentralized bodies and to generate the capacities needed for project preparation and evaluation. The target originally proposed at the national level was attained through the formulation of four national studies. In the departmental and local domain, of the 38 studies envisaged, 15 were achieved at the departmental level and nine at the municipal level, making a total of 28 (see Figure 2 in the statistical appendix).
- 1.30 These studies consist of two development plans, 11 prefeasibility studies, 13 feasibility studies, and two final designs, making 24 projects in total. The projects are distributed by sector as follows: 15 in transport, three in basic sanitation, two in energy, two in agriculture, and two in the environment sector. No studies were funded by the project in the education and health areas, although these sectors were included for the development of project preparation and evaluation methodologies.
- 1.31 Of the projects studied with the financing, seven reached the investment stage, three proved unviable, another three completed their prefeasibility stage, and 11 have been incorporated into the investment budgets of the corresponding bodies for 2005-2007.
- 1.32 The cost of the preinvestment studies for the seven projects at the investment stage represents 0.7% (US\$2.1 million) of their respective total execution costs of US\$292.9 million. In addition, the three studies that proved nonviable, costing US\$600,000, have prevented proceeding with investments that would have cost a total of US\$465.2 million. Lastly, for the 11 projects whose preinvestment studies have been completed, the cost of the preinvestment evaluations is expected to be no more than 1.5% of total costs in the investment phase (US\$143 million), which is reasonable in terms observed experience in similar project studies.
- 1.33 As a result of program implementation, the participant decentralized bodies and local governments not only adopted regulations that are consistent with the SNIP, but also benefited from application of the project preparation and evaluation methodologies that the program has made available.
- 1.34 Component 3, support for program execution, received funding of US\$1.2 million. Its purpose was to strengthen technical skills among staff responsible for the administration, coordination, and supervision of the fulfillment of SNIP regulations in the system's governing body, the VIPFE, through support from long-term international consulting services hired to undertake the additional work generated by the program and to train 10 technical staff from that organization.
- 1.35 As a result of the financed activities, no long-term international consultants were hired, but the authorities decided to strengthen the national team of permanent civil

servants, who have adequately supported implementation of SNIP decentralization in the framework of the operation, and are currently continuing to perform functions in the entity. Program activities thus took the form of training for 30 staff members in project preparation and evaluation, and in methodologies developed for the SNIP. Funding was also provided for SNIP technical staff to visit other three countries in the region (Chile, Mexico, and Paraguay) where similar systems are being implemented, in order to identify good practices and make improvements to the Bolivian system.

- 1.36 With regard to program implementation, the original four-year execution period had to be extended for a further three years, counted from the date on which it was declared eligible for disbursements. Execution had proceeded slowly in the early years, and by late 2000, nearly three years after being declared eligible for disbursements, only 17% of the loan resources had been released. The situation changed radically from 2001 onward, after a change in program management had made it possible to reach agreement with the Bank on a work plan aimed at overcoming the problems and achieving 100% execution of the resources.
- 1.37 The following factors contributed to the delay in execution of the operation: (i) the coverage and scope established for the program, aimed at strengthening institutions that have traditionally demonstrated major weakness; (ii) work with autonomous institutions made it necessary to upgrade coordination processes, replacing those that were previously based on command decisions, as reflected in the differential performance between prefectures and municipios; (iii) frequent changes in the authorities, which impacted on the stability of counterpart technical staff at the departmental and municipal levels; (iv) the sequencing and scale adopted for execution of the different program components, and the existence of weak linkage and mutual reinforcement; and (v) delays caused by the lack of terms of reference for contracting preinvestment studies.
- 1.38 To summarize, the SNIPPRE program (loan 993-SF-BO) supported the establishment of the SNIP from its legal foundations through to its implementation, and achieved all the products envisaged in the contract, albeit with delays. As a result of program execution, all the prefectures (9) and municipios (10) considered, have adopted and are applying the methodological tools developed by the program. They have also approved their respective specific regulations and technical-methodological instruments (SISIN, SGP, project preparation and evaluation methodologies, and parameterized spreadsheets).
- 1.39 As a result of an analysis of program sustainability, the following measures were established: (i) legal framework; (ii) the executing unit forms part of the VIPFE on a permanent basis, with trained and line staff from the institution; (iii) the institutions involved in the first stage of the program apply SNIP project preparation and evaluation methodologies; (iv) institutionalization of the application of SNIP project preparation and evaluation instruments; (v) generation

of institutional capacities at the regional level, including trainers (public and private sector) trained to teach the methodology for preinvestment studies; and (vi) agreement with the Office of the Comptroller General of the Republic (CGR) to oversee compliance with SNIP regulations.

- 1.40 **Other preinvestment activities.** Preinvestment studies for projects financed by the Bank in the framework of the Country Program have been funded through the Project Preparation and Execution Facility (PROPEF) using credit line 7/LC-BO.
- 1.41 In 1993 the Bank approved a credit line for project preparation for US\$6 million (BO-0058), which was subsequently increased to US\$15 million. As of the date of this report, this credit line has funded 14 operations totaling roughly US\$5.1 million.⁹
- 1.42 Preinvestment funds in the SNIPPRE framework have complemented support for the preinvestment stage of the project cycle which the Bank has been providing in conjunction with the country's authorities. This targets the preparation of projects in the decentralized bodies, which in many cases involve small amounts.
- 1.43 The existence of preinvestment programs and PROPEF as Bank preinvestment instruments reflects the complementary and independently necessary nature of each one to support the project cycle. All stages of the cycle are financed through preinvestment programs, starting with a general study, followed by prefeasibility and feasibility studies, through to engineering designs and bidding documents. They also make it possible to fund institutional strengthening activities to support the countries' public investment systems. The credit lines of the project preparation facility also make it possible to finance the tasks needed to complete the preparation of specific projects, by funding complementary studies and providing support for activities precedent to the first disbursement.

b. Participation and experience of other entities

- 1.44 Although other assistance and funding organizations have financed preinvestment activities for specific projects and programs in Bolivia, the Bank was a pioneer in supporting SNIP strengthening in this country. To date there is only one source of financing for preinvestment which is being managed by the VIPFE. The Belgian preinvestment fund, totaling €500,000, is a credit line established in the early 1980s to prepare candidate operations for bilateral cooperation.

D. Conceptualization of the program

- 1.45 In view of the status of the SNIP decentralization process and the Bank's experience in the sector, the program will continue to support specific activities that

⁹ The list of projects financed through PROPEF is available at <http://opsgs1/loans/ppf.asp?S=BO>

contribute to SNIP consolidation at the sector, departmental administration, and municipal government levels.

- 1.46 This second program has objectives, components, and execution mechanisms that are consistent with the previous program. Its design incorporates necessary adjustments arising from lessons learned during execution of the first phase (loan 993/SF-BO), and the Bank's experience in supporting other national public investment systems.
- 1.47 The main lessons considered include the following:
- a. **Institutionalization of the system management and supervision team.** The stability of the professional group assigned to the program by the executing agency was highly positive feature that had a major impact on program execution. This made it possible to capitalize on the experience of Ministry of Finance (MH) staff and the sustainability of achievements through time. This aspect should also be taken into consideration in the new operation.
 - b. **Ensure coordinated implementation of components to allow for greater synergy between them.** The design did not include sufficient planning for the sequencing of program activities, and the importance of coordination between them. This would have made it possible to obtain greater benefits from the synergies generated by coordinated implementation of activities such as methodology development, training, and the preparation of preinvestment studies. Future operations should ensure mutual coordination and strong linkage and reinforcement between activities.
 - c. **Importance of defining impact indicators and means of verification for subsequent evaluation of achievement of the program's objective.** Although the program included a logical framework for its evaluation and monitoring, only outcome indicators were defined. It is recommended that future operations establish baselines and define impact indicators to measure progress in rationalizing public investment and preinvestment management.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's general objective is to help improve the quality of public investment in the national, departmental, and municipal government domains, laying foundations to ensure that the public investment projects undertaken lead to greater economic and social benefit. Specifically, it will help to consolidate the SNIP at the sector, departmental and municipal government levels.
- 2.2 The operation is expected to produce the following results: (i) consolidation of the SNIP in decentralized bodies and municipal governments with more than 25,000 inhabitants. (ii) suitable methodological instruments and tools to help develop a public investment system based on efficient allocation of public resources and results-based management; (iii) civil servants trained in the project cycle (preparation, evaluation, and execution); (iv) development of a portfolio of economically, financially, institutionally, and environmentally viable public investment projects, which are available in the investment project bank; and (v) better allocation of resources available for public investment, through the development of projects backed by feasibility studies and their subsequent inclusion for budgetary funding. To achieve the objectives of the operation, funding will be provided for the execution of activities grouped together in five components.

B. Program structure

1. Consolidation of the organic-functional structure (US\$242,200)

- 2.3 **Objective.** To establish an organizational and operational structure suitable for achieving the mission and strategic objectives of the SNIP.
- 2.4 **Specific tasks.** (i) development and implementation of an inter- and intrainstitutional mechanism to coordinate and monitor the public investment cycle (preinvestment, investment, and operation); (ii) monitoring and control of the application of SNIP instruments in the decentralized municipal domain; and (iii) identification and adoption by DESNIP technical staff of best international practices in the functioning and operation of national public investment systems.
- 2.5 **Expected outcomes.** On completion of the program, the governing body, ministries, prefectures, municipios, and funds are expected to be formally and adequately intra- and inter-related and coordinated in the framework of public investment processes. Medium-sized and small municipal governments are also expected to be adequately applying SNIP regulatory and technical-methodological instruments. Lastly, on conclusion of the program, the DESNIP should be

benefiting from knowledge acquired on best international practices and disseminating that knowledge nationwide.

2. Development of SNIP instruments (US\$1,098,300)

- 2.6 **Objective.** To update and develop SNIP regulatory, technical and methodological instruments to support the adoption of a governance model aimed at efficient resource allocation and the obtaining of results.
- 2.7 **Specific tasks.** (i) Updating of the basic standard and operational and specific regulations of the SNIP; (ii) SGP development and implementation;¹⁰ (iii) design and implementation of an evaluation of outcomes and project classification methodology (post review); (iv) updating and development of technical-methodological instruments;¹¹ (v) development and implementation of a methodology for aggregate forward-looking analysis of preinvestment at the national, departmental, and municipal levels; (vi) development of the program preparation and evaluation methodology; (vii) calculation of the impact of public investment on the growth of the Bolivian economy; and (viii) calibration and adaptation of the HDM-4 model to the Bolivian reality.
- 2.8 **Expected outcomes.** By the end of the program, the SNIP is expected to have tools in place to support the adoption of a results-based governance model such as basic standards and updated operating regulations; implementation of a project management system; establishment of applied methodologies for project preparation, classification, and results-based evaluation (post review), and program preparation and evaluation methodologies.

3. Dissemination and training in SNIP instruments (US\$1,151,000)

- 2.9 **Objective.** Provide national, departmental, and municipal government with competent and skilled staff to implement SNIP regulatory and technical-methodological instruments.
- 2.10 **Specific tasks.** (i) Develop an additional module for the Training Information and Monitoring System (SISCA) to monitor the human resources trained; (ii) hold awareness-raising workshops on the use of SNIP instruments for executives of prefectures, departmental capital municipios, and small municipios; (iii) implement programs to train trainers in SNIP project preparation, evaluation, and management

¹⁰ The SGP currently exists as an Excel spreadsheet which is difficult to link to other systems. The new SGP will consist of a management system to be established on the Oracle platform. This will have broader scope and better information, and will be directly linked with e-SISIN, which is to be developed as part of component 4.

¹¹ When justified, the methodologies to be developed will include analyses of environmental and social impacts, together with gender equality criteria and evaluation of the impact of development projects on women.

methodologies;¹² and (iv) run courses on SNIP regulatory and technical-methodological instruments mainly for technical staff in ministries, the Auditor General's Office, prefectures, municipios, and development investment funds.¹³

- 2.11 **Expected outcomes.** By the end of the program, the DESNIP should have the SISCA developed and implemented to monitor and formally evaluate the human resources trained. By the end of the program, it is also expected that a large number of technical staff mainly from ministries, prefectures, municipios, and development investment funds will have been trained and are applying the knowledge acquired on SNIP regulatory and technical-methodological instruments.

4. Strengthening of information systems (US\$1,061,000)

- 2.12 **Objective.** To expand coverage and improve the quality of the investment information system, encompassing the full investment project cycle (preinvestment, investment, and operation), through integration with other information systems to facilitate public investment decision-making; make the resource allocation and expenditure process within municipios more transparent, facilitate measurement of the impact of expenditure and investment, and make it possible to coordinate investment actions throughout the country.
- 2.13 **Specific tasks.** (i) conceptual design of the preinvestment modules and evaluation of outcomes of e-SISIN¹⁴ including integration with the interfaces of the integrated management and administrative modernization system (SIGMA), the external financing information system (SISFIN), and the SGP, and additionally including the methodology developed in the second section of the component on the development of SNIP instruments to be integrated into e-SISIN; (ii) consolidation, development, and implementation of the preinvestment, evaluation, and interface modules of the system described above, integrated into e-SISIN at the national, departmental, and municipal levels, for administration, management, monitoring, and evaluation of the project lifecycle (planning, budget, and financing); (iii) development, implementation and integration of the statistical georeferenced information module integrated into e-SISIN for decision-making, with scope for systematic generation and printing of reports; and (iv) dissemination of mechanisms providing information on public investment projects and SNIP regulations, together with training for technical staff in the administration and preventive-corrective maintenance of the new system and its modules.

¹² The training programs to be implemented will cover the analysis of environmental and social impacts, gender inequality criteria, and evaluation of the impact of development projects on women.

¹³ The DESNIP will continue working in coordination with the National Training Center of the Office of the Comptroller General (CENCAP) to carry out training activities.

¹⁴ e-SISIN entails redesign and implementation of the SISIN for a web environment and platform.

- 2.14 **Expected outcomes.** By the end of the program, the investment information system is expected to be fully incorporated into e-SISIN, including the integration of preinvestment, evaluation, mapping, and georeferencing modules, and systems interfaces allowing for monitoring and evaluation of the project lifecycle. It is also expected that staff and operators of investment information system will be suitably trained in the administration and preventive-corrective maintenance of the new tools.

5. Financing of preinvestment studies (US\$11,000,000)

- 2.15 **Objective.** Application of the methodologies and instruments developed by the SNIP to prepare preinvestment studies for projects in the national, departmental, and municipal domains.
- 2.16 **Specific tasks.** Financing of preinvestment studies through competitive funds at the sectoral, departmental, and municipal levels.¹⁵
- 2.17 **Expected outcomes.** By the end of the program, an increasing number of preinvestment studies should be using SNIP regulatory and technical-methodological instruments at the sectoral, departmental, and municipal levels, and in the management of investment financing. Implementation of these instruments will facilitate decision-making by the authorities, and incorporation of the best projects into the public investment budget in the framework of national programs and strategies.

C. Cost and financing

- 2.18 The total cost of the operation is expected to be US\$16.1 million, of which the Bank will fund US\$13 million (81%) drawn from the Fund for Special Operations (FSO). The Government of Bolivia is expected to provide the balance of US\$3.1 million (19%), including contributions from the decentralized bodies to cover preinvestment studies. For development and implementation of the operation, the project will procure goods and consulting services to undertake technical assistance, advisory service, and training activities to support consolidation of the SNIP decentralization process.
- 2.19 The current budget has been amended since the Project Concept Document (PCD) was approved in May this year. Changes in the amount budgeted for component 5, affecting both the Bank's contribution and the local counterpart, reflect the importance of every year increasing the proportion of investment projects that are executed following appropriate preinvestment studies. In consultation with the authorities and bearing in mind the experience of the previous

¹⁵ National SNIP regulations require environmental impact studies at the feasibility level.

program, the Bank conservatively estimated¹⁶ an average of nine studies to be performed per year, at an average cost of US\$250,000 each, representing a total of US\$11.25 million over five years. This increase also reflects the importance that the authorities attach to the program and the support they are giving to it, to ensure that preinvestment studies will in future become a widespread practice at all levels of government in Bolivia. The program's consolidated budget is shown below in Table 2, and the detail budget can be found in the program files.

Table 2: Consolidated budget

Expense category	IDB	Local	Total
1. Direct costs	11,928,000	2,624,500	14,552,500
C1 Consolidation of the organic-functional structure	229,500	12,700	242,200
C2 Development of SNIP instruments	882,600	215,700	1,098,300
C3 Dissemination and training of SNIP instruments	921,000	230,000	1,151,000
C4 Strengthening of information systems	848,000	213,000	1,061,000
C5 Financing of preinvestment studies	9,046,900	1,953,100	11,000,000
2. Management and administration	182,200	142,500	324,700
3. Concurrent costs	82,600	0	82,600
Evaluation and audit	82,600	0	82,600
4. Contingencies	417,200	137,500	554,700
5. Financial costs	390,000	195,500	585,500
Total	13,000,000	3,100,000	16,100,000

¹⁶ In addition, currently there is preidentified demand for 20 studies, equivalent to US\$5 million, to which the corresponding methodologies would be applied.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Bolivia, acting through the MH. The executing agency will be the VIPFE, acting through the Directorate General of Public Investment (DGIP). The program's executing unit (UEP) will be the SNIP Development Office (DESNIP) attached to the DGIP.
- 3.2 The DESNIP will consist of the program administration, coordination, and monitoring unit attached to the DGIP, whose functions are established in the framework of Law 2446 on the organization of government (LOPE), and its enabling regulations. As was the case in the first program, the participating beneficiary entities (prefectures, and municipios) are responsible for technical functions relating to the hiring of consulting services for preinvestment studies. The UEP will undertake all program payments.

B. Beneficiaries

- 3.3 The public sector in general will benefit from the program, as a result of consolidation of the SNIP organic-functional structure, development of its instruments, dissemination and training of human resources, and information technology strengthening. Specific program beneficiaries are as follows:
- a. Sector ministries, prefectures, and municipios of the nine departmental capitals, plus El Alto, as a result of training, information systems and funding for preinvestment studies awarded through the competitive fund.
 - b. A total of 50 municipios with populations greater than 25,000 inhabitants, through training and information systems.
 - c. The remaining 267 municipios will benefit from training provided through "short courses for small municipios" which will coordinate with the prefectures.

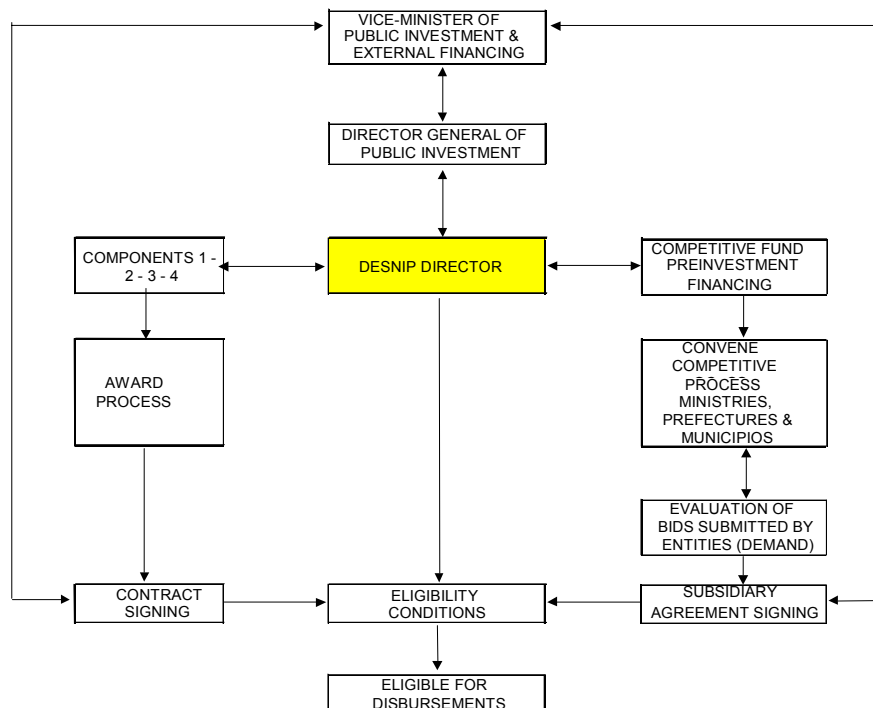
C. Program execution and management scheme

- 3.4 In fulfilling its responsibilities, the VIPFE will have the following main functions: (i) approving the program's regulations; (ii) planning and directing the program strategy; (iii) approving documentation to be presented to the Bank to fulfill eligibility conditions for loan disbursements; (iv) reviewing and approving the AWP's, including goods and services procurement plans, and the program's progress and monitoring reports; (v) ensuring that the program has sufficient counterpart resources for adequate and timely execution; (vi) evaluating the

- performance of the UEP and the program's progress; (vii) approving the selection of the external audit firm; (viii) evaluating the general risks of the program, anticipating and making the necessary changes; and (ix) requesting from the UEP any reports deemed necessary.
- 3.5 The UEP will have the following faculties within the program: (i) preparing the AWP and program progress reports; (ii) opening and maintaining specific and separate bank accounts to manage the proceeds of the Bank loan and local counterpart funding; (iii) managing the allocation of counterpart resources; (iv) processing disbursement requests in accordance with Bank procedures, including the establishment of the revolving fund and its successive replenishments; (v) maintaining accounting, financial, and administrative records for the program, together with transaction support documents, in accordance with the loan contract; (vi) preparing and approving the program's financial statements for subsequent audit by an independent firm of auditors; (vii) fulfilling and enforcing the annual targets established in the program framework; (viii) presenting to the Bank for its no objection the shortlist or proposed shortlist of consulting firms and individual consultants, including terms of reference, a timetable for carrying out the activities, and the estimated cost in each case; (ix) procuring the goods and services envisaged for program execution; (x) coordinating and reviewing the technical and operational aspects of the program; (xi) managing program risks and proposing alternative solutions when risks are detected; (xii) coordinating program execution activities with the Bank, responding in timely fashion to relevant Bank procedures, including the presentation of documentation in fulfillment of contractual provisions, and possible extensions as necessary; and (xiii) maintaining and compiling such data and information as may be required for the post review of the program.
- 3.6 The SNIP decentralization components will be implemented through programs of action¹⁷ to be designed and agreed upon with the beneficiaries (ministries, departmental administrations, and municipal governments) according to their institutional needs.
- 3.7 Preinvestment financing will be awarded through a transparent competitive process focusing on efficiency. This will also take account of equal opportunities and eligibility criteria, and include technical assistance to support the decentralized bodies that display greatest institutional weakness in the presentation of their proposals. Funding for preinvestment studies will thus be allocated through the competitive fund regulation in relation to demand based on the quality of the proposals.

¹⁷ The contents of the programs of action will include the following elements, as appropriate: (i) institutional diagnostic study including financial sustainability; (ii) needs; (iii) objectives, targets, components, and activities; and (iv) budget.

Figure 3: Execution mechanism



- 3.8 The competitive fund regulations have been prepared by the DESNIP (see Annex IV) bearing the following criteria in mind: (i) general quality of the proposals, fulfilling the aim of promoting greater economic and social benefit; (ii) the timeliness, relevance, and pertinence of the objectives established by the program; (iii) consistency among methodologies, activities, inputs, and results of the study proposals; (iv) terms of reference, detailed reference budget and profile; (v) commitment to provide the respective local counterpart contribution; (vi) economic viability of the future project and impacts on social welfare; and (vii) budgetary consistency and suitable scale of the project. The final version of these regulations was agreed upon with the country's authorities during the loan contract negotiations.

D. Operating procedures

1. Execution of components

- 3.9 The goods and consulting services required by the program will be procured on the basis of terms of reference and/or technical specifications to be agreed upon between the Bank and the executing agency.
- 3.10 The structure of execution for each of the components is described below. Direct responsibility for execution rests with DESNIP, which will receive the necessary external technical assistance to achieve coordination with program beneficiaries.

a. Consolidation of the organic-functional structure

- 3.11 **Development and implementation of an inter- and intrainstitutional mechanism to coordinate and monitor the public investment cycle (preinvestment, investment, and operation).** Execution of the envisaged activities will require participation from ministries, prefectures, municipalities, and the VIPFE. This activity will be undertaken during the first year of the program.
- 3.12 **Monitoring and oversight of the application of SNIP instruments in the decentralized municipal domain.** This will require participation from ministries, prefectures, municipalities, and the VIPFE. This activity will take place in all years of program execution. It will be implemented by DESNIP with participation from the VIPFE.
- 3.13 **Identification and adoption, by DESNIP technical staff, of best international practices in the functioning and operation of national public investment systems.** The activity includes international training internships for UEP staff to acquire skills and practices in the management of public investment for incorporation into SNIP technical-methodological and regulatory instruments. The activity is expected to begin during the first year of the program and will be repeated in subsequent years.

b. Development of SNIP instruments

- 3.14 **Updating of the SNIP basic norm and specific and operating regulations.** Updating of the basic standard and operating regulations will require VIPFE participation and will take place during the first year of the program. Specific regulations will be updated in coordination with public sector bodies. The activity will take place throughout program execution.
- 3.15 **Development and implementation of a project management system (SGP).** The activity involves development and implementation of a technical-methodological tool to facilitate programming, monitoring, and oversight of public investment programs and projects, in the framework of the basic SNIP norms and its regulatory and technical-methodological instruments. Execution of this activity requires international consulting services to be procured by the UEP. The best period for starting this consultancy, which is expected to last for five months, will be during the second half of the first year of execution.
- 3.16 **Design and implementation of a project outcome evaluation and classification methodology (post review).** This activity consists of establishing the frame of reference of experiences of outcome evaluations (post) in Bolivia, and preparing an inventory of projects for which such methodologies have been applied in the country. Implementation of this activity requires national consulting services to be

hired by the UEP, for an estimated two-month period starting in the second half of the first year of execution.

- 3.17 **Updating and development of technical-methodological instruments.** This activity will be carried out in the first 18 months of program execution, with participation from the VIPFE, sector ministries, the Central Bank of Bolivia (BCB) and the INE.
- 3.18 **Development and implementation of a methodology for aggregate forward-looking analysis of preinvestment at the national, departmental, and municipal levels.** This consultancy will involve all public sector bodies that receive public funds and use them to finance preinvestment studies for their projects. The entities in question are: ministries, prefectures, municipios, and investment and development funds. The best period for starting this consultancy, expected to last six months, will be during the second half of the first year of execution.
- 3.19 **Development of the program preparation and evaluation methodology.** Since its creation, the SNIP has been developing regulatory and technical-methodological instruments to support public investment projects, including the basic regulation on preinvestment and the methodologies for preparing and evaluating sector-level projects. In this context, the SNIP is proposing the development of a program preparation and evaluation methodology in order to: (i) establish a sector information system with indicators; (ii) improve the quality of information supporting the formulation of sector policies; and (iii) distribute or reallocate resources on the basis of greatest socioeconomic benefit for society. This framework envisages hiring an international consulting firm to develop a methodology for preparing and evaluating sector programs, and to publish, print and disseminate the corresponding methodology on CD. The consultancy is expected to last six calendar months, counted from the first month of the second year. During the period of service provision, the VIPFE, acting through DESNIP, will work in conjunction with the other eight beneficiary sectors.
- 3.20 **Measurement of the impact of public investment on economic growth in Bolivia.** A market economy model has been implemented in Bolivia since 1985, under the premise that private investment would become the engine driving the economy towards dynamic and sustainable levels of economic growth and development. After more than 15 years of application of the market economy, observed levels of private investment have not been satisfactory, because of low levels of economic growth. In recent years, the public sector has complemented private investment, and public investment in the Bolivian economy has risen to historic levels. Despite this, the growth levels achieved are still not entirely satisfactory and in accordance with society's needs. Accordingly, the determinants of public investment need to be ascertained and the impact of total investment (both private and public) on economic growth analyzed. The intention is therefore to hire international consultants to prepare a document analyzing the impact of public

investment on growth in the Bolivian economy. The consultancy will last for three calendar months and will take place in the first half of the first year of program execution.

- 3.21 **Calibration and adaptation of the HDM-4 model to the Bolivian reality.** An international consulting firm will be hired to calibrate and adapt the HDM-4 model. This task will be performed in close coordination with the National Roads Service to avoid duplication of activities, and the work will be done during the second year of program execution.

c. Dissemination and training in SNIP instruments

- 3.22 **Development of an additional SISCA module to monitor the human resources trained.** This activity involves hiring a national consulting firm to develop an additional SISCA module to monitor the human resources trained. The activity is expected to begin in the first year of program execution.
- 3.23 **Holding of awareness raising workshops on the use of SNIP instruments for executives from prefectures, departmental capital municipios, and small municipios.** This activity involves hiring a national consulting firm to organize and provide logistic support to enable DESNIP technical staff to train private sector professionals involved in human resource training and consultancy on SNIP regulatory and technical-methodological instruments. The activity is expected to begin in the first year of program execution, and will be repeated in the three subsequent years.
- 3.24 **Implementation of programs to train trainers in SNIP project preparation, evaluation, and management methodologies.** This activity involves hiring a national consulting firm to organize and provide logistic support to enable DESNIP technical staff to train private sector professionals involved in human resource training and consultancy on SNIP regulatory and technical-methodological instruments. The activity is expected to begin in the first half of the second year of program execution, and will be repeated in the three subsequent years.
- 3.25 **Provision of courses on SNIP regulatory and technical-methodological instruments for technical staff from ministries, prefectures, and municipios, development investment funds, nongovernmental organizations (NGOs), universities, consulting firms, and other interested organizations.**
- **Structured courses on SNIP regulatory and technical-methodological instruments**
- 3.26 This activity involves hiring a national consulting firm to provide training in the form of “structured” courses (130 academic hours) for civil servants on SNIP regulatory and technical-methodological instruments. The activity is expected to

begin in the second half of the first year of program execution, and will be repeated in the three subsequent years.

- **Short managerial courses on SNIP regulatory and technical-methodological instruments**

- 3.27 This activity involves hiring a national consulting firm to provide training in “short” managerial courses (50 class hours) for civil servants from municipios with over 25,000 inhabitants, on SNIP regulatory and technical-methodological instruments. The activity is expected to begin in the second half of the first year of program execution and will be repeated in the three subsequent years.

- **Short managerial courses for small municipios on SNIP regulatory and technical-methodological instruments**

- 3.28 This activity involves hiring a national consulting firm to provide training in the form of “short” managerial courses (30 class hours) to civil servants in small municipios on SNIP regulatory and technical-methodological instruments. The activity is expected to begin in the second half of the first year of program execution and will be repeated in the three subsequent years.

d. Strengthening of information systems

- 3.29 **Conceptual design of preinvestment modules and evaluation of outcomes of e-SISIN, including integration with the interfaces of the SIGMA, SISFIN, SGP systems; this should also include the methodology developed in the second section of the component on the development of SNIP instruments, to be integrated into e-SISIN.** The activity should encompass the integrated design of SGP, SISFIN, and SIGMA with e-SISIN. Implementation will initially require the UEP to hire consulting services to work in conjunction with the VIPFE Systems Office. The best period for undertaking this consulting service will be during the first year of program execution.
- 3.30 **Consolidation, development, and implementation of the preinvestment and evaluation modules, and interfaces between the sectors and e-SISIN at the national, departmental, and municipal levels for the administration, management, monitoring, and evaluation of the project lifecycle (planning, budget, and financing).** The activity consists of establishing the frame of reference for using SISIN as a preinvestment information tool, to define the scope of the module’s conceptualization and information technology development. Execution of this activity initially requires the UEP to hire national consulting services. The best period for starting this consultancy, which is expected to last two months, will be during the first half of the first year of execution.
- 3.31 **Development, implementation, and integration of the statistical and georeferenced information module, integrated into e-SISIN for decision-**

making and systematic report generation. This activity will be undertaken through consulting services to include a diagnostic study and a statistical georeferenced information module integrated into e-SISIN. Execution of this activity initially requires the UEP to hire consulting services. The best period for starting these consulting services will be from the second year of program execution, and they are expected to last between nine and 12 months.

- 3.32 **Dissemination of public investment project information mechanisms and SNIP regulations.** This activity will be undertaken by DESNIP in coordination with the VIPFE offices, producing annual information bulletins.
- 3.33 **Training of technical staff to manage the new system and its modules and ensure preventive-corrective maintenance thereof.** This activity includes training three staff members from the Systems Office to manage the new system and its modules and ensure its preventive-corrective maintenance. A firm specializing in the tools developed in coordination with the VIPFE Systems Office is expected to be hired. The optimal period for performing this activity is from the third year of program execution onward.

e. Financing of preinvestment studies

- 3.34 **Financing of preinvestment studies through competitive funds, in the sector, departmental, and municipal domains.** Before calling for applications to the competitive fund, the UEP will be required to approve and publish the corresponding regulations (RECP) and administrative ground rules. A call for applications to the competitive fund will be made annually, as from the first year.

2. Annual work plans

- 3.35 In order to ensure adequate programming of the operation, the UEP will define and develop AWP's for submission to the Bank 30 days before the end of each calendar year.

E. Goods and services procurement

- 3.36 The goods and/or consulting services required by the program will be procured in accordance with the Bank's standard procedures for these purposes.
- 3.37 **Goods.** Goods will be procured in accordance with the January 2005 Bank policies (document GN-2349-4). International competitive bidding will be mandatory for procurement in excess of US\$200,000 wholly or partially financed using the loan funds. In accordance with Bank policies, procurement in amounts of less than US\$200,000 will be governed by the procedures for national competitive bidding. Price shopping will be used for procurement of goods in amounts below US\$50,000. The project does not involve works procurement.

- 3.38 **Consultants.** Consultants will be selected and hired in accordance with the January 2005 Bank policies set out in document GN-2350-4. In the case of selection and procurement of consultants for amounts less than US\$200,000, the shortlist may consist exclusively of national consultants. Nonetheless, if foreign firms have expressed interest, they will be considered.
- 3.39 **Procurement plan.** All goods and consulting service required by the program will be procured according to the procurement plan prepared by the executing agency and approved by the Bank. The project has a procurement plan that the Borrower is required to update every six months, or whenever substantial changes occur, always covering the following 18 months of the program execution period. Any proposed revision of the procurement plan must be presented to the Bank for approval. Also, there will be a post review of goods and consulting services procurement whose estimated cost is below the equivalent of US\$250,000.
- 3.40 **Revolving fund.** For execution of the operation, a revolving fund will be established through a special Bank account opened in the name of the program. In accordance with Bank policy, it is proposed to establish a revolving fund for no more than 5% of the loan amount. The executing agency will be responsible for presenting semiannual reports to the Bank on the status of the revolving fund, within 60 days following the end of each half-year.

F. Conditions precedent

- 3.41 The loan contract will specify the following conditions:

Precedent to the first disbursement: (i) designation of the DESNIP, a unit reporting to the DGIP, as UEP; (ii) presentation of the AWP for the first year of execution; and (iii) approval by the VIPFE of the program's Operating Regulations on the terms previously agreed with the Bank.

Other special conditions: (i) As a condition precedent to disbursements in the preinvestment studies component, the UEP must demonstrate to the Bank's satisfaction that the regulations for the competitive fund for the financing of preinvestment studies (RFCP) have been approved and published and/or disseminated; and (ii) before any disbursements are made to beneficiaries in the preinvestment studies component, the UEP must demonstrate to the Bank's satisfaction that the interagency financing agreement has been signed with the respective beneficiary. This agreement will establish the terms and conditions of the beneficiary's participation, including the commitment to make the local counterpart contribution and corresponding procedures.

G. Audit and oversight

- 3.42 The executing agency will establish accounting systems and maintain accounts to the Bank's satisfaction, as well as keeping an adequate, complete, and up-to-date

filing system for all documentation supporting the financial accounting aspects of the program. During the program execution period, and within 120 days following the end of each fiscal year, the borrower will submit the program's financial statements to the Bank, which will be audited by a firm of independent public accountants accepted by the Bank. The audit will be performed according to the terms of reference (document AF-400) and Bank requirements (documents AF-100 and AF-300), and its cost will be met out of the loan funds.

H. Execution period and disbursement calendar

- 3.43 The program will be implemented over a five-year period, counted from the date on which the loan contract enters into force. For its implementation, the Operating Regulation developed for this operation will be applied.

Table 4: Disbursement schedule (thousands of US dollars)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB/FSO	1,092	1,560	3,250	3,848	3,250	13,000
Local	248	372	775	930	775	3,100
Total	1,340	1,932	4,025	4,778	4,025	16,100
% / Year	8.3%	12.0%	25.0%	29.7%	25.0%	

- 3.44 **Financial conditions.** The loan amount will be US\$10 million drawn from the Fund for Special Operations (FSO), to be paid back over 40 years, with a 10 year grace period. The interest rate will be 1% during the grace period and 2% during the remainder of the amortization period. The inspection and supervision fee will be 1%, and the credit fee 0.5% on undisbursed amounts.

I. Monitoring and evaluation

- 3.45 Program monitoring and evaluation will take account of the progress and achievement targets and indicators that have been provisionally defined with the entities participating in the program. These are set out in detail in the logical framework attached as Annex I.
- 3.46 On the Bank side, program execution will be supervised by the Country Office in Bolivia. Given the nature of the program, the design of the operation is expected to include a continuous assessment process, so that adjustments and corrections needed to achieve the proposed objectives can be made. A joint monitoring meeting will be held annually between DESNIP and the Bank for that purpose. Such meetings will discuss the progress of activities identified in the program's AWP and evaluate the fulfillment of indicators established in the logical framework for each component. The program will begin with a start-up workshop with the Bank.
- 3.47 **Progress, midterm and final evaluations.** The DESNIP will monitor each component and perform general program supervision on the basis of annual plans to

- be prepared for each component. The executing agency will submit semiannual reports to the Bank on the progress of project execution on May 15 and November 15 of each year, in the format and with the content agreed upon with the Bank. These reports will be prepared by DESNIP in conjunction with the beneficiaries and will include the following items among others: (i) review of the activities undertaken during the reporting period, compared to the logical framework and the work plans agreed upon; (ii) analysis of fulfillment of the provisions set out in the loan contract and annexes, the logical framework, the Operating Regulations, and the corresponding AWP and programs of action; (iii) list of activities by component; (iv) evaluations of procurement as well as an updated procurement plan and hiring of consultants; (v) evaluation of performance and progress indicators established for each component; and (vi) financial situation of the program and its projection; and (vii) lessons learned. These reports will be used by the Bank to monitor project execution, and will provide suitable information for updating the project performance monitoring report (PPMR).
- 3.48 There will be a midterm review of the program when 50% of the loan resources have been disbursed, or 30 months after the date on which the loan contract enters into force, whichever occurs sooner. Also, there will be a final evaluation within three months of completion of the program. In addition, a baseline will be established in sectors, prefectures, and municipios, on the degree to which SNIP instruments are being applied, in order to measure the impact of the program.
- 3.49 There will be a *post* review of the program three years after completion of program. This will be funded using the executive agency's internal resources, and the latter will maintain basic program data in order to undertake the evaluation.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The main assumptions underpinning the viability of this program are as follows: (i) the government continues to prioritize the modernization of public administration; (ii) political will exists to implement the program's components; and (iii) agreements are reached with ministries, prefectures, and municipalities, to implement the program's components.
- 4.2 The evaluation of DESNIP institutional capacity, using SECI methodology, found the risk level to be low and institutional development satisfactory. According to the aspects analyzed with this methodology, capacity to direct and monitor execution of the operation is likely to be adequate.¹⁸
- 4.3 This is reinforced by the fact that the VIPFE and DESNIP can draw upon the following: (i) experience of the previous program; (ii) trained staff; (iii) suitably motivated professional staff; (iv) adequate physical installations for their operations; (v) good relations with the future beneficiaries; and (vi) accredited capacity to finance preinvestment projects adequately and consistently with program objectives.
- 4.4 The project's components also include activities to help consolidate the organic-functional structure, which will further help achieve the program's objectives. The competitive fund regulation will also make it easier to select the beneficiary entities that are most suitable to receive support through the financing of preinvestment studies.

B. Socioeconomic viability

- 4.5 The program is very important for the development of public sector investments, since it aims to ensure that the public investment undertaken has technical and socioeconomic underpinning, so that financial resources can be allocated to projects with the greatest welfare impact in the country.
- 4.6 The design of the proposed program will provide beneficiaries with more equal access to funding. The competitive fund will select the proposals that are best articulated and appropriate to receive its support, covering the demand that is most suitable to receive program support. It is worth noting that the program will be undertaken in an institutional framework in which there is significant demand for the service from beneficiaries.

¹⁸ The report evaluating institutional capacity is available in the RE1/SC1 files.

C. Financial viability

- 4.7 The program's financial viability was evaluated assuming timely availability of local counterpart funding to be provided by the TGN and the beneficiary entities. The TGN will provide resources through the MH budget for the four components supporting the DESNIP. The counterpart for preinvestment studies will be provided by the respective prefectures, municipios, or ministries.
- 4.8 The borrower will have basic responsibility for ensuring that these funds are made available on a timely basis, to avoid impeding program progress. For this purpose, the interagency financing agreement signed between the VIPFE and the departmental or municipal government will require beneficiaries to demonstrate that they have the necessary counterpart funds, and that these will be provided for in their respective budgets.

D. The program's social and environmental impact

- 4.9 This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the report on the Bank's eighth general increase in resources (document AB-1704). Specifically, given the nature of the activities to be funded by the program, the benefits of which will be perceived by the population at large, this operation does not qualify as a project that targets poverty reduction or social equity.
- 4.10 Although the proposed project is unlikely to have direct effects on the environment, the funded projects that emerge from the studies could have a wide variety of environmental impacts. The geographic coverage of the program is quite broad. The projects for which studies are to be financed come from different sectors and regions, with all the environmental and socioeconomic complexity that this implies. In this regard, all studies to be financed in the program will make it mandatory for the beneficiary entity to fully comply with Bolivian legislation on the protection of the environment and natural resources, in addition to Bank procedures and policies on the evaluation of environmental impacts and natural disasters.
- 4.11 From a social standpoint, by improving the SNIP, the program will favor investments in projects with the greatest economic and social benefit, for which reason the operation is expected to have a positive social impact.

E. Program benefits and sustainability

- 4.12 The program will contribute to the process of prioritizing public investment projects, to maximize the impact of resources channeled into investment in the years to come. Funding will be provided for studies to establish the viability of investment projects and ensure that they represent the best alternative for the problems that need to be resolved.

- 4.13 The program will also support consolidation of the SNIP decentralization process, ensuring that it responds efficiently in the annual process of formulation and management of the public investment budget, while strengthening technical capacity for preparation, evaluation, and management of public investment projects at the three levels of the public sector, through institutional strengthening activities in their senior functional units.
- 4.14 Lastly, the program is expected to facilitate the Bank's activities in the country, making it possible to prepare studies for projects to be considered for potential funding, and make progress in preparing practical steps to enable the Bank to take more direct action in addressing the needs of decentralized bodies.
- 4.15 The Bolivian government has continued to give maximum priority to the program, the scale of which has been approved by the MH, the administrator and the body responsible for formulation of the general budget of the nation. The sustainability of program actions stems from consolidation and maintenance of the DESNIP within the MH organizational structure, with its respective permanent staff, assigned budget, and fully determined functions.

F. Risks

- 4.16 The risks that could affect project execution and/or the achievement its objectives fall into two categories, as described below:
 - a. ***Risks inherent to project execution:*** (i) The prefectures and municipios could adopt different strategies by developing their policies and executing investment projects without recourse to the VIPFE, and assigning resources to projects without appropriate studies and technical analyses—in particular, projects addressing immediate needs or those with high political return. To mitigate this risk, the national government is publicizing and encouraging adoption of the SNIP methodology in the preparation of investment proposals, to avoid investing funds in projects that are poorly developed from the technical standpoint and have no economic underpinning; (ii) Preinvestment studies whose recommendations are not adopted by the beneficiaries, thereby undermining project feasibility and leading to the investment of unnecessary funds that impair the program. The competitive fund regulations will include provisions to avoid financing studies whose beneficiaries do not demonstrate that they are clearly committed to implementing the corresponding recommendations; and (iii) institutional weakness among the beneficiaries, lack of timely decision making, and excessive internal procedures that undermine the timetable for the use of program funds. The competitive fund regulations will include provisions to favor beneficiaries with the best administrative structure and executive decision-making, which will mean that proposals with the best institutional environments will receive the project funds in question.

- b. ***Risks exogenous to the project:*** (i) Some preinvestment studies may not result in effective investments, but remain as proposals that are not implemented for lack of funding or political will. This situation could be resolved by including specific clauses in the competitive fund regulations and the interagency financing agreement allowing for rigorous selection of the preinvestment studies that have the best chances of becoming investments. Support from the Directorate General of External Financing (DGFE) is also important in identifying and obtaining the necessary external financing for implementation and development; and (ii) lack of continuity among skilled staff at the municipal level, resulting from changes in the country's economic or political situation. This risk could be overcome by including clauses in the competitive fund regulations requiring the institution to certify that staff trained by the SNIP are fulfilling technical functions relating to the life cycle of the public investment projects, with a description of the professional staff trained and the functions they are fulfilling.

PROGRAM OF SUPPORT FOR THE NATIONAL INVESTMENT SYSTEM (BO-L1006)
LOGICAL FRAMEWORK

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
GOAL			
Contribute to improving the quality of public investment in the national, departmental, and municipal government domains, laying foundations to ensure that the public investment projects undertaken lead to greater economic and social benefit.	80% of total public investment executed at the national, departmental, the municipal levels, to have preinvestment studies with estimates of the expected economic and social benefit by the end of program execution.	VIPFE annual report on public investment at the three levels of government	Political decision exists to prioritize and execute public investment projects with preinvestment studies that have demonstrated viability with the greatest economic and social benefit.
PURPOSE			
Consolidation of the National Public Investment System (SNIP) at the sectoral, departmental, and municipal government levels.	<p>Seven ministries, nine prefectures, and 60 municipios to be using the methodologies (preparation, evaluation, and management) in 50% of their investment budget by the end of the third year of program execution, and in 80% by the end of program execution.</p> <p>50% of civil servants responsible for the management of public investment at the three levels of government to be trained in SNIP instruments by the end of the third year of program execution, and 100% at the end of program execution.</p> <p>SIGMA and e-SISIN systems operating in integrated fashion after 36 months of program execution.</p>	<p>Annual SISIN reports on the registration of projects in the public investment budget</p> <p>Program monitoring reports based on SISCA and public sector reports</p> <p>Annual reports of the integrated systems</p>	Interest exists among the authorities at the three levels of government to use the technical-methodological instruments developed by the SNIP, allocating the necessary resources to undertake preinvestment studies.

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
COMPONENTS			
<p>1. Establishment of a suitable organization and operational structure to achieve the strategic SNIP objectives.</p> <p>1.1 Development and implementation of an inter- and intrainstitutional mechanism to coordinate and monitor the public investment cycle (preinvestment, investment, and operation);</p> <p>1.2 Monitoring and oversight of the application of SNIP instruments in the decentralized municipal domain;</p> <p>1.3 Identification and adoption, by the DESNIP, of best international practices in the functioning and operation of public investment systems.</p>	<p>20% reduction in SNIP processes and procedures compared to the current situation after 24 months of program execution.</p> <p>100% of regulatory and technical-methodological instruments to be applied in 50 municipal governments by the end of the second year of program execution.</p> <p>100% of DESNIP staff providing continuous assistance to the public sector in terms of best international practices for SNIP, as from the second year of execution.</p>	<p>Midterm evaluation report</p> <p>Monitoring reports containing details of progress in implementing the instruments</p> <p>DESNIP technical reports</p>	<p>Ministry of Finance-VIPFE committed to implementing better inter- and intra-institutional coordination.</p>
<p>2. Update and develop SNIP regulatory, technical, and methodological instruments to support the adoption of a public management model aimed at efficient resource allocation and the obtaining of results.</p> <p>2.1 Updating of the basic standard, and SNIP operating and specific regulations;</p> <p>2.2 Development and implementation of a project management system (SGP);</p>	<p>Basic standard, three SNIP operating regulations and 10 specific regulations updated in the first 18 months of program execution.</p> <p>The project management system to be generating physical-financial reports by the end of the second year of program execution</p>	<p>Supreme resolution, and ministerial, departmental, and municipal resolutions</p> <p>Semiannual program monitoring and evaluation report, including progress made in SGP implementation</p> <p>Monitoring reports containing details of progress made in applying the methodology</p>	<p>Adequate supply of professional services exists to carry out the consultancy work.</p> <p>Authorities show willingness to implement the methodological instruments developed.</p>

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
2.3 Design and implementation of a methodology for evaluation of outcomes and project classification (post review);	The evaluation of outcomes and project classification methodology to be applied in 20% of public investment projects operating in five prefectures (La Paz, Cochabamba, Tarija, Oruro, and Pando) by the end of the third year of program execution.	Monitoring reports containing details of progress made in applying the instruments	
2.4 Updating and development of technical-methodological instruments;	100% of preinvestment studies to be using updated socioeconomic valuation and cost efficiency parameters, and the corresponding project preparation and evaluation methodologies after 18 months of program execution.	Monitoring reports containing details of progress made in applying the methodology	
2.5 Development and implementation of a methodology for aggregate forward-looking analysis of preinvestment at the national, departmental, and municipal levels;	The methodology of aggregate forward-looking analysis of preinvestment to be applied in 50% of public investment projects being implemented based on the 2007 budget, and in 80% of projects based on the 2009 budget.	Monitoring reports containing details of progress made in applying the methodology	
2.6 Development of the program preparation and evaluation methodology;	After 36 months of program execution, the three levels of the public sector to be applying the program evaluation methodology to 80% of projects in the public investment budget.	Reports on economic growth projections and public investment	
2.7 Calculation of the impact of public investment on growth of the Bolivian economy;	Economic growth model for the Bolivian economy producing relevant information for decision-making in public investment after 10 months of program execution.	Biministerial resolution for the application of HDM-4	
2.8 Calibration and adaptation of the HDM-4 model to the Bolivian reality.	100% of fundamental highway network projects evaluated to be using the calibrated and adapted HDM-4 by the end of the fifth year of program execution.	Evaluation reports on fundamental highway network projects	

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
3. Provide national, departmental, and municipal governments with competent civil servants who are motivated to implement the SNIP regulatory and technical-methodological instruments.	The SISCA monitoring module to be reporting up-to-date information on 80% of those trained as from month 18 of program execution.	Semiannual reports on the functioning of SISCA issued by DESNIP	Interest exists in the DESNIP and among the authorities to monitor trainees. Interest exists among the authorities for their technical staff to participate in training programs. Trained civil servants remain working in units responsible for public investment management.
3.1 Development of an additional module for the Training Monitoring Information System (SISCA) to monitor trained human resources;	40 executives from ministries, prefectures, and municipios to be trained in SNIP regulatory and technical-methodological instruments by the end of each year of program execution.	Annual SISCA reports	
3.2 Holding of awareness-raising workshops on the use of SNIP instruments for executives in prefectures, departmental capital municipios, and small municipios;	81 trainers trained in the program framework to have trained technical staff during program execution.	Annual SISCA reports	
3.3 Development of programs to train trainers in methodologies for preparation, evaluation, and management of SNIP projects;	210 technical staff from ministries, prefectures, municipios, development investment funds, NGOs, universities, and consulting firms to be trained in SNIP technical-operational instruments through structured courses in each year of program execution; 60 technical staff from ministries, prefectures, and municipios to be trained in SNIP technical-operational instruments each year of program execution. 60 technical staff from ministries, prefectures, and municipios to be trained in SNIP technical-operational instruments through short management courses for small municipios each year of program execution.	Annual SISCA reports	
3.4 Running of courses on SNIP regulatory and technical-methodological instruments for technical staff in ministries, prefectures, and municipios, development investment funds, NGOs,			

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
universities, consulting firms, and other interested organizations.			
<p>4. Expand the coverage and improve the quality of the investment information system, covering the full investment project cycle (preinvestment, investment, and operation), through its integration with other information systems to facilitate public investment decisions, make the resource allocation and expenditure process more transparent, and measure the impact of the investment.</p> <p>4.1 Conceptual design of the pre-investment modules and evaluation of outcomes of e-SISIN, including integration with the interfaces of the SIGMA, SISFIN, and SGP systems; also should include the methodology developed in the second section of the component on development of SNIP instruments to be integrated into e-SISIN;</p> <p>4.2 Consolidation, development, and implementation of the modules of preinvestment, evaluation, and sector interfaces with e-SISIN integrated at the national, departmental, and municipal levels, for the administration, management, monitoring, and evaluation of the project life cycle (planning, budget, and financing);</p>	<p>Preinvestment, outcome evaluation, and integrated interfaces module, developed and operating with e-SISIN at the national and departmental levels after 30 months of execution; in 10 municipios after 36 months; and in 50 small municipios after 60 months of program execution.</p> <p>Statistical and georeferenced information module integrated into e-SISIN to be generating reports systematically after 36 months of program execution.</p>	<p>Reports generated by the system</p> <p>Systematic reports generated by the module</p>	<p>Commitment by the public authorities involved in the SNIP to provide the database with up-to-date information from their projects in the preinvestment and execution phases.</p>

Narrative summary of objectives	Indicators of achievement	Means of verification	Assumptions
<p>4.3 Development, implementation, and integration of the statistical and georeferenced information module, integrated into e-SISIN for decision-making, with scope for systematic generation of reports;</p> <p>4.4 Dissemination of mechanisms of information on public investment projects and SNIP regulations;</p> <p>4.5 Training of technical staff to manage and ensure preventive-corrective maintenance of the new system and its modules;</p>			
<p>5. Apply the methodologies and instruments developed by the SNIP to prepare preinvestment studies for projects in the national, departmental, and municipal domains.</p> <p>5.1 Financing of preinvestment studies through competitive funds at the sector, departmental, and municipal levels.</p>	<p>24 preinvestment studies carried out with the SNIP methodology by the end of 36 months of program execution;</p> <p>40 preinvestment studies corresponding to at least 20 projects undertaken with the SNIP methodology by the end of program execution;</p>	<p>Preinvestment studies financed; semiannual monitoring and evaluation reports on the development of project preinvestment studies.</p>	<p>Demand exists to undertake preinvestment studies for projects;</p> <p>Local counterpart resources made available on a timely basis. Adequate supply of professional services exists to carry out the studies.</p>