



Board of Executive Directors

For consideration

On or after: 14 December 2005

PR-3001

21 November 2005

Original: Spanish

To: The Board of Executive Directors
From: The Secretary
Subject: Bolivia. Proposal for a loan to support efficiency in public administration

Basic Information: Borrower Republic of Bolivia
Amount up to US\$15,000,000 or its equivalent
Source Fund for Special Operations

Inquiries to: Mr. Pedro Farias (extension 2518)

References: GN-1838-1(7/94), DR-398-5(5/03)

Other distribution: IDB Representative in Bolivia

BOLIVIA

EFFICIENCY IN PUBLIC ADMINISTRATION SUPPORT PROGRAM

(BO-L1005)

LOAN PROPOSAL

This document was prepared by the project team consisting of Pedro Farias (RE1/SC1) Project Team Leader; Natalia Laguyás (RE1/SC1); Guillermo Zoccali (RE1/OD1); Dana Martin (LEG/OPR); Eddy Linares (COF/CBO); Masami Yamamori (COF/CBO); and Irene Cartín (RE1/SC1), who assisted with its production. Héctor Salazar (RE2/SO2) served as the Project Team Leader until the Project Concept Document was approved by the Loan Committee.

CONTENTS

PROJECT SUMMARY

I.	FRAME OF REFERENCE	1
A.	Macroeconomic framework.....	1
B.	Fiscal situation.....	3
C.	Outlook	5
D.	Problems and challenges in the area of public administration.....	6
1.	Lack of comprehensive budget process	6
2.	Weaknesses of the financial management system.....	8
3.	Fiscal costs associated with weak controls in key areas of public expenditure.....	9
4.	Shortcomings in relation to transparency and accountability	10
E.	The country's sector strategy.....	11
F.	The Bank's strategy	12
G.	Coordination with other donors.....	12
H.	Program strategy	13
II.	THE PROGRAM.....	17
A.	Objectives and description.....	17
B.	Description of the first single-tranche program loan.....	17
1.	Comprehensiveness and quality of the budget cycle.....	17
2.	Integration of financial management systems at the central and subnational government levels.....	18
3.	Control of public expenditure.....	19
4.	Measures for enhancing transparency and combating corruption	20
C.	Cost and financing	20
III.	PROGRAM IMPLEMENTATION	21
A.	Borrower and executing agency	21
B.	Project implementation and management.....	21
C.	Implementation period and conditions for the processing of disbursements	22
D.	Monitoring and evaluation.....	22
E.	Procurement.....	23
F.	Controls and records	23
G.	Policy letter.....	24
IV.	VIABILITY AND RISKS.....	25
A.	Institutional viability	25
B.	Social, economic, and financial viability	25
C.	Social and environmental impacts.....	25

D.	Benefits and beneficiaries	26
E.	Risks	26
V.	POLICY MATRIX	28
A.	Disbursement conditions and triggers	28

Proposed resolution

Electronic Links and References	
Basic Socioeconomic Data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loan in execution and loans approved	http://ops.iadb.org/approvals/pdfs/BOen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=BO&L=EN
Outcome matrix (Annex I)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=633737
Matrix: Means of verification (Annex II)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=633738
Policy letter (Annex III)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=633739
Letter of intent, memorandum of economic and financial policies, and technical memorandum of understanding, 7 October 2005	http://www.imf.org/External/NP/LOI/2005/bol/100705.pdf
Country report No. 05/393: Bolivia: Sixth review under the stand-by arrangement and requests for modification and waiver of nonobservance and applicability of performance criteria, rephrasing, and reduction of access – staff report; staff statement; press release on the Executive Board discussion; and statement by the Executive Director for Bolivia	http://www.imf.org/external/pubs/cat/longres.cfm?sk=18682.0

ABBREVIATIONS

CAF	Andean Development Corporation
CESI	Committee on Environment and Social Impact
CFAA	Country Financial Accountability Assessment
CGR	Contraloría General de la República [Office of the Comptroller-General]
CRGP	Comisión de Revisión del Gasto Público [Public Expenditure Review Committee]
DPTIP	Delegación Presidencial para la Transparencia y la Integridad Pública [Presidential Delegation for Public Transparency and Integrity]
ETV	Estrategia de Transparencia Voluntaria [Voluntary Transparency Strategy]
FSO	Fund for Special Operations
GDP	Gross domestic product
HIPC	Heavily Indebted Poor Countries Initiative
IACC	Inter-American Convention against Corruption
IDB	Inter-American Development Bank
IMF	International Monetary Fund
NFPS	Nonfinancial public sector
PBL	Policy-based Loan
PCU	Program Coordination Unit
PER	Public Expenditure Review
PMAP	Programa Multi-Donante de Apoyo Presupuestario Plurianual [Multi-Donor, Multiyear Budgetary Support Program]
PRGF	Poverty Reduction and Growth Facility
PTI	Poverty-targeted investment
SAF	Sistema de Administración Financiera [Financial Management System]
SAFCO	Ley de Sistema de Administración Financiera y Control Gubernamentales [Public Financial Management and Control System Act]
SBA	Stand-by arrangement
SENASIR	Servicio Nacional del Sistema de Reparto [National Distribution Service]
SEQ	Social equity enhancing project
SGP	Sistema de Gerencia de Proyectos [Project Management System]
SIGMA	Sistema Integrado de Gestión y Modernización Administrativa [Integrated Administrative Modernization and Management System]
SISER	Sistema de Evaluación y Seguimiento por Resultados [Results-Based Evaluation and Monitoring System]
SISFIN	Sistema de Información sobre Financiamiento Externo [External Financing Information System]
SISIN	Sistema de Información sobre Inversión Pública [Public Investment Information System]
SISPLAN	Sistema Nacional de Planificación [National Planning System]
STH	Special Tax on Hydrocarbons
VIPFE	Viceministerio de Inversión Pública y Financiamiento Externo [Office of the Deputy Minister for Public Investment and External Finance]

VMPC	Viceministerio de Presupuesto y Contaduría [Office of the Deputy Minister for Budgets and Accounts]
VMPSF	Viceministerio de Pensiones y Servicios Financieros [Office of the Deputy Minister for Pensions and Financial Services]
VMTCP	Viceministerio de Tesoro y Crédito Público [Office of the Deputy Minister for the Treasury and Public Credit]

PROJECT SUMMARY

BOLIVIA EFFICIENCY IN PUBLIC ADMINISTRATION SUPPORT PROGRAM (BO-L1005)

Financial Terms and Conditions				
Borrower: Republic of Bolivia Executing agency: Ministry of Finance			Amortization period:	40 years
			Grace period:	10 years
			Disbursement period:	1 year
Source	Amount	%	Interest rate:	1% for first 10 years; 2% thereafter
IDB (FSO)	US\$15 million	100	Inspection and supervision fee:	1%
Local	0	0	Credit fee:	0.50%
Total	US\$15 million	100	Currency:	FSO currencies, except that of Bolivia.
Project at a glance				
Project objective: To support policy measures designed to improve and consolidate effective, efficient, transparent results-based public expenditure mechanisms.				
Special contractual conditions: Disbursement of this program's single tranche is subject to the following conditions: (i) maintaining a macroeconomic environment that is consistent with the program's objectives; (ii) implementing the policy measures agreed upon for this tranche as specified in Sections II and V; and (iii) opening a special account for program funds.				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes [X] No [] Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount [] Procurement: see paragraph 3.11 Verified by CESI on: 23 June 2005				

I. FRAME OF REFERENCE

- 1.1 The Government of Bolivia has carried out major structural reforms in the past few decades. Although progress has been made, significant institutional weaknesses in the management of public resources still exist. These shortcomings need to be addressed by means of a broad-ranging program for building capacity in the management of public expenditure based on the use of efficient, transparent, results-oriented instruments. There is also a great deal of institutional uncertainty as, in the wake of recent political and social events, general elections have been called for late 2005 and a national constituent assembly and a referendum concerning autonomy for the regional departments have been scheduled for 2006.
- 1.2 The need to combine the fulfillment of short-term fiscal commitments with the establishment of a frame of reference for reforms over the medium term in the midst of this institutional uncertainty has led to the decision to use programmatic policy-based loans for this operation. The proposed project will be the first of three interrelated single-tranche loans to be undertaken within a medium-term policy and action framework. This approach offers enough flexibility to make any necessary adjustments with the government to be elected in late 2005 without jeopardizing the required continuity of the program's strategic lines of action.

A. Macroeconomic framework

- 1.3 Despite its large-scale mines and reserves of natural gas and crude oil, Bolivia is one of Latin America's poorest nations. Agriculture accounts for 15% of gross domestic product (GDP), and the country's manufacturing activities are rudimentary and quite limited.¹ Bolivia's main exports are natural gas, tin, zinc, coffee, silver, tungsten, timber, gold, soybeans and soy products. The country's reliance on so few export commodities exacerbates the economy's vulnerability to international price fluctuations. These price swings thus have an extremely strong influence on national income, foreign-exchange inflows, and tax revenues.
- 1.4 The economic and political crisis that overtook Bolivia in the first half of the 1980s² made it necessary for the country to adopt a new development model. This model was based on an economic stabilization program underpinned by three different pillars: (i) an anti-inflationary "shock treatment"; (ii) the liberalization of the economy on both the domestic and external fronts; and (iii) the reorganization of

¹ Mainly refining, smelting, and small-scale manufacturing.

² Distortions generated when the import-substitution model had run its course, together with the outbreak of the debt crisis in 1982, signaled the end of the development pattern in effect until that point. This situation triggered downturns in economic activity as a consequence of the shortage of external resources and the constraints this placed on production.

fiscal accounts and structural reforms.³ More emphasis began to be placed on the implementation of such reforms in the 1990s.

- 1.5 The experience of the past 15 years has shown, however, that not all of these measures' original objectives were achieved. Between 1990 and 2004, Bolivia's economic growth was slow and volatile. Annual GDP growth averaged 2.2% for 1999-2004, versus 2.4% for the region as a whole, despite the serious social and political conflicts that arose during that period. Per capita GDP shrank by 1.18%, compared to a contraction of 0.45% for the region.
- 1.6 In the first quarter of 2005, the Bolivian economy posted a growth rate of 3.9%. This was mainly attributable to activity in the petroleum sector, which jumped by 24.1%. Other beneficial factors included the performance of the mining and agricultural sectors and advantageous international price trends that bolstered the country's economic recovery.⁴ Between January and July 2005, Bolivia's exports climbed by 18.4%. Most of this increase was due to higher sales of hydrocarbons, mainly to Argentina and Brazil.
- 1.7 Even though the business climate⁵ has been eroded by social instability and political uncertainty, the country's macroeconomic performance has been in line with the targets set for the end of June 2005 under the program agreed upon with the International Monetary Fund (IMF). According to the Central Bank of Bolivia, the balance of payments for the first half of the year amounted to US\$39.7 million. This balance reflected a decrease in the deficit on the capital and financial account and the current account surplus. International reserves consequently rose to a level 11% above their end-2004 total, while the year-on-year cumulative inflation rate as measured by the consumer price index (CPI) amounted to 5.35% in August 2005.
- 1.8 In order to boost economic growth, Bolivia will have to gain in competitiveness and productivity, and its ability to do so will be determined, to a great extent, by the level and quality of investment. Traditionally, however, the quality and level of public and private investment have fallen short of what was needed to generate the desired effect. Total investment began to decline in 2003, amounting to 16.3% of GDP in 2004 versus 20.8% in 2000. These figures are, to a great extent, accounted for by the decrease in foreign direct investment (FDI) and the economic slowdown of recent years.

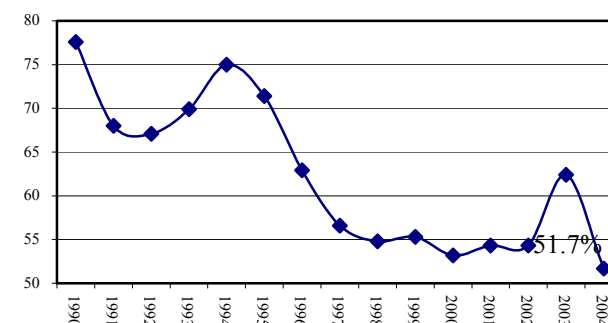
³ These reforms included the privatization and capitalization of public enterprises, pension system reform, administrative decentralization and the promotion of popular participation, and education and health-care reforms.

⁴ The export commodity price index rose by 8.4% during this period.

⁵ The composite indicator used by the World Bank to gauge the business climate (the Ease of Doing Business Index) ranks Bolivia –based on the effects of its regulations and policies in terms of stimulating or discouraging investment, productivity, and growth– in 111th place among 155 countries in September.

- 1.9 Trends in the country's debt levels reflect the severe deterioration seen in public finances in recent years. Rising levels of nonconcessional borrowing, particularly in the form of securities placed on the domestic market to cover the government's widening fiscal deficits, are also part of the reason for the country's problematic debt position. At the end of 2004, the net present value (NPV) of the country's external debt amounted to US\$3,006,900,000 which was even higher than the level at the time that Bolivia reached its completion point for the enhanced HIPC initiative in June 2001.

Figure 1: Public External Debt Balance (% del GDP)



Source: Millennium Foundation. Economic database, 1990-2004.

- 1.10 Public-sector deposits in the banking system picked up, rising to a level 10.8% above the end-2004 figure by September 2005. This was coupled with a slight de-dollarization of the economy (to 85% of the total). The loan portfolio also grew somewhat, and interest and exchange rates remained fairly stable.
- 1.11 Bolivia's social inequality and health indicators continue to be a source of grave concern, however. The 2005 *Human Development Report* published by the United Nations Development Programme (UNDP) ranks Bolivia as 113th (out of a total of 173 countries) on the human development index. Bolivia's infant mortality rate for children in the poorest 20% of the population is between four and five times higher than the rate for children in the wealthiest 20%. On average, Bolivians have between 5 and 5.5 years of schooling. The poverty rate had dropped to 48.7% in 1999 but then rose to 61.2% in 2002. The rate for the indigenous population is 88%.
- 1.12 Recent outbreaks of political instability and violence are linked to the way in which the wealth deriving from the country's mineral resources has been managed. These conflicts are a manifestation of the indigenous and peasant populations' grievances regarding the unequal distribution of the fruits of development.

B. Fiscal situation

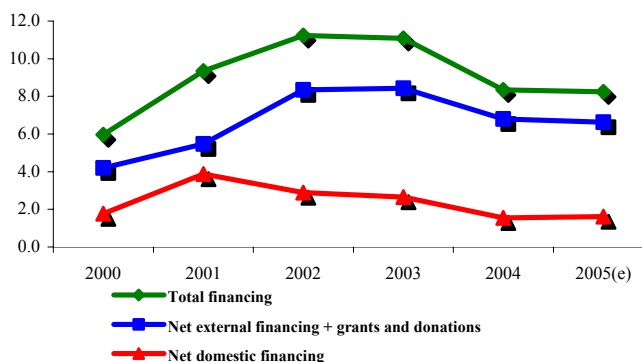
- 1.13 After years of rising public expenditure and falling revenues, in 2003 the trend of Bolivia's nonfinancial public-sector (NFPS) deficit (net of grants and donations) began to turn around, with this deficit shrinking from 9% of GDP in 2002 to 8.1% in 2003 and to 5.7% in 2004. This improvement is accounted for both by the country's fiscal policies and by a favorable external environment, which was reflected in a hefty surplus (3% of GDP) on the balance-of-payments current

account. External grants and donations averaging the equivalent of 2.6% of GDP per year in 2002-2004 were also a contributing factor.

- 1.14 In the first half of 2005, thanks to careful budget execution and higher-than-expected tax revenues, Bolivia surpassed the fiscal targets established in its agreement with the IMF. In fact, for the remainder of the year, the NFPS deficit may well be substantially lower than its projected level owing to the current account surplus built up during the first half of 2005, the increase in oil and natural gas prices, and the higher tax revenues generated by the special tax on hydrocarbons (STH) and the application of the tax regime provided for in the Hydrocarbons Act. The higher cost to the Treasury of continuing to subsidize fossil fuel use has been offset by lower-than-planned current expenditure and restraints on public-sector wage adjustments.
- 1.15 The government has also taken an active policy stance in this respect. Its austerity policy and emphasis on the containment of public expenditure are reflected in the specific executive orders (known as “supreme decrees”) issued for these purposes and in administrative measures for keeping pension and payroll expenditure under control. Executive orders relating to the government’s austerity policy have put a series of spending controls into place. These measures include the elimination of monthly salary supplements for senior staff, public-sector wage caps, a 5% cut in total current expenditure, a 58% reduction in earmarked budget items, and a 10% cut in other budget items. On the other hand, the cost of maintaining the fuel subsidy has been raised by international factors.
- 1.16 Pension outlays continue to place a heavy burden on public finances. Over the past three years, this item of expenditure has averaged 4.5% of GDP, and it accounted for over 80% of the NFPS deficit in 2004. The government has taken steps to reduce these spending levels, however. Executive order 27991, issued in January 2005, sets forth a series of measures designed to promote the more efficient management of the Servicio Nacional del Sistema de Reparto [National Distribution Service] (SENASIR) and to explore other sources of financing for the Treasury with a view to restructuring the government’s debt with the individually funded pension system. Cumulative savings to be derived from improvements in SENASIR’s management are estimated at approximately 6% of pension expenditures. These savings will be generated by the reduction of payment arrears and fraud.
- 1.17 The main revenue-boosting measures have been: (i) passage and issuance of a new tax code; (ii) amendments to Act No. 843 relating to the sale of minerals and hydrocarbons and transaction tax payments; (iii) creation of a financial transactions tax; (iv) an increase in domestic fuel prices; (v) introduction of a new 32% direct tax on hydrocarbons under the new Hydrocarbons Act of 17 May 2005; and (vi) extraordinary revenues stemming from the tax amnesty of approximately 1.5% of GDP in 2004.

- 1.18 The financial transactions tax is a temporary (two-year) levy that will generate revenues estimated at 0.8% of GDP in 2005. Higher oil and natural gas prices and the STH tax hike will boost 2005 STH receipts by around 1.0% of GDP. Net disbursements of external aid and other grants and donations make up a large percentage of total revenues and are of crucial importance in covering the fiscal deficit of 4%-6% of GDP, as shown in Figure 2.

Figure 2: Financing of NFPS Deficit - Net Of Grants And Donations (as a percentage of GDP)



(e) Estimates

Source: Prepared on the basis of information from the Unit of Financial Projections of the VMTCP.

C. Outlook

- 1.19 Despite political instability,⁶ a large deficit, and a steep increase in the debt stock in recent years (from 37% to 50% of GDP in NPV terms between 2001 and 2003), in April the government succeeded in extending its stand-by arrangement with the IMF up to the end of March 2006. If Bolivia meets the quarterly macroeconomic and financial targets established under that agreement, it will become eligible for 42.9 million in special drawing rights (SDRs) (equivalent to about US\$65 million). The IMF technical mission sent to Bolivia in September 2005 determined that the program's macroeconomic conditions for June had been fulfilled. The difficulties encountered in meeting the structural conditions included in the stand-by extension arrangement in April make it less likely that more substantive IMF support will be forthcoming under the Poverty Reduction and Growth Facility (PRGF) until the program is reviewed by the new Administration that will take office in 2006.
- 1.20 Official estimates made at the time that the stand-by arrangement was extended put Bolivia's real GDP growth for 2005 at 4.5%, the increase in gross domestic investment at over 13.5% of GDP, the reduction in its fiscal deficit at around 5.2% of GDP (after factoring in grants and donations), and its balance-of-payments current account surplus at between 1.6% and 2.2% of GDP. However, given the combined effect of work stoppages and other disruptions of production in the first half of the year and the dampening effect that this situation has had on investment, current projections put real GDP growth for 2005 at 4% and annual inflation as of December 2005 at over 4%. Even though the 2005 fiscal deficit is expected to come in under the estimate contained in the IMF agreement, the country will still have to resort to support from multilateral lenders, including the IDB, and issues of Treasury bonds in order to cover it.

⁶ In June, in the midst of a presidential crisis, the Chief Justice of the Supreme Court, Eduardo Rodríguez, took office as a caretaker president and called for early presidential elections, to be held in December 2005.

- 1.21 The fact that the additional revenues generated by the 2004 tax amnesty will not be repeated in 2005, the Treasury's growing reliance on the revenues generated by hydrocarbons royalties and excise taxes (which are expected to rise from 5.2% of GDP in 2004 to 6.7% in 2005), and competition for access to the revenue-sharing pool will pose particularly formidable challenges in the coming years. International cooperation in the form of budget support and foreign direct investment could be severely limited by the inhospitable investment environment that may be created by the new Hydrocarbons Act. Furthermore, the positive international outlook does not preclude the threat of further rises in international interest rates, which could hurt Bolivia's capital account and the economic contribution of tradable sectors.
- 1.22 Meanwhile, two major upcoming events will significantly alter Bolivia's present constitutional order: the constituent assembly, and the conferral of greater autonomy upon the country's departments. These events, together with the new Hydrocarbons Act, will create a new institutional order that will influence the country's fiscal structure and the sustainability of its public finances. This subject therefore warrants special attention on the part of Treasury authorities and the international community at large.
- 1.23 An indepth analysis of the sustainability of the country's debt position and the need for public financing is provided in the independent macroeconomic evaluation prepared by the Bank with the help of IMF inputs in accordance with PBL guidelines (document CS-3633).

D. Problems and challenges in the area of public administration

1. Lack of comprehensive budget process

- 1.24 A number of recent studies on the decision-making process as it relates to the allocation and management of public resources in Bolivia have pinpointed recurring problems that adversely affect public expenditure in the country. One of the chief difficulties is that the various phases of the budget cycle (planning, programming, formulation, congressional passage, implementation, monitoring, and evaluation) are not sufficiently integrated at either the central or subnational levels.
- 1.25 Some of the weaknesses in Bolivia's budgetary process are attributable to the absence of an appropriate legal framework. The IMF has said that Bolivia's existing budgetary regulations and statutes are uncoordinated, lend themselves to inconsistencies, and grant the legislative and executive branches wide-ranging powers to amend budget provisions. The legal regime in this area is also incomplete, since a number of definitions and fundamental principles are not specified. In addition, it lacks supplementary disclosure requirements that would

facilitate the discussion and monitoring of expenditures. Enforcement mechanisms are weak and, in some cases, fall short⁷ of what is needed to ensure fiscal discipline.

- 1.26 In defining priorities for the budgetary process, the Public Financial Management and Control System Act, No. 1178, (SAFCO Act) identifies the Sistema Nacional de Planificación [National Planning System] (SISPLAN) as the basic frame of reference, but does not set out any instruments and/or methodologies for that purpose. The Economic and Social Development Plan also fails to provide strategic inputs for the budgetary process, and the pressure generated by the political situation eclipses any attempt to formulate a medium- or long-term agenda. Consequently, the relevant agencies' annual work plans (AWPs) often exceed existing budgetary limits and therefore fail to provide a spending schedule based on outputs/beneficiaries/targets/results. It is therefore difficult to use these plans as a basis for prioritizing resources or developing a budget.
- 1.27 According to the Country Financial Accountability Assessment (CFAA), revenues have been systematically overestimated in the country's budget. When Congress receives the budget for consideration, it is not given sufficient time for debate, does not have access to adequate technical advisory services, and does not abide by the limits mandated by fiscal policy. Execution of the budget is based on the quotas that the Treasury establishes for each agency. These allotments are modified throughout the year as projections of disposable income are revised.
- 1.28 Procedures for the assessment of budget performance are very rudimentary, and this makes it difficult to close out the budget cycle and provide feedback on the budget outturn that could be used to improve budget allocations for subsequent years. The spending targets that are monitored primarily refer to inputs rather than to outputs or results. Little use is made of the available information on the budget to promote accountability.
- 1.29 If the budget is to be used to underpin a results-based management approach, then a number of prerequisites will have to be met. In the sphere of public administration, steps have to be taken to build capacity in the strategic prioritization of resources and management evaluation. This entails establishing a basic frame of reference for medium- and long-term priority areas of action and investment. The design and organization of programmatic structures will also need to be reviewed in order to determine how they contribute to the production of outputs, whether or not there is any duplication of work that is already being done by other public institutions, and whether or not the users, beneficiaries, objectives, and targets are clearly defined.
- 1.30 A series of actions need to be taken in relation to regulations and procedures, participants, and institutional capacities within the institutional framework for the budget and the budget process as such that influence the overall outcome. These

⁷ Aide-memoire on the support mission sent to assist with the formulation of a draft framework law in line with the IMF recommendation made in this connection (May 2005).

actions will be oriented toward systematizing budget rules and regulations and making them more consistent, achieving greater complementarity between the various stages in the budget cycle and the actors involved in them, and developing and consolidating mechanisms and tools for improving how the budget is managed.

2. Weaknesses of the financial management system

- 1.31 In recent years (1999-2003), the central government agencies responsible for managing the Sistema de Administración Financiera [Financial Management System] (SAF), particularly the Ministry of Finance and the Contraloría General de la República [Office of the Comptroller-General] (CGR), have made substantial progress in refining and integrating these administrative processes. Shortcomings in the enforcement of these rules and regulations, particularly with regard to submission of financial reports and internal controls, are counteracting the effects of that progress, however.
- 1.32 Two budget-related factors need to be taken into consideration in order to improve the management of Bolivia's SAF. First, as noted in the preceding section, since budget procedures are not based on a systematic evaluation of revenues and annual work plans (AWPs), they limit the use of the Sistema Integrado de Gestión y Modernización Administrativa [Integrated Administrative Modernization and Management System] (SIGMA) as a programmatic and financial management tool. Second, SIGMA's coverage at the subnational level does not yet take in the country's municipalities (with the exception of La Paz and Cochabamba) or prefectures.⁸ This means that the significant portion of the national budget that is executed by subnational governments (40%) is not being fully monitored or controlled.
- 1.33 An overview of Bolivia's performance in reaching financial management benchmarks prepared by the World Bank and the IDB in 2004 as an input for its CFAA gave Bolivia **fairly high marks** (A or B) in 7 of 17 areas that were evaluated: budget coverage and external auditing (both ranked A), expenditure delays, budget classification, cash-flow management, debt management, and data reconciliation (all B). Areas where **weaknesses** remain (in which it received a rating of C) are: composition of expenditure versus budgetary targets, estimation of revenues, treatment of poverty-related expenditure, public access to information, effectiveness of in-house auditing, and effectiveness of internal controls and budget reporting for the current year. The areas in which its performance was rated lowest

⁸ Since 1995, nearly 240 municipalities have been using the Sistema Integrado de Contabilidad Municipal [Integrated Municipal Accounting System] (SINCOM), which combines budget, treasury, and accounting functions suited to the requirements of the SAFCO Act. The system appears to be suitably adapted to the needs of small and medium-sized municipalities. Some of the smallest municipalities have only a manual accounting system or use a system based on computer spreadsheets.

(a grade of D) are: multiyear projections, legislative review, and submission of audits to Congress.

3. Fiscal costs associated with weak controls in key areas of public expenditure

- 1.34 The public sector's wage bill for staff and consultants amounts to nearly 10% of GDP, accounts for only slightly less than half of its current expenditure, and has expanded in real terms since 1999 even though the number of civil servants has remained virtually constant. Meanwhile, the cost of pension payments made under the old pay-as-you-go system (which includes retirees, annuitants, and veterans, along with their eligible dependants and survivors) is just about double what it was projected to be when the pension system was reformed in the mid-1990s. This is chiefly because the number of beneficiaries has risen by slightly more than 30% since that time and the average benefit has been raised to over twice the level of per capita GDP. These increases in payroll and pension costs are attributable to the pressure exerted on the government by strong trade unions such as the teacher's union, health workers' union and retired persons and to institutional and regulatory shortcomings in the agencies responsible for these payments. These agencies lack effective controls and have been vulnerable to fraud.
- 1.35 In order to remedy these problems, in 1999 the government began to implement the Institutional Reform Project (IRP) with support from the World Bank. The primary aim of this initiative is to modernize the civil service. Although the IRP has certainly made progress, especially in agencies targeted as priorities (the National Tax Service, National Customs Service, and National Roads Service), its original objectives in relation to the management of the central government and the public sector as a whole have not been met. This is due, in large part, to the country's political instability. In order to reduce the public sector's wage bill, the government, with support from the World Bank, is planning to conduct a survey of civil servants in agencies whose record-keeping systems and payrolls are centralized in the Viceministerio de Tesoro y Crédito Público [Office of the Deputy Minister for the Treasury and Public Credit] (VMTCP). The survey results will be employed to generate a database incorporating biometric parameters that can be used to reduce the fraud which apparently exists in a number of major sectors. It will also be necessary, however, for the government to use this information as a basis for designing and implementing a policy concerning the civil service as a whole that will promote its professionalization and, over the medium term, do away with the distortions that currently exist.
- 1.36 As a way of averting further increases in the cost of the pension system, the government should carry forward its implementation of control measures, bearing in mind that new entrants are still being admitted to the old pay-as-you-go system until 31 December 2005, the system's scheduled phase-out date. This means that, in subsequent years, contributory compensation payments will still need to be made. In order to contain these costs, the government has decided to embark upon an

institutional reform of the regulatory agency in this area (SENASIR) so that it will be able to combat fraud and rationalize eligibility requirements for investors. The Bank is backstopping the government's efforts with two technical cooperation loans (BO-0225 and TC-0109003) as part of the Sector Program to Support Fiscal Sustainability (BO-0213). The implementation of these actions will allow the government to save an amount estimated at around 0.5% of GDP per year.

4. Shortcomings in relation to transparency and accountability

- 1.37 In the mid-1990s, at a time when there was a generalized lack of confidence in the political system and government institutions, the Government of Bolivia launched a series of reforms aimed at modernizing the system, controlling corruption, and promoting the citizenry's participation in public policymaking. Some of the most important reform measures implemented during that period were SAFCO Act No. 1178 on governmental administration and controls, the Popular Participation Act, the Civil Service Act, the Sworn Declaration on Goods and Revenues, and the creation of the Judiciary Council, the People's Defendant, and the Superintendency of the Civil Service.
- 1.38 These actions notwithstanding, Bolivia still needs to change the prevailing atmosphere of deep mistrust of the political system and governmental institutions, which is associated with the public administration's perceived lack of transparency.⁹ The baseline studies for the new CFAA have identified problems in the management of public resources and in accountability at the central and subnational levels. In addition, the public does not have access to this information in any useful format, and Congress is not performing its oversight role properly. Accordingly, the CFAA recommended to the government that it develop a means of ensuring that its financial information is available promptly and in a consistent format suited to users' needs. It also recommended that an impartial unit within the legislative branch be established to oversee the budget and to report to the public on its preparation, formulation, allocations, and monitoring.
- 1.39 In an effort to cut down on corruption in the public sector and share more information with society as a whole and with international cooperation agencies, the government drew up the Comprehensive Anti-Corruption Plan and specified the network of public agencies that were to be in charge of its implementation: the Office of the Comptroller-General, the Financial Investigative Unit, the Public Ministry, and the Presidential Anti-Corruption Delegation, which was later replaced by the current Delegación Presidencial para la Transparencia y la Integridad Pública [Presidential Delegation for Public Transparency and Integrity] (DPTIP). The

⁹ The Corruption Perceptions Index, which is prepared by Transparency International, measures businesspeople's and national and international analysts' views on the subject. Bolivia ranks 122nd out of 146 countries on this index and is rated at 2.2 on a scale of 0-10 (the lower the score, the greater the perceived level of corruption).

Comprehensive Anti-Corruption Plan is to be implemented over a five-year period (2005-2009). It has approximately US\$10.5 million in funding from the Governments of the Netherlands, Denmark, and Sweden and began operations in the second half of 2005. The DPTIP's approach stresses the need to develop citizen awareness as a means of strengthening the transparency and integrity of institutional management so that it can serve as a foundation for a value-based management of public affairs.

E. The country's sector strategy

- 1.40 In 2004, the Government of Bolivia reached an agreement with international cooperation agencies for the implementation of a multi-donor, multiyear budgetary support program aimed at restoring fiscal sustainability so that Bolivia will be able to implement a poverty-reduction policy. To this end, the following actions were defined for implementation under this program: (i) management of public finances; (ii) fiscal policy; and (iii) a national poverty-reduction policy.
- 1.41 In October 2004, the Ministry of Finance submitted a plan of action for the management of public expenditure and finances that takes into account the Public Expenditure Reviews, the CFAA, HIPC tracking, and other inputs. In the first year of this multiyear program's implementation, it has shown itself to be a channel for coordination among the various multilateral and bilateral agencies that provide budget support for the country and that backstop the Bolivian government's efforts to improve the management of the country's public finances.
- 1.42 In 2005, the Ministry of Finance started work on the formulation of the core objectives for 2005-2007. The outcome document for this process ("Strategic Framework for Strengthening Public Finances") outlined a strategic framework for strengthening public finances and was completed in April 2005. This document elaborates upon the Bolivian government's strategy for strengthening its public finances. The initiative is structured around the following eight strategic objectives: (i) placing public finances on a sustainable footing by setting predictable deficit targets based on realistic levels of domestic and external financing that will not impair macroeconomic balances; (ii) integrating the budget with financial programs, policies, and development and poverty-reduction strategies; (iii) consolidating information to facilitate the appraisal, management, and control of public resources; (iv) making a qualitative improvement in the public sector's current and capital expenditures and optimizing the use of external finance; (v) encourage the Ministry of Finance to become actively engaged in the discussions to be held in the constituent assembly and in relation to the referendum on departmental autonomy regarding the new fiscal architecture and jurisdictional structure that will result from these two processes; (vi) promote the legislative branch's active participation in the determination of budgetary issues; (vii) create a regulatory framework in keeping with the current status of public finances and the public sector's institutional structure; and (viii) mainstream the Ministry of Finance and the agencies it oversees.

F. The Bank's strategy

- 1.43 **The Bank's strategy with the country.** The Bank's strategy with the country for 2004-2007 identifies the following priority areas for action: (i) building the State's management capacity and enhancing its transparency; (ii) supporting the private sector's competitiveness and sustainable development; and (iii) increasing the efficiency and equity of social service delivery. The proposed program falls into the strategy's first sphere of action, since it will help to improve and consolidate results-based mechanisms for effective, efficient, and transparent public management. In addition, given its financial characteristics, the operation will backstop the country's efforts to strike a fiscal balance in the short run.
- 1.44 **The Bank's sector strategy.** The Bank's strategy for modernization of the State (OP-1004) sets out four main areas of action: (a) the democratic system; (b) the rule of law and judicial reform; (c) the State, market, and society; and (d) public administration. This program falls within area (d) and within the strategy's following spheres of action: (i) strengthening the State's fiscal capacity and helping it to manage expenditures more efficiently and transparently; (ii) building capacity for coordinating public policies and strategies; and (iii) taking advantage of the potential offered by the knowledge society and information technologies.

G. Coordination with other donors

- 1.45 In the first year of this multiyear program's implementation, it has shown itself to be a channel for coordination among the various multilateral and bilateral agencies that provide budget support for the country and that backstop the Bolivian government's efforts to improve the management of the country's public finances. This coordination has been possible because the Programa Multi-Donante de Apoyo Presupuestario Plurianual [multi-donor, multiyear budgetary support program] (PMAP) has not only provided a means of reaching agreement on shared objectives that will enable the government to qualify for budget support, but has also served as a forum for information exchange between the government and international cooperation agencies and among those agencies.
- 1.46 The Viceministerio de Inversión Pública y Financiamiento Externo [Office of the Deputy Minister for Public Investment and External Finance] (VIPFE) serves as the liaison between the Government of Bolivia and institutions providing international cooperation loans and grants. While preparing for this operation, the team has maintained ongoing multilateral coordination with the IMF, World Bank, Corporación Andina de Fomento [Andean Development Corporation] (CAF) and other bilateral donors. Particularly close coordination has been maintained with bilateral donors in connection with the PMAP. See Table I-1 concerning Objective 1 of the Bank's country strategy with Bolivia, Bank actions in the sector, and complementary initiatives conducted by other donors.

Table I-1. THE BANK'S STRATEGY WITH BOLIVIA				
Objective 1: Restore the basic minimum conditions necessary for governance and macroeconomic stability				
Objective and country strategy	Other agencies' complementary actions	IDB strategy	IDB actions	
			Current loans	Proposals
Consolidation of institutional reforms to increase transparency and efficiency of State action Gradual reduction of the fiscal deficit	World Bank, CAF, EC and bilateral initiatives: Institutional reform IMF: Stand-by arrangement World Bank: Emergency program: CAF: Economic support program Sweden/Denmark/Netherlands: Budget support	Strategic guidelines: Build the State's management capacity and transparency (a) Help to improve fiscal management by providing access to concessional funds and upgrading the management and enhancing the transparency of agencies directly linked to inflows and outflows of State resources, with emphasis on taxes, pensions, and financial management.	Sector Program to Support Fiscal Sustainability (BO-0213) TC Fiscal Sustainability Support Program (BO-0225 and TC0109003) Customs Reform and Modernization Program (BO-0159) Institutional Strengthening National Internal Revenue Service (BO-0186) Modernization of Municipal Financial Administration (BO-0196) Ethics Program in Public Administration (TC0210033) Support for Transparency in Public Administration (BO-T1007) Local Development and Fiscal Adjustment Program (BO-0180)	National Transparency Loan Program (BO-0207) Support for the National Public Investment System (BO-L1006) Activities with the World Bank: Public Expenditure Review (PER) and Country Financial Accountability Assessment (CFAA) PRODEV TC loans

H. Program strategy

- 1.47 In view of the current political and social situation in Bolivia, which poses a major threat to its institutional stability and thus makes it difficult to know whether political support for Bank actions will continue into the medium term, the Bank's program has been divided into three consecutive, independent single-tranche policy-based loans (PBLs) (documents CS-3633 and GN-2200-13) totaling US\$40 million.¹⁰
- 1.48 The sequencing and conceptual unity of the policy areas addressed by the program are consistent with the Strategic Framework for Strengthening Public Finances and with the recommendations made in the PER and the CFAA, as shown in Table I-2.

Table I-2. LINKS BETWEEN PROGRAM POLICY AREAS AND KEY PER* AND CFAA** RECOMMENDATIONS			
Public Expenditure Review Committee Selected key recommendations	BO-L1005	Country Financial Accountability Assessment (CFAA) Selected key recommendations	BO-L1005
A Budget process: 1. <i>Fiscal discipline and budget programming:</i>	Policy areas 1, 2 and 4	A. Financial management: -Broaden the reach of SIGMA	Policy areas 2 and 4

¹⁰ The scale of this operation corresponds to Bolivia's external financing requirements as agreed with the IMF based on projections for 2005, 2006, and 2007. The three loans to be included in the program are estimated at US\$15 million, US\$10 million, and US\$15 million.

<ul style="list-style-type: none"> • Draft of the new budget act to be submitted to Congress • Systematic collection of data on outputs and performance in order to track budget outturn • Complete implementation of SIGMA in the central government, prefectures, and the 10 largest municipalities <p>2. <i>Support for the implementation of a multiyear budget:</i></p> <ul style="list-style-type: none"> • Develop sector agreements on objectives, outputs, and activities and the corresponding preliminary cost estimates • Make the necessary preparations for sector programs based on an assessment of sector priorities in the light of budget limitations 		<p>in all prefectures and the 10 largest municipalities</p> <p>-Improve financial reporting in all prefectures and the 10 largest municipalities</p>	
<p>B. Decentralization:</p> <ul style="list-style-type: none"> • Increase the prefectures' fiscal and financial accountability and transparency 	Policy areas 2 and 4	<p>B. Internal control and internal audit:</p> <p>-Institutional strengthening of the roles of internal control and in-house auditing units in each ministry and prefecture</p>	Policy area 4
<p>C. Public-sector wages and employment policy:</p> <ul style="list-style-type: none"> • Design and implement a centralized database on public-sector employees and payrolls • Complete the public employee survey 	Policy area 3	<p>C. Transparency and oversight:</p> <p>-Develop a mechanism to ensure that public financial management information is made available in a timely and consistent manner to users in a format appropriate to their needs</p>	Policy area 4
<p>D. Pensions:</p> <ul style="list-style-type: none"> • Develop and implement a detailed plan of action to control fraud, etc., with a view to reducing expenditure from 0.1% to 0.3% of GDP 	Policy area 3	<p>D. Accounting and financial reporting:</p> <p>-Production of meaningful government financial statements</p> <p>-Establishment of reliable financial and fiscal records to facilitate accurate, meaningful, and timely financial reporting SIGMA</p>	Policy areas 2 and 4
<p><i>Notes:</i></p> <p>* <i>PER (Public Expenditure Review)</i></p> <p>** <i>CFAA (Country Financial Accountability Assessment)</i></p>			
<p>Policy area 1: Comprehensiveness and quality of the budget cycle</p> <p>Policy area 2: Integration of financial management systems at the central and subnational government levels</p> <p>Policy area 3: Control of public expenditure</p> <p>Policy area 4: Measures for enhancing transparency and combating corruption</p>			

1.49 The Bank's experience with the country and sector. The Bank is currently financing loan operations that are directly linked with the program objectives in the policy areas "Integration of financial management systems at the central and subnational government levels" and "Control of public expenditure". These operations are: (i) Municipal Financial Management Modernization Program – SIGMA (1091/SF-BO); and (ii) the Sector Program to Support Fiscal Sustainability, which is composed of a sector loan (1127/SF-BO), a reimbursable

technical-cooperation operation (1128/SF-BO), and a nonreimbursable technical-cooperation operation (ATN/SF-8333-BO).

- 1.50 In the midterm review of the SIGMA program conducted in late 2004, the Bank detected shortcomings with respect to the targets set out in the original contract and found that the remaining funds of program 1091/SF-BO should be redirected toward strengthening the central system's sustainability and making the necessary adjustments so that SIGMA can be implemented in some of the country's prefectures.
- 1.51 With regard to Policy area 1: Comprehensiveness and quality of the budget cycle, the Bank financed a nonreimbursable technical-cooperation operation (ATN/SF-7823-BO) which enabled the Ministry of the Presidency to carry out a diagnostic analysis using the Sistema de Evaluación y Seguimiento por Resultados [Results-Based Evaluation and Monitoring System] (SISER). In late 2004, the Bank approved a nonreimbursable technical-cooperation loan operation entitled "Program to Support Transparency in Public Management" (ATN/SF-9044-BO). This initiative is designed to support the efforts of the DPTIP and the CGR to enhance transparency, accountability, and public administration control mechanisms. This technical cooperation operation complements the Comprehensive Anti-Corruption Program being supported by bilateral cooperation initiatives.
- 1.52 The Bank is in the process of developing a program to support the national public investment system (BO-L1006). The general objective of this operation is to help upgrade public investment based on analyses of projects' economic and social benefits. The Ministry of Finance should coordinate that operation with Program BO-L1005 in order to ensure the complementarity and compatibility of their methodologies and rationalize the flow of information on which resource-allocation decisions are to be based.
- 1.53 **Lessons learned.** Lessons have been learned that are of critical importance for PBL operations. These lessons have been reaffirmed in various sector operations now underway in Bolivia and can be usefully applied in the operation being proposed here. Bolivia has, in particular, had problems with the execution of multi-tranche sector loans. Over the past three years, it has been necessary to request waivers or a revision of conditionalities for three different sector loans in order to permit the originally scheduled disbursements to go ahead (1127/SF-BO, 1519/SF-BO, and 1097/SF-BO). These lessons indicate that the operation can be more effective if: (i) the government is firmly committed to the reforms proposed as a means of fulfilling the agreed conditionalities; (ii) a few policy areas are selected, preferably in fields where the Bank or other donors are already working with the country, in order to ensure continuity, a more realistic approach, and more thorough-going institutional changes; (iii) the structure for program execution is flexible, allows for close coordination among participating agencies, and permits effective implementation of agreed policy measures, as in the case of the Bolivian Ministry

of Finance's institutional framework and experience; and (iv) operational mechanisms are flexible enough to adapt to changes occurring in the political, economic, and/or institutional environment.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's general objective is to support policy measures designed to improve and consolidate effective, efficient, transparent results-based public expenditure mechanisms. To this end, the program is structured around four policy areas: (i) comprehensiveness and quality of the budget cycle; (ii) integration of financial management systems at the central and subnational government levels; (iii) control of government expenditure; and (iv) measures for enhancing transparency and combating corruption.
- 2.2 The first program loan, amounting to US\$15 million, will be aimed at implementing basic budget policy reforms and initiating institutional changes that will then be carried forward by the program's second and third loan operations. This first loan is described in the following sections.

B. Description of the first single-tranche program loan

1. Comprehensiveness and quality of the budget cycle

- 2.3 The general objective in this policy area is to support the creation of a results-based management system in Bolivia by setting up procedures, methodologies, and mechanisms for improving the coordination and integration of the budget cycle and by building capacity for sector-program definition, priority-setting, and evaluation. Introduction of functional and program-based classification systems in the budgets of at least two pilot units in the draft Financial Act for the General Budget of the Nation for fiscal year 2006 should contribute to the alignment of policy priorities with resource allocations.
- 2.4 The instruments and methodologies developed for this purpose must be part of a system-wide scheme that encompasses the various phases of the budget cycle and rationalizes budget tools, from resource prioritization based on objectives and targets to feedback on budget performance for use in evaluating outcomes. The flow of information for use in decision-making should be revised to enhance the integration of the various stages in the budget cycle, taking into account the potential coordination and integration of the different information systems now in use. The efforts now being made to develop management agreements also need to be carried forward. Such agreements will provide an opportunity for institutional learning processes and alignment based on the definition of objectives, targets, and performance benchmarks for use in monitoring and evaluation.
- 2.5 With a view to overcoming the limitations of current budget legislation, the Ministry of Finance has drawn up a public budget framework bill, with IMF assistance, which should be considered by the post-election Congress that will

convene in January 2006. The new law is expected to organize budgetary regulations and contribute to greater accountability, efficiency, and transparency in the management of public resources. The new legal framework should be supplemented by a review and adjustment of the foundational regulations and statutes involved in the budget process.

- 2.6 In order to achieve the general objective established for this policy area, the program will be implemented on the basis of the following specific targets and conditions:

Objective	Disbursement conditions
Systematize budgetary regulations in order to ensure their consistency	<ul style="list-style-type: none"> - Submission of the public budget bill to Congress. This draft legislation should contain measures for enhancing transparency, upgrading expenditure, achieving results, and ensuring fiscal sustainability. - Submission of a draft Budget Act for 2006 to Congress that incorporates results-based management (prioritized objectives, benchmarks, and programmatic structures geared to a results-based management approach in the budgets of at least two pilot units). - Passage of updated foundational regulations and statutes for the budget system and for the operational programming system.
Achieve greater complementarity between the different stages of the budget cycle and the agents involved in them	<ul style="list-style-type: none"> - Passage of a budget classification scheme and budget management guidelines for 2006 that incorporate a functional and use-based classification of expenditures. - Approval of terms of reference for the engagement of consulting services in connection with the baseline analysis and feasibility study concerning information-system rationalization and integration based on the potential for the coordination and complementarity of existing systems (Results-Based Evaluation and Monitoring System (SISER), Integrated Administrative Modernization and Management System (SIGMA), Sistema de Información sobre Inversión Pública [Public Investment Information System] (SISIN), Sistema de Información sobre Financiamiento Externo [External Financing Information System] (SISFIN), and Sistema de Gerencia de Proyectos [Project Management System] (SGP)) within a results-based management structure.

2. Integration of financial management systems at the central and subnational government levels

- 2.7 In this policy area, support is to be given to the central government, prefectures, and municipal governments for the development and implementation of financial and budget management tools appropriate to their specific needs.
- 2.8 The reformulation of Municipal Financial Management Modernization Program – SIGMA (1091/SF-BO), to be carried out in late 2005, will take into account the recommendations made by the program’s international consultants regarding SIGMA’s technical conditions and Program BO-L1005’s policy matrix in order to

ensure that the remaining funds of 1091/SF-BO are used to backstop the government's efforts to reach the targets set for the second and third loans in this policy area.

2.9 The specific objective and associated conditions for the first loan will be as follows:

Objective	Disbursement conditions
Consolidate and expand the financial management system of the central and government and prefectures	<ul style="list-style-type: none"> - Demonstration of SIGMA's capacity to generate: <ul style="list-style-type: none"> (a1) Automated budget reporting that includes a functional classification of expenditures in the national budget for 2006 (a2) Comparative financial statements for 2004 (trends in net assets, the general balance, and outturn statement) of the central government - Initiation of SIGMA's implementation in at least three municipios (in addition to La Paz and Cochabamba)

3. Control of public expenditure

2.10 In view of the institutional weaknesses identified in key items of public expenditure, the work to be done in this policy area will support the development of tools for improving the quality of reporting and for monitoring and reducing outlays in two of the main components of public expenditure: the civil service payroll, and payments to annuitants and retirees covered by the old pay-as-you-go system.

2.11 The program will develop and implement a record-keeping and control system for tracking all payments to pensioners and employees of agencies that centralize their record-keeping systems and payrolls in the VMTCP. Biometric records on employees and pensioners will be used to create a reliable database so that correspondent banks will be able to issue payments securely and rapidly.

2.12 The identification of delinquent contributors and incorrect payments of pension benefits will generate savings for the Treasury and permit the recovery of contributions for the pay-as-you-go system or of erroneous payments.

2.13 The specific objectives and associated disbursement conditions in this policy area are as follows:

Objective	Disbursement conditions
Set up a record-keeping and control system to eliminate redundancies and fraud in the use of Treasury funds for the payment of wages and pension benefits, and upgrade beneficiary payment services	<ul style="list-style-type: none"> - Creation of a biometric record-keeping system for pensioners and civil servants receiving benefits and/or wages paid for out of the Treasury - Completion of the pilot project involving 30,000 biometric files on pensioners and civil servants receiving benefits and/or wages paid for out of the Treasury
Realize fiscal savings by reducing fraud and increasing collections of contributions due under the pay-as-you-go system	<ul style="list-style-type: none"> - Approval of updated anti-fraud plan - Approval of updated anti-delinquency plan

4. Measures for enhancing transparency and combating corruption

- 2.14 The aim pursued in this policy area is to help develop and consolidate institutional mechanisms that can be used to enhance transparency and accountability and deter corruption in the administration of public affairs.
- 2.15 The program will provide for voluntary measures aimed at increasing transparency in public agencies based on specific strategies to be defined for each agency. In addition, regulations will be framed in order to address two key issues relating to the improvement of transparency and internal controls: accountability for the management of public resources and the operations of in-house auditing units.
- 2.16 Regulations pertaining to Article 5 of Act No. 1178 (the SAFCO Act) will define the individuals and/or corporations that are required to report to the public agency holding jurisdiction over the management and use of public resources and benefits, in addition to the submission of audited financial statements. A new series of regulations will seek to provide in-house auditing units with operational independence, an institutional structure, and specific areas of jurisdiction relating to their main areas of activity while also ensuring their impartiality and, insofar as possible, their staff's job security.
- 2.17 The specific objectives and conditions will be as follows:

Objective	Disbursement conditions
Implement initiatives in government agencies aimed at enhancing transparency and accountability, and update the regulations and statutes referring to information access as a means of supporting social control measures	<ul style="list-style-type: none"> - Signing of agreements between the DPTIP, the Ministry of the Presidency, and four central and decentralized government agencies participating in the pilot project for implementation of the Estrategia de Transparencia Voluntaria [Voluntary Transparency Strategy] (ETV) - Issuance of the executive order on information access - Draft of the regulations on accountability under the SAFCO Act (Article 5 of Law No. 1178) and their submission to the Ministry of the Presidency
Reduce the risk of corruption by developing internal controls	<ul style="list-style-type: none"> - Draft executive order for strengthening and institutionalizing in-house auditing units, to be drafted and submitted to the Ministry of the Presidency

C. Cost and financing

- 2.18 This US\$15 million loan will be drawn from the Fund for Special Operations. The following two loans to be extended under this program will be for US\$10 million and US\$15 million, respectively.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Bolivia and the executing agency will be the Ministry of Finance. The following institutions will be responsible for carrying out the activities included in the program's policy matrix: Viceministerio de Presupuesto y Contaduría [Office of the Deputy Minister for Budgets and Accounts] (VMPC), the Viceministerio de Tesoro y Crédito Público [Office of the Deputy Minister for the Treasury and Public Credit] (VMTCP), the National Distribution Service (SENASIR), the Viceministerio de Pensiones y Servicios Financieros [Office of the Deputy Minister for Pensions and Financial Services] (VMPSF), and the Presidential Delegation for Public Transparency and Integrity (DPTIP).

B. Project implementation and management

- 3.2 In view of the need for a mechanism to facilitate close coordination among the agencies in charge of conducting the actions listed in the program's policy matrix, the relevant parties have agreed that program coordination and the management of Bank funds will be carried out by the Ministry of Finance through its Program Coordination Unit (PCU). This responsibility will be borne by the PMAP Coordinator, whose terms of reference will include the following specific tasks: (i) coordinate with the agencies in charge of carrying out the actions included in the program's policy matrix; (ii) monitor the progress of those actions on an ongoing basis; and (iii) provide the Ministry of Finance with up-to-date reports on the program's progress so that it may make the necessary decisions to ensure full completion of the program's policy actions on schedule. The agencies described in paragraph 3.1 should report to the PCU, upon its request, on the progress being made in fulfilling those of the program's policy actions for which they are responsible. These responsibilities will be defined in a ministerial resolution to be signed by the Minister of Finance. This resolution will take into account the need to link this program with other operations that may contribute to the achievement of its objectives.¹¹
- 3.3 The tasks involved in fulfilling the Policy area No. 1 conditionalities set forth in the policy matrix for the second and third loans will be backstopped by nonreimbursable technical-cooperation operation BO-T1033, which will focus on

¹¹ Operations now underway or in the pipeline that have a bearing on this program include: Municipal Financial Management Modernization Program – SIGMA (1091/SF-BO), Sector Program to Support Fiscal Sustainability (sector loan 1127/SF-BO, technical cooperation operations 1128/SF-BO, and ATN/SF-8333-BO), Support for Public Investment Program (BO-L1006), and Program to Support Transparency in Public Administration (ATN/SF-9044-BO).

developing a results-based management system in Bolivia and will be executed by the Ministry of Finance through the General Budget Office.

C. Implementation period and conditions for the processing of disbursements

- 3.4 A 12-month period will be allowed for the implementation and disbursement of this single-tranche loan starting from the entry into force of the corresponding loan contract. The disbursement could be carried out within a shorter period, however, if each and every one of the policy conditions agreed upon for the single tranche are met to the Bank's satisfaction. These stipulations are reflected in the matrix of program conditions (see the matrix in section V of this document and the matrix of means of verification in Annex II).
- 3.5 The second loan could be executed in 2006 and the third could be implemented approximately 12 months after that, provided that the triggers outlined in the policy matrix have been fulfilled. The satisfactory achievement of both the triggers and the targets listed in paragraph 3.3 will be conditions for consideration of the second and third sector loans.

D. Monitoring and evaluation

- 3.6 The borrower and the Bank have agreed upon a plan for monitoring program execution. The plan provides for quarterly meetings, to be held on dates agreed upon by the executing agency and the Bank. At these meetings the Bank and the PCU will review the progress being made toward fulfilling the program conditionalities by each agency during that quarter. Preventive and corrective measures will be agreed upon, as appropriate, to ensure achievement of program objectives. The executing agency will submit semiannual reports to the Bank during the program's implementation to permit it to ensure that the associated policy actions are being carried out on schedule. Upon completion of the one, two, or three loans executed under this program in support of policy reforms, the executing agency will submit a comprehensive final report to the Bank covering the activities conducted and the outlook in terms of the reforms' sustainability.
- 3.7 The program's direct benefits will be the outputs identified in the policy matrix. These benefits will be evaluated when fulfillment of the conditions established for disbursement of this project's single tranche is being reviewed. Program benefits will also be assessed during the reviews held to ascertain whether or not the trigger mechanisms for the program's second and third projects are in place. These triggers will constitute conditions precedent to the disbursement of these single-tranche loans.
- 3.8 The borrower and the Bank have agreed to carry out a sector assessment of the outcomes of the program's three single-tranche operations six months after the third and final operation's completion. The aim of this assessment will be to analyze how

fully their objectives and the conditions for their sustainability have been met. The sector assessment will be paid for with funds from the nonreimbursable technical-cooperation operation mentioned in paragraph 3.3. The final program report referred to in paragraph 3.6 will be taken into account, together with the progress made in implementing and consolidating mechanisms to upgrade public expenditure and results-based management in Bolivia.

- 3.9 The output matrix annexed to this project report (see Annex I) sets out the goals, indicators, and baselines to be used in the sector assessment.
- 3.10 In addition to the sector assessment, the project team will prepare the Project Completion Report (PCR) after program execution has concluded. The PCR will look at how fully the three loan operations' objectives have been met.

E. Procurement

- 3.11 The fast-disbursing funds from the sector loan may be used to finance the aggregate cost of eligible imports from IDB member countries. In this case, Bank procedures for sector loans, which do not require international competitive bidding, will apply. The funds will be disbursed upon the borrower's request and submission of evidence that all contractual conditions have been met to the Bank's satisfaction.

F. Controls and records

- 3.12 **Loan funds are to be deposited in a special account for the exclusive use of the program.** The executing agency will keep accounting and financial records on the receipt and use of loan resources. The executing agency will also keep records on the supporting documentation for payments or detailed indications as to where this information may be found for inspection by the Bank and/or external auditors. The accounting system should provide sufficiently detailed information to permit the verification and identification of the use made of program resources and to demonstrate that these funds have not been used for the procurement of ineligible goods or services. The accounting system should also be such as to generate timely financial statements and other reports, as required, and to permit audits to be conducted.
- 3.13 The borrower undertakes to submit an audited financial statement to the Bank, upon its request, on the use made of loan resources within ninety (90) days following disbursement of this loan's single tranche. The accuracy of this report will have been verified by independent auditors acceptable to the Bank in accordance with terms of reference previously approved by the Bank. The executing agency will authorize the auditors to furnish the Bank with any documents and/or additional information that it may reasonably request concerning the audit and the financial statements or auditor's reports.

G. Policy letter

- 3.14 The Bank is in agreement with the borrower concerning the macroeconomic and sector policies outlined in the policy letter sent by the Government of Bolivia to the Bank, which is attached to this document (see Annex III). This letter provides an overview of the economic policies and actions being implemented in order to improve and consolidate effective, efficient, transparent results-based public expenditure mechanisms. It also sets forth the government's commitment to undertake the reforms and actions agreed upon with the Bank.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The main assumptions underpinning this program's viability are as follows: (i) the government continues to place priority on modernizing public administration; (ii) the political will to comply with the program's conditionalities exists; and (iii) program implementation is to be conducted by an executing agency that is responsible for the coordination of the PMAP and international cooperation.
- 4.2 In addition, the Ministry of Finance is considered to have: (i) credibility as an executing agency based on its experience in implementing other programs; (ii) a stable and well-qualified professional staff; and (iii) good relations with the agencies responsible for implementing the actions included in the program's policy matrix.

B. Social, economic, and financial viability

- 4.3 The program is highly important for the public sector's development because it is designed to upgrade its capacity for managing public expenditures with the help of tools for promoting efficiency, transparency, and the achievement of results. The operation's significance therefore lies in the important role played by public expenditure in promoting the country's social and economic development.
- 4.4 As discussed in the opening paragraphs of this report, the need to honor short-term fiscal obligations and support medium-term reform measures within an environment of institutional uncertainty justifies this programmatic policy-based loan operation.

C. Social and environmental impacts

- 4.5 This operation does not qualify as a poverty-targeted investment (PTI) or as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). The resulting improvements in the management and quality of expenditure will, however, be conducive to the decision-making process involved in allocating resources to address the country's social priorities.
- 4.6 Given the nature of the sector covered by this program, it will have no environmental impacts. The Committee on Environment and Social Impact (CESI) reviewed the project concept paper at meeting No. 25-05, held on 23 June 2005.

D. Benefits and beneficiaries

- 4.7 The program output matrix is attached to this report (see Annex I). This matrix lists the program's expected benefits and outputs by policy area, the specific targets set for each policy area, and their intermediate benchmarks. The indicators outlined in the matrix will be analyzed once all three single-tranche operations have been completed.

E. Risks

- 4.8 Bolivia is a high-risk country owing to its current political and social situation, which poses formidable challenges in terms of governance and macroeconomic stability. Events in areas related to governance and, more specifically, the elections and the decision to convene a constituent assembly and hold a referendum on regional autonomy (revenue-sharing and delegation of authority over certain types of jurisdictions to subnational governments) will be the main determinants of the economic outlook for 2006 and for the medium-term sustainability of the country's fiscal accounts and debt position. This environment entails two chief risks for the program.
- 4.9 The **first risk** has to do with the uncertain continuity of the policies now being implemented by the Ministry of Finance. In particular, it could prove difficult to achieve fiscal sustainability because of the national government's deficit position and existing levels of pension liabilities and public-sector borrowing, the dispute surrounding the distribution of revenues from the country's hydrocarbons industry, and the existence of a highly dollarized banking system with a short-term deposit profile serving heavily indebted businesses.
- 4.10 The difficulties involved in attaining fiscal sustainability are also associated with the Bolivian economy's acute vulnerability to external shocks, such as a sharp depreciation in the exchange rate, another steep hike in international interest rates, a reduction in its access to concessional financing, a deterioration in its terms of trade, and/or a decline in the regional demand for its products.
- 4.11 These risk factors are partially mitigated by the current Administration's confirmation that the continuity of the Ministry of Finance's policies will be maintained. Available instruments for communicating the importance of maintaining fiscal equilibrium and discipline during the transition to the next Administration include the Strategic Framework for Strengthening Public Finances, the PMAP, and a series of projects agreed upon by the Bolivian government and international cooperation agencies. In addition, the Ministry of Finance's highly stable staffing table of technical personnel also helps to mitigate the risk of discontinuity.

- 4.12 The Efficiency in Public Administration Support Program's design as a programmatic PBL will allow the incoming Administration to adjust the activities outlined for the second and third loan operations in the policy matrix in order to bring them into line with its platform and strategic objectives. The flexibility of this type of loan operation will help to avoid the risk of noncompliance with activities included in the policy matrix.
- 4.13 The **second risk** relates to congressional passage of a public budget law, which could be jeopardized by a lack of consensus regarding its technical or political content. *This risk is mitigated by the inclusion of that legislative bill as a condition precedent to the sixth review of the current IMF stand-by arrangement.* This reinforces the government's commitment to submit such a bill to Congress and to continue working to build the necessary consensus for its passage. In the event that the second risk were to materialize, the harmonization and adjustment of lower-level regulations and standards will pave the way for as much progress as possible to be made toward the incorporation of results-based management. The proposed modality, consisting of three programmatic single-tranche PBLs, provides a gradual and flexible means of achieving the proposed objectives and goals that will preclude the need for the Bank and the country to assume rigid ex ante commitments such as those entailed by a multi-tranche PBL.
- 4.14 The risk that the reforms called for in this program might not be implemented will be mitigated by the execution of technical cooperation operation BO-T1033. This operation will contribute to the fulfillment of the conditions established in Policy area No. 1 (comprehensiveness and quality of the budget cycle) for disbursement of the program's second and third loans.

V. POLICY MATRIX

A. Disbursement conditions and triggers

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
	Sustainable fiscal equilibrium Macroeconomic stability	Maintenance of an appropriate policy framework that is in keeping with the program's objectives.	Maintenance of an appropriate policy framework that is in keeping with the program's objectives.	Maintenance of an appropriate policy framework that is in keeping with the program's objectives
Policy area 1: Comprehensiveness and quality of the budget cycle				
1.1. Budgetary regulations and statutes are uncoordinated and lack the appropriate legal status.	1.1. Systematize budgetary regulations in order to ensure their consistency	<p>(a) Submission of the public budget bill to Congress. This draft legislation should contain measures for enhancing transparency, upgrading expenditure, achieving results, and ensuring fiscal sustainability.</p> <p>(b) Submission of a draft Financial Act for 2006 to Congress that incorporates results-based management (prioritized objectives, benchmarks, and programmatic structures geared to a results-based management approach in the budgets of at least two pilot units.</p> <p>(c) Passage of updated foundational regulations and statutes for the budget system and for the operational programming system</p>	<p>(a) Passage of the public budget law. This legislation should contain measures for enhancing transparency, upgrading expenditure, achieving results, and ensuring fiscal sustainability.</p> <p>(b) Approval of an executive order harmonizing a compilation of the regulations and statutes involved in the budget process within an appropriate legal framework.</p> <p>(c) Definition of basic content of specific budget regulations and operational programming regulations for the central government.</p>	<p>(a) Approval of enabling regulations for the public budget law that provide for the harmonization of existing budgetary regulations and statutes.</p> <p>(b) Approval and implementation of a plan of action for disseminating the new regulations and statutes, and formulation of specific budget regulations and operational programming regulations for central government agencies.</p>

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
1.2 Shortcomings in terms of coordination and complementarity among the various stages and agents involved in the budget cycle.	1.2. Achieve greater complementarity between the different stages of the budget cycle and the agents involved in them	<p>(d) Passage of a budget classification scheme and budget management guidelines for 2006 that incorporate a functional and use-based classification of expenditures</p> <p>(e) Approval of terms of reference for the engagement of consulting services in connection with the baseline analysis and feasibility study concerning information-system rationalization and integration based on the potential for the coordination and complementarity of existing systems (SISER, SIGMA, SISIN and SISFIN, and SGP) within a results-based management structure.</p>	<p>(d) Preparation of methodological proposals for strengthening the results-based management system which provide for: linkage of government plans, AWP, and the budget; design of programmatic structures; and use of management benchmarks.</p> <p>(e) Approval of the plan of action for information-system rationalization and integration, including the definition of the guidelines and timetable for the third loan operation.</p>	<p>(c) Preparation of methodological proposals for strengthening the results-based management system which provide for: the design of a scheme for assessing public programs and incorporating information on performance into the planning and budget process and into the accountability system.</p> <p>(d) Implementation of the methodological package in at least two pilot units.</p> <p>(e) Implementation of the plan of action for information-system rationalization and integration in accordance with the agreed guidelines and timetable.</p>

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
1.3 Lack of appropriate mechanisms and instruments for increasing the efficiency of public administration.	1.3 Develop and consolidate mechanisms and tools for achieving closer alignment of objectives and accountability for outcomes.		(f) Signing of results-based management agreements that incorporate the methodologies defined for this purpose, and substantial progress in their implementation, in accordance with the terms set out therein, in at least three agencies. These organizations are to be chosen on the basis of their institutional capacity and the scale of resources they require.	(f) Signing of results-based management agreements and substantial progress in their implementation, in accordance with the terms set out therein, in at least three agencies in addition to those identified for the preceding loan operation.
Policy area 2: Integration of financial management systems at the central and subnational government levels				
2.1 Financial management systems partially integrated at the central government level; lack of such systems in the prefectures	2.1 Consolidate and expand the financial management system in the central government and prefectures	(a) Demonstration of SIGMA's capacity to generate: (a1) automated budget reports that include the functional classification of expenditures for the project in the national budget for 2006; (a2) Comparative financial statements for 2004 (trends in net assets, the general balance, and outturn statement) of the central government (b) Start-up of SIGMA's implementation in at least three municipios (in addition to La Paz and Cochabamba)	(a) Plan of action for maintaining SIGMA's sustainability is approved and being implemented in line with the timetable for the application of the recommendations made by the program's international consultants regarding SIGMA's operation, institutional structure, and sustainability (b) Simplified version of SIGMA for medium-sized and small municipios is developed.	(a) Satisfactory progress is made in implementing the plan of action on schedule. (b) SIGMA is implemented in a total of five municipios and is in the process of being implemented in four prefectures.

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
Policy area 3: Control of government expenditure				
3.1 Shortcomings in the record-keeping and control system used for payments of wages and pension benefits to civil servants.	3.1 Implement a record-keeping and control system to eliminate redundancies and fraud in the use of Treasury funds for the payment of wages and pension benefits, and upgrade beneficiary payment services. ¹²	(a) Creation of a record-keeping system involving the use of biometric information on pensioners and civil servants receiving benefits and/or wages paid for out of the Treasury. (b) Completion of the pilot project involving 30,000 biometric files on pensioners and civil servants receiving benefits and/or wages paid for out of the Treasury	(a) Evidence that the process of registering all pensioners and civil servants whose benefits and/or wages are paid for out of the Treasury is moving forward and that at least 180,000 pensioners and civil servants have been registered in the system. (b) Correspondent banks are contracted and are using biometric systems to make payments to pensioners and civil servants in accordance with the payrolls, lists and instructions issued by the Treasury.	(a) 100% of pensioners and civil servants whose benefits and/or wages are paid for out of the Treasury are receiving their payments via correspondent banks that are using biometric systems.
3.2 Lack of reliable statistics on civil service employment to backstop personnel management.	3.2 Integrate a civil service database to backstop effective personnel management.		(c) Design of a technical proposal for integrating the biometric database on civil servants with the SIGMA personnel management module.	(b) The integration of the databases envisaged in the preceding loan operation is underway and on schedule relative to the timetable established by the Ministry of Finance.

¹² For the purposes of this matrix, “paid for out of Treasury funds” refers only to payments made to pensioners and staff members of agencies that centralize their record-keeping systems and staff lists (payrolls) in the VMTCP.

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
				(c) Demonstrated ability to generate statistics on public-sector employment and on personnel expenses defrayed by Treasury funds.
3.3 Shortcomings in control mechanisms for payments to pensioners and collection of delinquent contributions to the pay-as-you-go system	3.3 Realize fiscal savings by reducing fraud and increasing collections of contributions due under the pay-as-you-go system.	<p>(c) Approval of updated anti-fraud plan.</p> <p>(d) Approval of updated anti-delinquency plan.</p>	<p>(d) 100% of new pensions, associated payments, and contributory compensation payments will be made using the new procedures developed as part of the reengineering of critical processes under technical cooperation operation ATN/SF-8333-BO.</p> <p>(e) The identification, review, and reclassification or suspension of payments obtained fraudulently are concluded and a representative sample of the resulting payments is vetted by external auditors.</p> <p>(f) The analysis of contribution records and identification of delinquent contributors are concluded and a representative sample of the resulting records is vetted by external auditors.</p>	<p>(d) 100% of contribution certificates and certified amounts of such contributions having an influence on new payments, associated payments, or contributory compensation payments will be issued. The sole source of information to be used for this purpose is the digitized database to be created under technical cooperation operation 1128/SF-BO.</p> <p>(e) The recovery of improper payments made to pensioners proven to have committed fraud has begun in 100% of such cases.</p>

Issue	Objective – Final Impact	Loan		
		First loan (US\$15 million)	Second loan (US\$10 million)	Third loan (US\$15 million)
		Disbursement conditions	Triggers	Triggers
Policy area 4: Measures for enhancing transparency and combating corruption				
4.1 Lack of transparency and accountability in public administration.	4.1 Implement initiatives in government agencies aimed at enhancing transparency and accountability, and update the regulations and statutes referring to information access as a means of supporting social control measures.	(a) Signing of agreements between the DPTIP, the Ministry of the Presidency, and four central and decentralized government agencies participating in the pilot project for implementation of the ETV. (b) Promulgation of executive order on information access. (c) Draft executive order setting out enabling regulations for provisions on accountability contained in the SAFCO Act (Art. 5 of Act No. 1178) has been prepared and submitted to the Ministry of the Presidency.	(a) Signing of ETV agreements with six public-sector agencies in addition to the four signed in fulfillment of the condition established for the first loan operation. (b) Submission to Congress of an information access bill. (c) Executive order setting out the enabling regulations for provisions on accountability contained in the SAFCO Act (Art. 5 of Act No. 1178) has been issued.	(a) Signing of ETV agreements with two prefectures and five municipal governments in addition to the 10 that were signed in fulfillment of the conditions established for the two preceding loan operations. (b) Passage of the Information Access Act. (c) 100% of the agencies subject to the regulations contained in the executive order comply with the reporting requirements established therein.
4.2 Institutional weaknesses pave the way for corruption in the public sector.	4.2 Reduce the risk of corruption through the development of internal controls.	(d) Draft executive order for the institutional strengthening of in-house auditing units has been prepared and submitted to the Ministry of the Presidency.	(d) Draft executive order for the institutional strengthening of in-house auditing units has been issued. (e) Plan of action for the enforcement of the executive order for the creation and institutional strengthening of in-house auditing units in coordination with the CGR has been approved and is being implemented on schedule.	(d) Satisfactory progress in implementing the plan of action for the institutional strengthening of in-house auditing units on schedule.

**EFFICIENCY IN PUBLIC ADMINISTRATION SUPPORT PROGRAM
BO-L1005
OUTCOME MATRIX**

Objectives	Program Outcomes	Program Indicators (2006-2008) and 2005 Baseline
Policy area 1: Comprehensiveness and quality of the budget cycle		
<p>(i) Coherent, systematized budgetary regulations and statutes;</p> <p>(ii) Greater complementarity between the different stages of the budget cycle and the agents involved in them;</p> <p>(iii) Development and consolidation of mechanisms and tools for achieving closer alignment of objectives and accountability for outcomes.</p>	<p>Bolivia's public sector has a modern, coherent, harmonized legal framework for its budget process. This paves the way for efficient and transparent management of public finances and for effective, results-based resource allocation within a multiyear time horizon.</p> <p>The country-risk rating, as determined by the methodology used in the CFAA, improves from "significant" to "moderate" thanks to greater fiscal discipline, strategic resource allocation, effective use of cash resources, and integrity in the utilization of public funds.</p> <p>Decision-making is strengthened and the quality of public expenditure is improved thanks to the organization, integration, and fuller understanding of the various phases in the budget cycle (planning, programming, drafting, congressional passage, execution, and monitoring and evaluation).</p>	<ul style="list-style-type: none"> • The Public Budget Act and its enabling regulations (including the provisions designed to enhance transparency, upgrade expenditure, and promote fiscal sustainability) are passed and are being implemented. Baseline: Ministerial Resolution No. 704 of 1989, Budget Management Act No. 2042, and the lack of legislation setting out an organizational structure for the budget process and fiscal discipline. • Passage, dissemination and enforcement of updated foundational regulations and statutes (operational programming system and budgeting system). Baseline: Provisions of executive resolutions of 1997 and reconciliation of 382 specific regulations applying to 450 public agencies. • Number of specific regulations drafted and approved by public agencies on the basis of new statutes and standards. Baseline: No regulations in place. • Improvement in the rating of performance benchmarks for the management of public finances (CFAA, 2004). Baseline: of 17 indicators, 6 were rated as A or B, 8 as C, and 3 as D (performance: high = A, good = B, fair = C, poor = D). • Country-risk rating using the CFAA methodology. Baseline: Significant • Distribution of budget guidelines and budget classifications as of July for each year. Baseline: Guidelines distributed in September of each year. • 100% of the relevant agencies draw up their budgets based on budgetary guidelines employing a functional expenditure classification system. Baseline: 2006 budget based on a functional classification. • Budget guidelines provide a means of linking yearly and multiyear projections with the country's policy strategy. Baseline: Fiscal projections are for one year only. There is no link between the annual (multiyear) budget and the country's policy strategy. • 100% of the relevant agencies have drawn up their budgets on a per program basis. Baseline: 2006 budget for two agencies.

Objectives	Program Outcomes	Program Indicators (2006-2008) and 2005 Baseline
		<ul style="list-style-type: none"> • Realistic fiscal (revenues and expenditures) projections. Baseline: If the system continues to exhibit its present degree of budgetary inertia and inflexibility, expenditures will exceed the system's ability to attract current inflows. This leads to overestimates of such flows (CFAA 2004 performance rating: C). • The budget and budget outturn are submitted along with other budgetary documentation, including comparable information for the two preceding years and projections for the two following years. Baseline: There is no medium-term framework for the programming of expenditures; the available projections are not taken into account in the budget's preparation. (CFAA 2004 performance rating: D) • Publication, accessibility, and dissemination of timely, well-formatted, clearly presented fiscal information in the form of midterm reports on the budget and on the government's position and performance. Baseline: Little financial information is published in a clear, readable format, and no in-year budget reports are made available to the public (CFAA 2004 performance rating: C). • Information systems providing support for expenditure management (SISER, SIGMA, SISIN and SISFIN, and SGP) provide a channel for exchanges of information useful in decision-making. Baseline: In various systems, information is not exchanged on a systematic or regular basis. • 30% of public administrative agencies are results-focused and are guided by strategic objectives and the ongoing reporting and use of performance information. Baseline: There are currently no such agencies. • Payment arrears, measured as a percentage of total expenditure (floating debt) are reduced to 5% to the total expenditures of agencies using SIGMA. Baseline: Arrears are quite low at the central government level but are more significant at the subnational level due to limitations on data collection and data availability (CFAA 2004 performance rating: C).
Policy area 2: Integration of financial management systems at the central and subnational government levels		
Consolidation and expansion of the SAF at the central government and prefecture levels.	Generation and provision of timely, reliable financial information via the SAF in: 100% of the central government (with the exception of the judicial branch and the Public Ministry), 80% of decentralized agencies, 55% of the prefectures, and 20% of municipal governments.	<ul style="list-style-type: none"> • Number of municipal governments using a reliable financial management system. Baseline: two municipal governments (La Paz and Cochabamba) • Number of departmental prefectures using a reliable financial management system. Baseline: La Paz Prefecture

Objectives	Program Outcomes	Program Indicators (2006-2008) and 2005 Baseline
Policy area 3: Control of government expenditure		
Stronger control mechanisms for public expenditure on payrolls and pension benefits and for the collection of delinquent contributions to the pay-as-you-go system.	<p>100% of Treasury expenditure on personnel services for agencies with centralized record-keeping systems and staff lists (payrolls) is monitored and is based on the civil service roster. This roster is updated on an ongoing basis, ensures the generation of reliable information, and helps to curb fraud.</p> <p>The pay-as-you-go system has been closed, and 100% of pension expenditure is processed and monitored using streamlined procedures and digitized records.</p>	<ul style="list-style-type: none"> 100% of the pensioners and civil servants whose benefits and/or wages are paid for out of the Treasury and associated with agencies whose record-keeping systems and staff lists (payrolls) are centralized in the VMTCP are registered in the biometric system. Baseline: 50,000 entries (14% of estimated total). 100% of pensioners and civil servants receive their benefits and/or wages via correspondent banks using the biometric identification system. Baseline: 0%. Statistics on Treasury-funded public-sector employment and payroll expenses of agencies whose record-keeping systems and staff lists (payrolls) are centralized in the VMTCP include reports on the relevant numbers, levels, increases/decreases, and modifications for each agency. Baseline: Reliable statistics are not now available. Identification of all delinquent contributors is completed and audited. Baseline: 149 agreements concerning the recognition of such arrears have been signed as of August 2005 between SENASIR and agencies in arrears to the pay-as-you-go system. Identification of improper payments is completed. Baseline: 41,200 cases in which recovery is under way have been identified as of August 2005. Generation of at least Bs\$100 million in savings through the suspension of payments found to be fraudulent. Baseline: January-June 2005: Bs\$12.8 million; savings of Bs\$30 million are projected as of December 2005. Recovery of at least Bs\$18 million in improper payments. Baseline: Bs\$2.9 million in January-June 2005. Recovery of at least Bs\$60 million in arrears owed to the pay-as-you-go system. Baseline: 1998-2004: Bs\$140 million; January-August 2005: Bs\$15.5 million; recovery of Bs\$21 million is projected as of December 2005.
Policy area 4: Measures for enhancing transparency and combating corruption		
Increased transparency, information access, and accountability; reduction of risk of corruption through the development of internal controls.	Information access in public-sector agencies is used to promote voluntary transparency in: 80% of the central government, 80% of decentralized agencies, 80% of the prefectures, and 20% of municipal governments.	<ul style="list-style-type: none"> Estrategia de Transparencia Voluntaria [Voluntary Transparency Strategy] (ETV) is in operation in public-sector agencies. Baseline: four central government agencies (National Customs Service, Ministry of Government, Ministry of Economic Development, and Ministry of Public Works). Enacted regulations concerning information access applying to all agencies subject to the corresponding executive order. Baseline: Executive order 28168 of May 2005 and draft bill of law.

Objectives	Program Outcomes	Program Indicators (2006-2008) and 2005 Baseline
	<p>100% of the agencies audited by the CGR and subject to the executive order setting out enabling regulations on accountability comply with those provisions.</p> <p>100% of the in-house auditing units of agencies within the central government and departmental prefectures are following the guidelines set forth in the executive order on institutional strengthening and effective internal controls.</p> <p>An improvement in Bolivia's ranking in the Corruption Perceptions Index to 75%.</p>	<ul style="list-style-type: none"> • Issuance of executive order setting out enabling regulations for Art. 5 of Act No. 1178 on public-sector accountability. Baseline: No regulations are in place. • Executive order in effect that reinforces the independence of all internal auditors and in-house auditing units of public-sector agencies. Baseline: No such order is in place. • Improvement in the quality and effectiveness of internal auditing based on supervisory reports and assessments conducted by the CGR and the publication and accessibility of audit reports. Baseline: Quality and effectiveness of internal auditing is poor; there is no evidence that internal audit reports have been published (CFAA 2004 performance rating: C). • Internal auditing serves as a basis for the subsequent use of external controls by the CGR. Baseline: internal audit reports are not being used by the CGR to conduct external audits. • An improvement in Bolivia's ranking in the Corruptions Perceptions Index. Baseline: Bolivia ranked 106 out of 133 countries in 2003 (80%) and 122 out of 145 countries in 2004 (84%).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION

Bolivia. Loan ____ /SF-BO to the Republic of Bolivia
Efficiency in Public Administration Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Bolivia, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of an efficiency in public administration support program. Such financing will be in the amount of up to US\$15,000,000 or its equivalent in other currencies, except that of the Republic of Bolivia, from the resources of the Bank's Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.