

PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB3370

Project Name	Integrated Financial Management Additional Financing
Region	LATIN AMERICA AND CARIBBEAN
Sector	Central government administration (70%);Sub-national government administration (30%)
Project ID	P106993
Borrower(s)	REPUBLIC OF GUATEMALA
Implementing Agency	
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	October 11, 2007
Estimated Date of Appraisal Authorization	October 29, 2007
Estimated Date of Board Approval	December 11, 2007

1. Key development issues and rationale for Bank involvement

The **Integrated Financial Management III Technical Assistance Project** was approved by the Board of Directors on February 7, 2002 for an amount of UDS 29.75 million, and became effective on April 18, 2003. The original project closing date was September, 2006 and it was extended once until June, 2008. This PID is for an additional loan to the Republic of Guatemala in an amount up to USD 20 million to support the scaling-up of this ongoing Project.

Despite important gains under IFML II, challenges still remained when the project was prepared. At the time, the IFM system (SIAF) covered 82 percent of national government spending and transfers, and the timeliness of data entry and commitment control in some instances needed improvements. Key spending areas that had not yet been incorporated included: i) municipal government expenditures (a legally separate level of government receiving significant revenue sharing resources from the central government despite profound institutional inadequacies); and ii) several existing social funds. Human resource management within the government was hindered by inadequate controls within agencies over work schedules, salary payments, personnel evaluations and history, raising concerns about the integrity of the government's wage bill. Procurement reform was delayed. The strengthening of the external audit function was hampered by the lack of modern legislation permitting the Office of the Comptroller General to concentrate on systematic audits using modern information technology, rather than paper based reviews of all government financial transactions. More fundamentally, the budget planning process needed to move from an overly detailed focus on incremental changes in budget line items or agency spending ceilings, to a more comprehensive understanding and review by relevant stakeholders of national priorities and government spending trade-offs. SIAF was reaching a point where its coverage and robustness would permit increased emphasis on the evaluation of results, extending the explicit time horizon for government decision-making, as

well as increasing the role of stakeholders (legislative, public, press) in overseeing budget execution.

Activities to be supported under this new operation are natural continuation and expansion of the country's successful financial management reform, which has been supported by the Bank since 1996 through a series of three consecutive investment operations.

2. Proposed objective(s)

The Project's development objective is to extend and deepen the reforms pursued under the Integrated Financial Management II Project (IFML II), with the aim of increasing the effectiveness, efficiency, and transparency of public sector financial management and control.

The project development objective (PDO) would remain valid as new proposed activities would continue supporting the same reform agenda. The proposed additional loan will help the Government of Guatemala to expand and complete its public sector modernization work in the areas of public expenditure, fiscal and financial management, as well as to strengthen its control systems and further implement its e-government strategy.

3. Preliminary description

The proposed additional loan for about USD 20 million would support implementation of complementary activities geared to complete, consolidate and expand Government's reform efforts in the areas of public expenditure planning and monitoring, fiscal and financial management, public procurement, internal and external control and further expanding implementation of e-government initiatives.

The purpose of expanding activities to be supported is to address pending issues described above, as well as to take advantage of the window of opportunity to advance and consolidate an already successful reform process. Within this context, the additional financing to be implemented over a three-year period, would support scaling-up activities in the following potential areas:

- a) **Consolidating and institutionalizing the SIAF project at the Ministry of Finance:** This proposed component would provide support to the Ministry of Finance in two critical areas:
 - i) reviewing and updating of SIAF modules in order to make them congruent with international accounting and budget standards;
 - ii) completing development and implementation of a transactional capable e-procurement system as an expansion of the existing GUATECOMPRAS; and
 - iii) supporting implementation of a gradual institutionalization process by which line units in the areas of budget, treasury, accounting and information technology will fully absorb operation, maintenance and continuous development of SIAF applications. Further work in the area of public employment and civil

service reform will also be explored to facilitate consolidation of public sector modernization programs.

- b) **Consolidating and expanding public expenditure management at the municipal level:** On the basis of results already achieved in the implementation of SIAF-MUNI in all 330 municipalities, the proposed additional financing would: i) further develop specific applications to support all FM related processes in municipalities; ii) integrate planning and public investment management applications fully integrated into the SIAF-MUNI application; iii) develop and implement new modules to support other local development services in municipalities; iv) strengthen MoF capacity to continuously provide technical support to municipalities; and v) improve existing connectivity between the MoF and the municipalities.
- c) **Designing and institutionalizing a permanent knowledge management system in the area of public expenditure management:** In order to ensure a sustainable capacity building process in the country, the additional financing would also provide support to the development of a permanent training model, with participation of public and private institutions geared to disseminate and educate public officials in all government levels in topics related to planning, monitoring and evaluation, financial management, public procurement, human resource management, auditing and others. This process will leverage on existing infrastructure, capacities and ongoing programs and will bring international experience to create training networks attending the demand for capacity building in a sustainable way. The project will also include tailored training activities on the demand side for key non-governmental groups including media, businesses, think-tanks, NGOs and others to ensure widespread demand for the data and, hence, long-run sustainability of the system.
- d) **Strengthening of the Comptroller General Office:** As this was probably one of the areas with less development under the ongoing IFMS III operation, the additional financing would facilitate the implementation of a comprehensive institutional strengthening effort at the Comptroller Office, and will further provide support and training to internal audit units to exercise and perform auditing activities with a proactive use of technology. These efforts will be complemented with an active participation of civil society organizations fostering transparency and accountability in the public sector. This component will be part of a multi-donor effort that will coordinate interventions from other bi-lateral agencies. It might also include grant funding from the Dutch Ministry for International Development to be channeled through a co-financing TF administered by the Bank.
- e) **Strengthening and integrating of planning and public investment systems:** In order to consolidate the MTEF approach in public expenditure management in the country, the project will expand its support to the Planning Office SEGEPLAN, to consolidate developments of the planning, monitoring and evaluation system as well as the public investment system, and will facilitate conceptual and technological integration of such systems with SIAF in the Ministry of Finance. The aim of this intervention is to facilitate effective integration of planning and budgeting processes and thereby enable effective implementation of a medium-term expenditure framework.

- f) **Implementing the e-government strategy:** Finally, on the basis of experiences and lessons already learned from implementation of SIAF and GUATECOMPRAS, the additional financing would support gradual implementation of e-government initiatives and projects at both the central and municipal governments taking advantage of areas of opportunity to enhance provision of public services for citizens and businesses, through simplification and consolidation of procedures and the utilization of a single window approach for public services. Proactive dissemination of these activities will be included to ensure that the public is aware of and begins to use the e-services on a regular basis.

4. Safeguard policies that might apply

No environmental or other safeguard related issues should be raised as a result of this proposal as it will only continue implementation of technical assistance activities in areas similar to those included in the original project.

5. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	20
Total	20

6. Contact point

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