



1. Project Data:		Date Posted : 11/12/2001	
PROJ ID: P006889		Appraisal	Actual
Project Name: Co Public Financial Man	Project Costs (US\$M)	58	54
Country: Colombia	Loan/Credit (US\$M)	30	29
Sector(s): Board: PS - Central government administration (100%)	Cofinancing (US\$M)		
L/C Number: L3669			
	Board Approval (FY)		93
Partners involved :	Closing Date	06/30/2000	03/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
Objective was to (a) foster quality information flows to help every administrative agency make decisions while preserving their autonomy, and (b) improve the management of public finances through a variety of functions, from collecting revenues to evaluating public policies. Accounting principles and procedures were to be defined and implemented initially in selected national entities over 6 years and then extended throughout the country's public administration. A follow on project, PFMP-II, was also planned.

b. Components
The project's five components were (1) resource mobilization, (2) macro-programming, (3) expenditure management, (4) monitoring and evaluation and (5) institutional strengthening. An integrated financial management system (SIIF) was introduced in 46 entities covering about 80% of total central government expenditures. While the project objectives were unchanged, some funds were reallocated (more for consultants, less for computers) during implementation.
The project supported administrative changes in the Directorate of National Taxes & Customs (DIAN, which set up special units to provide information to taxpayers), enforcement (e.g. system to generate notices to delinquent taxpayers), and computerization and data sharing. On the expenditure side, the Treasury (MHCP) and the Planning Ministry's (DNP) ability to forecast and control expenditures were to be improved.

c. Comments on Project Cost, Financing and Dates
The loan covered 52% of the project's cost (and 100% of foreign costs). More than half the loan was to help DIAN improve tax administration and hence increase revenue collection.
Other external agencies were involved in the task although they did not co-finance the project. The IDB financed part of the government's reform of tax administration and GTZ trained DIAN staff. The US customs service, and the IRS, under Plan Colombia, trained DIAN and police staff in investigating tax evasion, money laundering and other illegal activities.

3. Achievement of Relevant Objectives:
The project improved tax administration and hence revenue collection, but did not improve policy making. Administrative and enforcement actions raised delinquent tax collections from US\$ 35.8m in 1995 to US\$385.9m in 1999. Letters to non-complying taxpayers generated an additional Ps.20.7b in 1999 and Ps.25b in 2000; additional revenues from tax audits rose from 1.6% of tax revenues in 1996 to 5.6% in 1999; and the gap between potential and actual VAT receipts fell from 32% in 1994 to 23% in 2000.
On the expenditure side, the Office of Accountant General created in 1991 implemented a new chart of accounts and norms, and nationally consolidated fiscal accounts have been published annually since 1995.
The M&E function was implemented; but there is no indication of how well the efficiency agreements performed. The National System for the Evaluation of Results of Public Sector Performance (SINERGIA) was introduced in all 16 sector Ministries and 170 public entities (as well as in 2 departments and 3 municipalities) but the evaluation of public policies and fiscal sustainability were not attained.
Collecting taxes efficiently and spending wisely is partly an administrative issue -- which the project addressed -- and partly the result of discretionary government decisions. Both are necessary and neither is sufficient for fiscal

soundness which has remained elusive.

4. Significant Outcomes/Impacts:

Tax administration has improved, and this would enable sound fiscal management if the government decides to conduct more prudent fiscal policies.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The ICR mentions that the government budget cuts (deficit reduction under a macro-stabilisation program) delayed some of the project's activities, and these may have been self-defeating if they impeded the government's ability to raise sufficient tax revenues. Similarly, low salaries resulted in staff turn-over in DIAN's staff, especially those that were just trained. Both of these problems could have been prevented if the tax authorities had made the case for their budgets. Personnel changes under three different administrations may have been responsible for this, which also delayed decisions and resulted in the project having to be extended.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	High	Substantial	Administrative abilities in DIAN were improved, but sound public finance decisions at the policy level were not. Although policy improvements were among the project's stated objectives, this was probably beyond what the project could have accomplished.
Sustainability:	Highly Likely	Likely	The improvements in tax administration are very likely to be sustainable; but as the project did not improve the government's discretionary policies, sustainability is likely, not highly likely.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Although the project was complex, it was well designed and implemented. The main lessons are:

1. Complex, far-reaching changes take long and sustained effort to take root. So commitment, consistency and continuity are important.
2. Computerization and administrative efficiency are not sufficient for fiscal soundness which also requires political commitment on discretionary policies.
3. Developing integrated financial management systems requires central direction and allocation of effort.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

A good, although excessively detailed description of the many aspects of the project.