ICR Review

Operations Evaluation Department

Report Number : ICRR11542

1. Project Data:		Date Posted :	06/30/2003	
PROJ ID :	P048657		Appraisal	Actual
Project Name :	Integrated Financial Management Ii	Project Costs (US$M)	18.0	17.55
Country :	Guatemala	Loan/Credit (US$M)	15.7	15.7
Sector(s):	Board: PS - Central government administration (100%)	Cofinancing (US$M)		
L/C Number :	L4269			
		Board Approval (FY)		98
Partners involved :		Closing Date	09/30/2002	09/30/2002

Prepared by :	Reviewed by :	Group Manager :	Group :	
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2. Project Objectives and Components

a. Objectives

1. Increase the efficiency and transparency of public sector financial management and control . 2. Improve the delivery of public services through the devolution to line agencies of the primary responsibility for management of their financial resources. 3. Improve the execution of public investment. 4. Establish and/or strengthen mechanisms to reduce corruption in public sector spending . These will continue and expand the reforms initiated under the ongoing Integrated Financial Management Project (IFM-1).

b. Components

1. Extending Integrated Financial Management Reforms (US$8.4 million) for improved budget, accounting, cash management, and procurement by extending the entire reformed system to the remainder of the nonfinancial sector public sector (26 entities in addition to the 6 agencies which already benefitted from IFM-1) through a uniform regulatory framework and modern, graphics-based information technology 2. Strengthening the Comptroller General's Office (CGC) (US$ 3.7 million) through diagnosis of the structure and functions of the CGC, restructuring, creation of a new human resources management system and staff training, and (iv) development of updated audit information technology system, and assistance in the development of substantive external audit functions . 3. Strengthening the public investment function (US$1.2 million) and integrating it into the broader financial management system through technical assistance, information technology and training . 4. Debt Management (US$2.0 million). Strengthening capacity of government to contract and manage internal and external debt . Finally, the project coordination unit accounted for US$ 1.1 million.

c. Comments on Project Cost, Financing and Dates

The project cost US$17.55 million, financed by an IBRD loan for US$15.7 million and Government counterpart financing of US$1.82 million. The project was appraised in September, 1997, approved by the Board on December 23, 1997, made effective on November 19, 1998, and closed on schedule on September 30, 2002.

3. Achievement of Relevant Objectives:

1. The project supported the development, implementation, and extension of modern financial management, budget, and accounting systems that improved operational efficiency, increased the accuracy and reliability of financial information, and provided access to real-time date to a number of public sector institutions. It also supported the reorganization of the Ministry of Public Finance (MPF). 2.The project supported the creation and strengthening of 43 financial management units (UDAFS) in the line agencies and 6 UDAFs in autonomous entities (of which 6 of these 49 had already benefitted from IFM-1) thereby exceeding the target for this component. Each UDAF is now responsible for carrying out monthly and annual accounting reconciliation, budget preparation, treasury and cash management functions, and procurement for its respective institution . 3.The newly implemented National Public Investment Information System (SNIP) has increased the reliability and accuracy of investment data so that new investment data are now consistently evaluated based on financial or economic data which in turn improves the prioritization of public investments and reduced the prevalence of major cost overruns . 600 public employees received training in public investment evaluation by mid-1999 (but no further update given in the ICR for this component). With the integration of accounting, budget, and treasury functions within the MPF and line ministries, the Government is better able to track expenditures against budget projections and has better evidence to detect

potential discrepancies. 4.Responsibility for negotiating, placing, and monitoring external debt was assigned to a newly formed department within the Public Credit Directorate (DCP). Operational manuals were elaborated, operational procedures for takin on new debt were reviewed, job descriptions were reviewed, new framework controls were developed, and technology was upgraded and integrated. A new debt management system was in large measure implemented (and is expected to be completed by mid-2003), including hardware and software systems, staff training, and hiring of consultants to facilitate the integration process.

4. Significant Outcomes/Impacts:

The time needed to prepare the national budget has decreased by 66 percent during the first two years of project operation. Government is now able to record financial transactions, prepare budget projections, and reconcile accounting data in close to real time. Automation of the budget and accounting systems and new mechanism for verifying information entry have reduced errors to nearly negligible levels. Corruption has been reduced as substantiated in the most recent Country Financial Accountability Assessment (June, 2002). Payment by check has been reduced, and for 43 public entities, 70% of civil servant salaries are now paid through the banking system, thereby reducing costs. The quality of staff was widely upgraded as 16,000 public employees were trained under the project. Efficiency and effectiveness indicators were prepared, budget-by-results methodology was used in the preparation of the FY01 budget, critical laws were passed, reports on investment execution were prepared beginning in late 1999 and a debt management unit was organized.

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

1. Upgraded staff is the key to continuing successful implementation of this project. But high turnover rates are apparently not being addressed and will detract over time from the improvements supported by the project. In addition, some deficiencies remain, including (i) inadequate management of special and rotating funds, (ii) reconciliation of bank statements, (iii) payment made through Single Recorded Receipts (CURs) without proper supporting documentation, (iv) some non-budgetary usage of funds (but the ICR does not precisely quantify the extent of this problem), and (v) weak internal controls in some of the line agencies. In addition, the ICR matrix of key performance indicators shows that although efficiency and effectiveness indicators were developed for selected ministries as per the SAR, specific results are not available.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Highly Likely	Likely	High rates of staff turnover may affect sustainability over time.
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:

1. Project success hinges on Government commitment. A number of political decisions needed to be made expeditiously for this project to succeed, and this was only possible with a strong government commitment to the objectives of the project. Conversely, in the few areas where government commitment was lacking, such as restructuring the CGC, implementation was delayed, although it was ultimately successful. 2. Solutions which require development of new technical and computer programs should be avoided. Widely-available, off-the-shelf components facilitate implementation.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR does a good job of presenting the details of this project. However, the main ICR report in the output section could have discussed in more detail the impact indicators in annex 1. The Borrower's Contribution is complete and especially thoughtful in exploring the quantification of project benefits.