



<b>1. Project Data :</b>
<b>OEDID:</b> C2279
<b>Project ID:</b> P006189
<b>Project Name:</b> Second Public Financial Management Operation (PFMO II)
<b>Country:</b> Bolivia
<b>Sector:</b> Other Finance
<b>L/C Number:</b> C2279
<b>Partners involved :</b> none
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<b>Date Posted:</b> 07/20/1998

**2. Project Objectives, Financing, Costs and Components :**

This credit, approved in 1991, provided US\$ 11.3 million to further the strengthening of financial administration and control in Bolivia's public sector begun under PMFO I of 1987. The first project concentrated on improving financial management, control and oversight of the Ministry of Finance and the Office of the Controller General. It was successful in establishing the overall legal framework and foundation for an integrated financial administration and control system. PMFO II was designed to extend these improvements to other national and local public sector entities, and to provide the Government with the management information system needed to execute and provide accountability in budgetary policy. The credit financed technical assistance to institutionalize budgeting, cash management and auditing, upgrade skills needed for implementation of the new financial management system, improve expenditure controls, and implement the Financial Administration and Control Systems Law (SAFCO).

**3. Achievement of Relevant Objectives :**

The objectives of the project were achieved. The project supported the increased automation, standardization and transparency of procedures for public sector financial management. The financial management system allowed integration of the Ministry of Finance's treasury, budgeting and accounting functions. A prototype financial information system was developed for decentralized agencies. Improvements were drafted and officially approved. The National Training Center provided courses in budgetary accounting, auditing and other procedures to over 15,000 public sector participants.

**4. Significant Achievements :**

The SAR attributes Bolivia's economic crisis of the first part of the 1980s, to nonexistence of a financial management system. Lack of appropriate information systems and controls permitted explosive growth of the fiscal deficit, leading to hyperinflation. It attributes reduction of the deficit to 0.8% of GDP by 1988 (and other fiscal improvements) to the first phase of improvements in the system. Unfortunately, the SAR does not include any objective (or subjective) outcome indicators for PMFO II. Nor is there any discussion in the ICR of fiscal performance since 1988. It is, therefore, not possible to determine whether the project has produced significant achievements (outcomes), as a result of installing a more sophisticated system (at a cost of US\$ 26 million).

**5. Significant Shortcomings :**

The ICR indicates the existence of several problems: (1) the fiscal system is overly complex and there were difficulties in finding qualified Bolivian task managers and IDA projects supervisors; (2) there is some question as to whether regular Bolivian civil servants will be able to manage and utilize the system, or whether it will be run by consultants; (3) the problem of fiscal management may largely reflect the "institutional culture:" rather than the information system; (4) budget management remains a political process, making sophisticated programming and evaluation pointless; and (5) audit functions cannot be carried out without appropriate internal controls, incentives for following procedures, and strong enforcement procedures.

High turnover of ministers and undersecretaries, who were the managers of the financial management system, constant rotation of staff and reliance on consultants pose a risk to sustainability. It is important that government maintain continuity of staff and administrative procedures in design and application of the system.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Partial	Modest	
<b>Sustainability :</b>	Uncertain	Uncertain	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

Improving fiscal management is a complex task . Budgetary management is, at its core, a political process . Technical assistance for implementing improved systems of fiscal management cannot, therefore, stand along and must be part of a comprehensive country program strategy, including a broader adjustment effort with emphasis on governance issues .

**8. Audit Recommended?** ☐ Yes ☒ No

**9. Comments on Quality of ICR :**

The ICR is satisfactory .