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RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
SECOND PUBLIC EXPENDITURE MANAGEMENT PROJECT  
LOAN 7485-CH

AUGUST 28, 2007

TO THE  
REPUBLIC OF CHILE

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## ABBREVIATIONS AND ACRONYMS

DIPRES	Budget Directorate in the Ministry of Finance ( <i>Dirección de Presupuesto</i> )
ICT	Information and Communication Technology
MCS	Management Control System
SIFIM	Municipal Financial Management System ( <i>Sistema Financiero Municipal</i> )
SIGFE	Integrated Financial Management System ( <i>Sistema de Información para la Gestión Financiera del Estado</i> )
SUBDERE	Sub-Secretariat for Regional Development and Administration ( <i>Subsecretaría de Desarrollo Regional y Administración</i> )

Regional Vice President:	Hasan Tuluy
Country Director:	Susan G. Goldmark
Sector Manager / Director:	Arturo Herrera
Task Team Leader:	Ana Bellver Vazquez-Dodero

**CHILE**  
**SECOND PUBLIC EXPENDITURE MANAGEMENT**

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## SECOND PUBLIC EXPENDITURE MANAGEMENT

### RESTRUCTURING PAPER

#### A. SUMMARY

1. The proposed changes to the Chile Second Public Expenditure Management Project, IBRD Loan 7485, P103441 include: (i) redefinition of project activities including cancellation of the activities related to the strengthening of the Management Control System (sub-component 2.2); (ii) revision to the results framework; and (iii) changes in project financing including the revision in financing sources, reallocation of project costs by component and of Loan proceeds. Adjustments are required due to a change in Government strategy or approach and are being made at the request of the Ministry of Finance to focus the Project's activities on the consolidation of the Financial Information System at the Central and Subnational levels, and to drop activities related to sub-component 2.2 given the Government's intention to redefine the instruments for management control and evaluation. The Project Development Objective remains unchanged. The negotiated legal documents would be revised accordingly.

#### B. PROJECT STATUS

2. Project implementation and performance is satisfactory. Most PDO and intermediate indicators are being achieved as planned. Progress towards the achievement of the PDO includes: (i) increased efficiency of public financial management administration by upgrading and expanding the national Financial Administration System (SIGFE), which has been fully developed and is almost completing its implementation; and increased effectiveness and transparency of public expenditure management at municipal level by developing a Municipal Financial Information System (SIFIM), which has been implemented in all the 110 targeted municipalities.

3. Although the Project has almost fully disbursed the original amount (\$24,681,311 out of \$24,800,000), the Bank is still involved in the support of key activities to complete implementation of the financial management system at the central and subnational level (SIGFE and SIFIM respectively). Main advances in the Project components are summarized below.

4. *Component 1. Upgrading and Extending the Financial Information System to the Central Government Entities.* The objective of this component is to support the further development and consolidation of the national Financial Management System - SIGFE by: (i) upgrading and optimizing the ICT and technical design of SIGFE modules; (ii) improving its functionality, interoperability and reporting; and (iii) implementing data standards issued by Normative Entities in all entities using the homologated systems.

5. Significant progress has been made in this component. The Financial Management System is almost fully implemented. The Government has closed the contract with the software developer (Everis) and is currently testing the final release and resolving the last incidences during the guarantee period. However, the system is still unstable and fine-tuning is being conducted by external specialists. Depending on the

outcome of the tests, the implementation plan may have to be reviewed. The Government has requested support from the Bank in the final stages of the system's implementation, mainly for: (i) reviewing the performance of the system's final release; (ii) providing recommendations for the implementation plan; and (iii) providing advice on issues related to the maintenance of the system (including the bidding process for hiring maintenance services once the guarantee period is completed).

6. *Component 2. Improvement of Budget Procedures and Mechanisms of the Management Control System.* The objective of this component is to support the efforts directed to enhance the quality of public expenditures by strengthening the Management Control System (MCS) and integrating it into the Budget Cycle, mainly through the development and implementation of (i) a new conceptual model for the Budget Cycle, linking the budget classification with the information categories of the MCS; (ii) a MCS information system; and (iii) a new version of the budget formulation system (SIAP) used by the Budget Directorate (DIPRES).

7. Progress in this component is modest. Regarding sub-component 2.1, directed to improving budget procedures, the Government has prepared draft terms of reference for the development of SIAP II; however, given the delay in the bidding process, the SIAP II will not be ready for 2012 budget formulation. Regarding sub-component 2.2, directed to strengthening the MCS, the Government has decided to redefine the instruments for management control and evaluation, and therefore the sub-component would be dropped.

8. *Component 3. Strengthening Financial Administration at Municipal Level.* The objective of this component is to (i) improve the availability of information on municipal budgets and on financial transfers; (ii) strengthen financial administration at the municipal level; and (iii) improve the effective use of central government transfers to municipalities.

9. Steady progress has been made in this component. The contract with the firm CAS Chile to implement the municipal financial management module was closed. The equipment has been installed in all municipalities; however, some of them have experienced challenges with the migration of the data and therefore are not using the system. The Under-secretariat for Regional Development and Administration (*Subsecretaría de Desarrollo Regional y Administración – SUBDERE*) is reviewing it on a case by case basis in order to solve this problem. The SUBDERE and the internal control body (Contraloría General de la República) have reached an agreement regarding the development of the module to aggregate the information ("aggregator") but there have been delays in the drafting of the terms of reference and the technical specifications.

10. *Component 4. Project Management.* The objective of this component is to strengthen the Government's capacity to monitor and supervise the overall implementation of the Project. The Project Management Unit has performed highly satisfactory. The project submits bi-annual progress reports where indicators are monitored and key issues regarding implementation highlighted; and is disbursing faster than planned. There is a fluid communication between the authorities and the technical teams to ensure a smooth implementation.

11. The proposed restructuring does not affect the financial management implementation arrangements. There are no overdue audit reports.

### **C. PROPOSED CHANGES**

12. As indicated above, the Project Development Objective remains unchanged. However, adjustments are required due to the request of the Government to: (i) focus the Project's activities on the consolidation of the Financial Information System at the Central and Subnational levels; (ii) drop activities related to the strengthening of the Management Control System (sub-component 2.2) given the Government's intention to redefine the instruments for management control and evaluation; and (iii) reduce the scope of SIAP 2.0, eliminating the development of the interoperability function. Changes in results indicators and components are described below.

#### **Results/indicators**

13. Adjustments would be made to Project results indicators to align them with changes being introduced in the Project components. The adjustments in PDO level indicators and in intermediate results indicators (IRI) are described in detail in Annex 1.

14. **PDO Level Indicators.** Indicator 2 related to the Management Control System has been dropped with the cancellation of sub-component 2.2 and the yearly target values for the other indicators have been revised to better reflect Project progress.

15. **Component 1. Upgrading and Extending the Financial Information System to the Central Government Entities:** Target values for Indicator 1.i would be revised to properly capture Project's advances.

16. **Component 2. Improvement of Budget Procedures and Mechanisms of the Management Control System:** Project sub-component 2.2 would be dropped due to the Government's intention to redefine the instruments for management control and evaluation. Accordingly, indicators 2.i, 2.iii and 2.iv, set to measure progress in this sub-component, would also be dropped. Indicator 2.ii would be revised to reflect the reduction in the scope of the SIAP 2.0.

17. **Component 3. Strengthening Financial Administration at the Municipal Level:** Target values for Indicators 3.i and 3.ii would be revised to properly capture progress in the Component's activities.

#### **Financing**

18. Under the proposed restructuring, total Project costs would not change. However, costs by component would change to reflect changes in scope and activities, as follows:

- Component 1: Increase in the total amount as a result of the higher amount of the awarded contract, compared to the original estimated amount for the development of the system. The revised amounts also reflect a change in the source of

financing, given that, after discussing with the Bank's technical and procurement teams, it was agreed with the government that the system would be funded with counterpart financing instead of Bank financing.

- Component 2: Reduction in the total amount as a result of dropped activities and the reduction in the scope of SIAP 2.0.
- Component 3: Increase in the total amount as a result of an expansion in the coverage of the municipal system to include health and education sectors. To accommodate the change in financing for Component 1, this component would then be fully Bank-financed.
- Component 4: Reduction of the total amount as a result of a decrease in consultant costs due to the creation of the Information Technology Department within the DIPRES, responsible of the operation and maintenance of the system.

**Table 1. Project Costs by Component, current vs. revised  
(in USD Million)**

Components/Activities	Current			Revised		
	Local	Bank	Total	Local	Bank	Total
<b>Component 1. Upgrading and Extending the Financial Information System to the Central Government Entities</b>	<b>14.0</b>	<b>17.1</b>	<b>31.1</b>	<b>19.8</b>	<b>15.2</b>	<b>35.0</b>
Sub-Component 1.1: Upgrading and Expanding SIGFE Functions	11.5	13.4	24.9	19.6	14.6	34.3
Sub-Component 1.2 – Extending SIGFE to Central Government Entities	1.9	2.8	4.7	0.1	0.2	0.3
Sub-Component 1.3 – Strengthening the Public Treasury	0.6	0.9	1.5	0.1	0.4	0.0
<b>Component 2. Improvement of Budget Procedures and Mechanisms of the Management Control System</b>	<b>1.9</b>	<b>2.8</b>	<b>4.7</b>	<b>0.7</b>	<b>0.6</b>	<b>1.3</b>
Sub-Component 2.1 - Improvement of Budget Procedures	1.3	1.8	3.1	0.6	0.6	1.2
Sub-Component 2.2 - Strengthening the Management Control System	1.0	1	1.6	0.1	0	0.0
<b>Component 3. Strengthening Financial Administration at the Municipal Level</b>	<b>3.0</b>	<b>4.5</b>	<b>7.5</b>		<b>8.5</b>	<b>8.5</b>
Sub-Component 3.1 – Development of a Municipal Financial Information System	1.0	1.5	2.5		4	4.0
Sub-Component 3.2 – Installation of a Sub-System of Municipal Financial Administration	2.0	3	5.0		4.5	4.5
<b>Component 4 - Project Management</b>	<b>3.0</b>	<b>0.4</b>	<b>3.4</b>	<b>1.4</b>	<b>0.4</b>	<b>1.8</b>
<b>Total</b>	<b>21.8</b>	<b>24.8</b>	<b>46.6</b>	<b>21.8</b>	<b>24.7</b>	<b>46.6</b>

## Reallocations

19. The proposed restructuring would require reallocation of proceeds by category as a result of the changes in costs assigned by component. The revised allocation of proceeds is presented in the table below.

**Table 2. Category of Expenditure, current vs. revised  
(in USD Million)**

Category of Expenditure	Allocation		% of Financing	
	Current	Revised	Current	Revised
(1) Goods, non-consultant services, works, consultants' services, operating costs and training for Parts A, B and D of the Project	20.238	16.206	100%	100%
(2) Goods, non-consultant services, works, consultants' services, operating costs and training for Part C of the Project	4.5	8.532	100%	100%
(3) Front-end Fee	.062	.062		
<b>Total Amount</b>	<b>24.8</b>	<b>24.8</b>	<b>100%</b>	<b>100%</b>

## D. APPRAISAL SUMMARY

20. The proposed restructuring does not change substantially the scope of the Project nor the amount of funding, and therefore it does not alter the Project's economic and financial viability. There are no new social or environmental issues. It does not trigger new risks or exceptions to Bank policy.

**ANNEX 1:  
Results Framework and Monitoring  
CHILE: SECOND PUBLIC EXPENDITURE MANAGEMENT**

<b>Project Development Objective (PDO):</b> The overall development objective is to increase the efficiency of operations regarding financial management, budget formulation, and budget execution, and the transparency of public expenditure management at the central and municipal level through the implementation of an updated, functionally enhanced and expanded financial administration system (SIGFE).												
PDO Level Results Indicators*	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					YR 1	YR 2	YR 3	YR4	YR5			
<b>Indicator One:</b> Increase efficiency of public financial management Administration by upgrading and expanding the national financial administration system and using common standards at the central level	<input type="checkbox"/>	R		Aggregated information available only on demand	Strategy defined	The system's conceptual model and the technological architecture defined	50% of the system developed	100% of the system developed and 50% implemented	100% of SIGFE II implemented	Bi-annual	Annual reports, mid-term review, academic studies, surveys and statistical studies	PIU and MCS experts
<b>Indicator Two:</b> Increase effectiveness of operations regarding budget formulation and budget execution by developing new methods for resource management by strengthening the Management Control System and integrating it in the budget cycle.	<input type="checkbox"/>	D		Isolated information on financial performance and related impacts	10%	20%	30%	70%	A revised budget process incorporating continuous MCS feedback			
<b>Indicator Three:</b> Increase effectiveness and transparency in public expenditure management on the municipal level by developing a Municipal	<input type="checkbox"/>	R		Consolidated financial information at the municipal level available in			Conceptual model designed	Aggregating system implemented	A Municipal Financial Information System, capable of aggregating			

Financial Information System.				180 days					the information of all 345 Municipalities is implemented, and information is available in 30 days.			
<b>Indicator Four:</b> Increase effectiveness of financial management at the local level by implementing a system build on common standards.		R		Several incongruent systems used for financial administration at municipal level	20	40	60	80	At financial information of at least 100 municipalities is included in the Municipal Financial Information System			

**INTERMEDIATE RESULTS**

**Intermediate Result (Component One):**

<i>Intermediate Result indicator One:</i> Number of institutions where time required to aggregate financial data for the central government is reduced from 30 to 8 days	<input type="checkbox"/>	R		0 institutions	0 institutions	0 institutions	8 institutions	93 institutions	169 institutions (all Central Government)	Bi-annual	Annual reports, mid-term review, academic studies, surveys and statistical studies	PIU and Financial Management Systems experts
<i>Intermediate Result indicator Two:</i> Increased processing capacity of transaction module from 95,000 to 200,000 financial transactions per day with a response time within 8 seconds at port.	<input type="checkbox"/>	C		Transaction processing capacity of 95,000 per day			System with processing capacity	System operating	200,000 transactions processed per day and response time less or equal to 8 seconds			

<i>Intermediate Result indicator Three:</i> SIGFE's configuration processes have been automated.	<input type="checkbox"/>	C		Manual configuration processes		20%	50%	80%	SIGFE's configuration processes automated			
<i>Intermediate Result indicator Four:</i> Batch interfaces between SIGFE and ChileCompras, BIP of MIDEPLAN and other selected systems have been replaced by full interoperability.	<input type="checkbox"/>	C		Batch interfaces		Full interoperability with ChileCompras	Full interoperability with BIP	Full interoperability with other selected systems has been achieved	Fully automated, real-time data exchange between SIGFE & ChileComprasMIDEPLAN's BIP and other selected systems			
<i>Intermediate Result indicator Five:</i> Upgraded SIGFE used by the 90 percent of the CGE. The remaining 10 percent of the CGE that operate their own systems (including National Treasury, Ministry of Public Works, the Legislature and the Judiciary) generate financial information that is consistent with SIGFE financial information requirements.	<input type="checkbox"/>	C		Lack of integrated data transfer, off-line systems only	10% developed	50% developed	70% developed	80% developed	Fully integrated, online, data transfer for 100% of Central Government's financial information			
<i>Intermediate Result indicator Six:</i> Implementation of a new administrative structure and processes to institutionalize SIGFE within DIPRES.		C		Management and operational proposal drafted	30%	100% proposal approved and implemented			SIGFE fully institutionalized within DIPRES.		Approved Decree creating an administrative area responsible for the administration of SIGFE within	

											DIPRES		
<b>Intermediate Result (Component Two):</b>													
<i>Intermediate Result indicator One:</i> New conceptual model developed for integrating MCS information into budget formulation.	<input type="checkbox"/>	<b>D</b>											
<i>Intermediate Result indicator Two:</i> SIAP implemented, including interoperability with SIGFE	<input type="checkbox"/>	<b>R</b>		Limited interoperability of SIAP with SIGFE		20%	40%	80%	SIAP in operation producing integrated financial and budget information	Bi-annual	Annual reports, mid-term review, academic studies, surveys and statistical studies	PIU and MCS and Budget experts	
<i>Intermediate Result indicator Three:</i> Strengthened of the actual MCS modules and design and implemented new systems of MCS, interoperability with SIGFE modules.	<input type="checkbox"/>	<b>D</b>											
<i>Intermediate Result indicator Four:</i> A set of new 'coverage indicators' developed and utilized for monitoring the performance of public sector programs within the overall budget.	<input type="checkbox"/>	<b>D</b>											
<b>Intermediate Result (Component Three):</b>													
<i>Intermediate Result indicator One:</i> Municipal Information System developed that is capable of aggregating the information of all 345 municipalities.	<input type="checkbox"/>	<b>R</b>		Local isolated databases in use				Conceptual model designed	Aggregating system implemented	A Municipal Financial Information System, capable of aggregating the information of all 345	Bi-annual	Annual reports, mid-term review, academic studies, surveys and statistical studies	PIU and MCS experts

									Municipalities is implemented, and information is available in 30 days.			
<i>Intermediate Result indicator Two:</i> Time lag to produce information on aggregated municipal expenditures has been reduced from 180 to less than 30 days.	<input type="checkbox"/>	<b>R</b>		180 days					30 days or less			
<i>Intermediate Result indicator Three:</i> 100 new municipalities are using a new financial administration sub-systems	<input type="checkbox"/>	<b>C</b>		0	20	40	60	80	100			
<b>Intermediate Result (Component Four):</b>												
<i>Intermediate Result indicator One:</i> Implementation and Coordination within and monitoring and evaluation of the process of implementation of the project.	<input type="checkbox"/>	<b>C</b>		The process of monitoring and evaluation of the project will take place with a low level of implementation	Implementation of the monitoring and evaluation system for the project in the PIU.		2 information exchange workshops amongst entities which have implemented the new transactional module of SIGFE.		4 information exchange workshops amongst entities which have implemented the new transactional module of SIGFE.	Bi-annual	Annual reports, mid-term review, academic studies, surveys and statistical studies	PIU and MCS experts

**\*Please indicate whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)**

**\*\*Target values should be entered for the years data will be available, not necessarily annually.**

