

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC14882

Project Name	Improved Fiscal Management Systems Project (P150468)
Region	LATIN AMERICA AND CARIBBEAN
Country	Colombia
Sector(s)	Central government administration (100%)
Theme(s)	Public expenditure, financial management and procurement (80%), e-Government (20%)
Lending Instrument	Investment Project Financing
Project ID	P150468
Borrower(s)	Ministry of Finance and Public Credit
Implementing Agency	Ministry of Finance and Public Credit
Environmental Category	C-Not Required
Date PID Prepared/ Updated	24-Nov-2014
Date PID Approved/ Disclosed	26-Nov-2014
Estimated Date of Appraisal Completion	31-Mar-2015
Estimated Date of Board Approval	01-Jul-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Colombia remains the fourth largest economy in Latin America, and continues to consolidate its position as one of LAC's strongest performers, with stable economic growth, low inflation, and decreasing unemployment. As a result of an enhanced macroeconomic framework, a commodity price boom, and better security conditions, Colombia weathered the global crisis robustly and has grown at high rates since. While emerging markets observed a growth slowdown throughout 2013, Colombia grew above the regional average. GDP growth is expected to reach 4 percent in 2014, slightly below the 2013 rate.

Despite this strong macroeconomic performance, economic development remains unequally distributed across the country. The central region surrounding Bogotá is responsible for 73 percent of the country's output, with a per capita income that is double or triple the levels of most departments, the poorest being those closest to the Amazon rainforest and the Pacific coast. While

poverty has been reduced markedly in the past few years (from 42 percent in 2008 to 32.2 percent in 2013), pronounced inequalities remain in terms of both income and access to quality social services.

President Santos is beginning his second period in office with a strong record of important macro, social, and structural reforms. One group of recent reforms has improved fiscal and macroeconomic management, increasing the country's buffers (the Fiscal Responsibility Law, the Fiscal Rule, and a Comprehensive Tax Reform). A second group of reforms has addressed social challenges (health care system reform and the reduction of non-wage labor costs). These recent reforms have helped to support Colombia's accession process to the Organization for Economic Cooperation and Development (OECD), and a road map has been set outlining a number of working groups and reviews that will produce policy recommendations expected to be presented during 2014 and 2015. There are ongoing efforts under the current administration to move forward with many policy changes emanating from this collaboration.

Sectoral and Institutional Context

For more than two decades, the Government of Colombia (GoC) has been focused on enhancing the equity, efficiency, and effectiveness of economic policies and public administration. Progress has been notable under the last two administrations, particularly in terms of the better alignment of public financial management (PFM) systems in the core central government agencies. Yet, there is a variety of parallel local systems and a lack of harmonized classifiers and standardized data, which hinders system inter-operability and the timely and efficient generation of quality information for policy making. There is a need to extend functionalities and coverage to other non-core entities and to promote the convergence of existing PFM systems in the country based on accounting international good practices, something that is especially important in the context of the Colombia's accession to the OECD.

In 2011, the Government launched the Financial Management Information System (FMIS) known as SIIF II (also SIIF Nación), which is helping to increase coverage, transparency, control, and predictability in budget management. SIIF II has increased institutional coverage of the government FMIS, expanding from 66 to 163 institutions (100 percent of central government and a significant part of non-financial public corporations) and many redundant parallel systems have been abandoned, contributing to the overall system's efficiency. A public web portal has been created where the public can access information on revenues, expenses and contracts with full budget coverage. Financial information takes one day to be updated, as opposed to the full month that this process took before the reform.

Even though the implemented FMIS has improved the Government's financial management coverage, efficiency and effectiveness, and transparency, there are a number of pending challenges. The GoC has not yet implemented some PFM practices such as program budgeting, including objectives and indicators for monitoring and evaluation, the International Public Sector Accounting Standards (IPSAS), and the International Monetary Fund (IMF) Government Finance Statistics Manual (GFS) Manual. As a result of this, SIIF II does not contain tools for analyzing the budget from different classification views, and therefore is currently focused on supporting management of expenditure. Other pending challenges include improving the system's governance, harmonizing budget execution and accounting procedures, and integrating and strengthening the management of royalties. These challenges could be overcome through the development and implementation of an extended version of SIIF II called SIIF Extendido, which would allow SIIF II to be linked to other Government platforms.

State-Owned Enterprises (SOEs) are major players in the economy, and as such, generate and manage a significant amount fiscal and statistical information. The GoC undertakes activities of industrial or commercial nature and economic management through SOEs. The central government-owned SOE sector includes about 70 SOEs and partly state-owned companies, organized mostly as either statutory corporations or stock companies. In 2012, the valuation of their assets accounted for around 30 percent of Colombia's GDP, a level similar to OECD countries. SOEs also account for 8.13% of the national budget. However, significant governance, management and technical challenges still hold back the potential of the SOE sector. The current policy framework does not adequately deal with issues related to political interference and how to ensure effective transparency and accountability in the performance of SOEs. In addition, the lack of streamlined managerial, administrative and financial processes including the corresponding technological solutions is not only limiting the integration of their information systems, but also restraining the performance of the SOE sector as a whole.

The Government is committed to carrying out the reforms needed to reach international standards and improve key, cross-cutting public sector processes. The proposed Project will support the GoC's efforts to address the previously mentioned challenges by contributing to the ongoing larger public sector reform aimed at improving main cross-cutting processes and information systems, with the goal of generating quality information to support macroeconomic and fiscal management. Specifically, the proposed operation would help finance the formulation and implementation of interlinked projects in areas such as accounting and budget harmonization, improved fiscal statistics, enhanced FMIS (SIIF Extendido), and strengthened SOE corporate governance.

Relationship to CAS

The proposed operation is fully consistent with the 2012-2016 Country Partnership Strategy (CPS). Specifically, the Project is aligned with the pillar of Improved Public Sector Management by Strengthening the National Government Management Institutions, and is expected to contribute to the achievement of the CPS outcome indicator of enhanced public sector efficiency and transparency, by: a) enhancing PFM systems to harmonize accounting, budget, treasury and debt statistics, which could provide better means to assess the status of public finances and enable improved strategic planning; and b) designing an inter-operability framework that could automatically synchronize local and cross-sectoral systems, both in central government agencies and SOEs, ultimately generating economies of scale and improving the GoC capacity for policy-making and service delivery.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project's higher level objective is to enhance public sector management and the use of high-quality performance information on public programs, aiming to enable the improvement of service delivery to citizens. Specifically, the Project Development Objective would be to improve public sector processes and systems in order to generate quality performance information.

Key Results (From PCN)

The proposed operation aims at achieving the following key results at the PDO level:

- The Government of Colombia has implemented a comprehensive public sector fiscal information model, based on international standards, good practices and high quality information

systems.

- The FMIS is connected and shares information with several information platforms such as the national public procurement platform (SECOP), and other administrative information systems such as the payroll system. This feature will improve data quality from the administrative information systems and guarantee the adoption of international standards and good practices.
- The Public Credit Directorate (Dirección de Crédito Público y Tesorería Nacional, DGCPTN) in MHCP, has implemented a new management model and the associated system that produces high quality and timely debt statistics for decision-making and risk analysis.
- Performance information (financial and non-financial) from SOEs is available through a new governance, administration and financial management model and platform. Additionally, the SOE corporate governance model implemented is in line with international practice.

III. Preliminary Description

Concept Description

Today, numerous entities prepare and report non-standardized fiscal data in Colombia, posing an obstacle for the economic analysis and comparison of the country's main fiscal indicators. The lack of a unique framework that clearly defines functions and responsibilities has led to the proliferation of databases and statistical reports that are produced in isolation and for the fulfillment of entity-specific objectives, and which use heterogeneous methodologies. These differences generate controversy and uncertainty regarding the real status of the country's public finances.

In addition, there is space for improvement in the management models currently operated by key government entities. Core public sector departments such as the Directorate of Public Credit and National Treasury (DGCPTN) at MHCP and most SOEs are not completely aligned with good practices for the carrying out their basic administrative functions, which is affecting the reporting of information and hinders their overall performance.

The GoC has made important advances in terms of developing tools to improve the quality of public financial information and general management. However, such tools are focused on central and decentralized government entities, leaving out the strengthening of SOEs. In addition, the current standard administrative systems are not integrated with the FMIS, creating duplicities and problems in terms of the quality and timeliness of the information as well as leaving spaces for discretionary decision-making.

Five components have been identified, as described below, in order to address these key challenges:

Component 1: Improving the quality of fiscal statistics of the public financial administration

In order to provide a structural solution to the problem of production of public finance statistics, the MHCP, through the Directorate of Macroeconomic Policy (DGPM), and the Intersectoral Committee on Public Finance Statistics aim to improve the availability, quality and timeliness of data. In support of such, this Component will finance the following inter-related activities: i) harmonization of budget and accounting, ii) development of a system for generation of statistical data, iii) measurement of financial assets and liabilities of the State, iv) adoption of IPSAS, v) consolidation of methodological and registry criteria of the Social Security System in Colombia.

Component 2: Enhancing and expanding the FMIS (SIIF Extendido) with additional functionalities

and developing interfaces with other public administration systems

Colombia has made important advances in the establishment of the SIIF, which has become the official tool for financial management in both central and decentralized government institutions. This has contributed to greater efficiency in the management of public finances and the reduction of operating costs. SIIF II has been in operation since 2011 and currently is being used by all the central government entities. In addition, SIIF is now interoperating with selected government systems.

This Component will support the strengthening of selected administrative processes and systems within public sector entities and to allow for its automatic integration with financial management processes and tools. Specifically, the Component will focus on: i) diagnosing and designing of functional and administrative processes, ii) building integration interfaces to the SIIF II information systems, iii) establishing of a standardized public software market supporting the administrative efforts.

Component 3: Modernizing the management model for the Directorate of Public Credit and National Treasury (DGCPTN)

The Consolidation of National Information Systems Project (P106528) financed the design of a new business model for the DGPTN. This model sets forth its strategic vision and proposes adjustments and the redesign of processes, procedures, functions and support tools for DGCPTN. The new business model will allow DGCPTN to carry out its functions more efficiently and have timely and reliable information for decision making and risk analysis on debt and public credit. This Component will support the rollout and implementation of this model.

Component 4: Enhancing governance and improving management in State Owned Enterprises

In Colombia, most of the SOE portfolio is under the responsibility of the MHCP and the Ministry of Defense's Social and Corporate Group (Grupo Social y Empresarial de la Defensa, GSED). The GSED comprises 18 companies, which are predominantly owned by the State and focus on different areas of business or clusters: welfare, logistics and security. This Component will support the design of a unified and comprehensive corporate governance framework for the Colombian SOE sector, as well as modern IT platforms linked to the SIIF for reporting and accounting purposes. Given their relative importance within the overall SOE portfolio, the Component will test the technological solutions proposed through a pilot to be carried out in selected companies within the GSED's welfare cluster, as well as the GSED as a holding group.

Component 5: Project Management

This component will support the administration and coordination of the Project, as well the implementation and follow-up of the Project's monitoring and evaluation framework. The Project Management will be led by the Macro Fiscal Policy Management Unit (Dirección de Política Macro Fiscal, DPMF) in MHCP.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		✘	

Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12			x
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	65.00	Total Bank Financing:	65.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
International Bank for Reconstruction and Development		65.00	
Total		65.00	

VI. Contact point

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