

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BOLIVIA**

**FISCAL POLICY AND DECENTRALIZATION SUPPORT PROGRAM  
(SECOND PROGRAMMATIC OPERATION)**

**(BO-L1062)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Ramiro López Ghio (FMM/CBO), Project Team Leader; Rafael de la Cruz (ICF/FMM); Gustavo García (ICF/FMM); José Larios (ICF/CGU); Leandro Andrián (CAN/CBO); Gilberto Moncada (ICS/CBO); Javier Jiménez (LEG/SGO); Fernanda Padrón (CAN/CBO); Andrés Muñoz (ICF/FMM); Zoraida Arguello (PDP/CBO); Roberto Laguado (PDP/CBO); and Ida M. Fernández (ICF/FMM).

Under the Access to Information Policy, this document is subject to public disclosure.

## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Frame of reference and rationale .....	1
B.	The government commitment.....	5
C.	The Bank's strategy with the country and sector.....	6
D.	Program objectives and structure .....	7
E.	Program components.....	8
F.	Key results indicators .....	10
II.	FINANCING STRUCTURE AND MANAGEMENT .....	11
A.	Financing instrument, amount, and currency .....	11
B.	Social and environmental risks .....	11
C.	Other issues and risks .....	12
III.	IMPLEMENTATION AND MANAGEMENT ARRANGEMENTS .....	13
IV.	POLICY LETTER .....	14

ANNEXES	
<b>PRINTED ANNEXES</b>	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Policy Matrix

ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Policy Letter <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36449439">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36449439</a>
2.	Results Matrix <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36269113">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36269113</a>
3.	Means of verification <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36268921">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36268921</a>
<b>OPTIONAL</b>	
1.	Public Expenditure and Financial Accountability (PEFA) evaluation <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35308229">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35308229</a>
2.	Economic analysis <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36352430">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36352430</a>
3.	Plan of action to improve public financial management <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321212">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321212</a>
4.	Autonomies and Decentralization Framework Law <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321248">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321248</a>
5.	Evaluation and monitoring plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36268875">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36268875</a>
6.	General State Budget Law 2011 <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321154">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36321154</a>
7.	Key macroeconomic indicators: 2005-2012 <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36375829">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36375829</a>

## ABBREVIATIONS

ALP	Asamblea Legislativa Plurinacional [Plurinational Legislative Assembly]
CPE	Constitución Política del Estado [Political Constitution of the State]
ECLAC	Economic Commission for Latin America and the Caribbean
FSO	Fund for Special Operations
GDP	Gross domestic product
LMAD	Ley Marco de Autonomías y Descentralización [Autonomies and Decentralization Framework Law]
MEFP	Ministry of Economy and Public Finance
OC	Ordinary capital
PBL	Policy-based loan
PCR	Project completion report
PEFA	Public Expenditure and Financial Accountability
PLCI	Proyecto de Ley de Clasificación de Impuestos [Draft Tax Classification Law]
PLTEP	Proyecto de Ley de Tesorería y Endeudamiento Público [Draft Treasury and Public Borrowing Law]
SIET	Sistema de Información de Estadísticas Territoriales [Territorial Statistical Information System]
SNIT	Sistema Nacional de Información Tributaria [National Tax Information System]
TGN	Tesoro General de la Nación [General National Treasury]
VPT	Office of the Deputy Minister of Tax Policy
VTCP	Office of the Deputy Minister of Treasury and Public Credit

## PROGRAM SUMMARY

### BOLIVIA FISCAL POLICY AND DECENTRALIZATION SUPPORT PROGRAM (SECOND PROGRAMMATIC OPERATION) (BO-L1062)

Financial Terms and Conditions				
			OC	FSO
Borrower: Plurinational State of Bolivia  Executing agency: Ministry of Economy and Public Finance (MEFP)		Amortization period:	30 years	40 years
		Grace period:	6 years	40 years
		Disbursement period:	18 months	18 months
Source	Amount (US\$)	Credit fee:	*	N/A
IDB (Ordinary Capital)	46.5 million	Interest rate:	SCF-Fixed	0.25%
IDB (FSO)	15.5 million	Inspection and supervision fee:	*	N/A
Total	62 million	Currency:	U.S. dollars from the Single Currency Facility	U.S. dollars
Program at a Glance				
<b>Program objective/description:</b> The program's general objective is to support the Bolivian government in securing the fiscal sustainability of the consolidated public sector, with a view to deepening the fiscal decentralization process under the new constitutional framework. The proposed operation is the second loan in the Fiscal Policy and Decentralization Support Program series under the programmatic modality.				
<b>Special contractual clauses:</b> Disbursements for the operation are subject to the fulfillment of policy reform measures or institutional changes, as specified herein (paragraph 1.31), and attainment of the targets agreed upon and set out in the Policy Matrix (Annex II).				
<b>Exceptions to Bank policies:</b> None				
<b>Project consistent with country strategy:</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
<b>Project qualifies as:</b> SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>				

\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Frame of reference and rationale

- 1.1 **Introduction.** The proposed program is the second in a series of two programmatic policy-based loans (PBLs) to support the Government of the Plurinational State of Bolivia in implementing a reform process to secure the fiscal sustainability of the consolidated public sector, with a view to deepening the fiscal decentralization process under the new constitutional framework. The first operation (2448/BL-BO), for US\$20 million, was approved in November 2010. This new program proposes financing of US\$62 million, with a single disbursement planned for 2011, once the policy reform targets agreed upon in the attached policy matrix have been fulfilled. This programmatic series is a fundamental part of the Bank's support for the Bolivian government's decentralization strategy, and each of the operations is complemented with two operational inputs.
- 1.2 **Recent macroeconomic performance.** Bolivia maintained a strong macroeconomic performance between 2005 and 2010, supported by a favorable external environment resulting from the sustained increase in the volumes and international prices of its main export products, particularly hydrocarbons.<sup>1</sup> As a result, Bolivia achieved economic growth rates averaging around 4.5%, together with large, consecutive trade and fiscal surpluses, controlled inflation, and stability on the money and financial markets. During this period, gross domestic product (GDP) grew significantly, rising in per capita terms from US\$1,016 in 2005 to US\$1,858 by the end of 2010. A table showing the main macroeconomic indicators for 2005-2012 can be accessed electronically through this [electronic link](#).
- 1.3 In 2009, the robust macroeconomic position established by Bolivia enabled it to successfully soften the direct impacts of the external crisis. The accumulation of large international reserves, combined with a prudent fiscal policy during the cyclical upswing, enabled the country to mitigate the adverse effect of the international financial crisis. This, together with the relatively small extent to which Bolivia's financial system is integrated into international capital markets, minimized the ensuing financial contagion. Bolivia was thus able to weather the crisis without falling into recession, while maintaining fiscal and trade surpluses. In fact, in 2009, it was the region's fastest-growing economy; and in 2010, GDP growth accelerated further, along with the country's traditional exports. In relation to 2009, the increase in global demand for raw materials contributed to a 26.9% expansion in total export flows, and increased the trade surplus by 92%, with exports of natural gas and nonferrous metals (mainly zinc, silver, and tin) leading foreign sales.<sup>2</sup>

---

<sup>1</sup> The natural gas price index calculated by the International Monetary Fund for the period 2004-2010 was 90% above its 1997-2003 level.

<sup>2</sup> The hydrocarbons and mining sectors accounted for 43% and 34% of Bolivia's total exports, respectively, in 2010.

- 1.4 Thanks to prudent management of economic policy during the export-boom period, and the achievement of trade and fiscal surpluses for five consecutive years between 2006 and 2010, Bolivia entered 2011 with fiscal reserves and high levels of liquidity. The accumulation of public-sector deposits, equivalent to 24.2% of GDP by 2010, together with a record level of international reserves, equivalent to two years of imports, provide a cushion against external shocks. From the fiscal standpoint, Bolivia's position improved significantly in the period 2006-2010, thanks to an increase in tax revenues from hydrocarbon exports, and cyclical improvements in tax revenues. For this period, the fiscal revenues available following nationalization of the natural gas industry enabled the nonfinancial public sector to post an overall surplus averaging 2.3% of GDP, and a primary surplus averaging 4.3% of GDP. Nonetheless, the general government nonhydrocarbon fiscal deficit (i.e. excluding hydrocarbon revenues) averaged 7.9% of GDP during the same period.
- 1.5 Despite the fiscal revenue trend, fiscal management during the boom period was relatively conservative, with real spending far behind revenue growth. This fiscal policy stance has enabled the authorities to progressively reduce public-sector debt over the last five years, thus helping to avoid major risks in the country's short- and medium-term fiscal prospects. This trend was also boosted by substantial cancellation of its foreign debt between 2006 and 2007, under the Heavily Indebted Poor Countries (HIPC) initiative. In this context the Bank wrote off US\$1.171 billion and thus became a key contributor to Bolivia's current debt trend. At the end of 2010, the total public debt of the General National Treasury (TGN) represented 32.1% of GDP. According to the debt sustainability analysis undertaken by the Bank, Bolivia does not face significant sustainability risks in the medium term; and this conclusion is robust even in the context of more adverse impact scenarios.
- 1.6 The country's medium-term fiscal prospects will be decisively affected by execution of the public investment plan (*Bolivia, para Vivir Bien* (Bolivia, to live well)). This consists of a series of plans and programs to be executed by the government between now and 2029, involving a total of US\$34.7 billion in public investment. Despite the major increase planned for public spending, fiscal surpluses of 0.7% and 1.0% of GDP are forecast in the short-term for 2011 and 2012, respectively. In conclusion, Bolivia's macroeconomic framework is appropriate and consistent with the objectives for policy-based or programmatic loans.
- 1.7 **Progress and challenges in the fiscal decentralization process.** In the 1990s, Bolivia moved ahead with the political, administrative, and fiscal decentralization process, initially targeting the municipios. The Popular Participation Law of 1994 transferred public expenditure and taxation authority to the municipios, and also setup a revenue-sharing regime. Subsequently, the Administrative Decentralization Law of 1995 launched an administrative deconcentration process at the departmental level. Since then, reforms have been implemented to strengthen the

municipios and departments through new fiscal transfers.<sup>3</sup> The Bank has provided technical and financial assistance for the fiscal decentralization process, through the Local Development and Fiscal Accountability Program (1075/SF-BO), which supported the development strategies for the municipal sector, providing assistance in the development and implementation of direct reforms and activities with the municipios.

- 1.8 The fiscal decentralization process was given renewed momentum by the new Political Constitution of the State (CPE) approved in February 2009, which lays the foundations for a regime of autonomies and decentralization, in which municipal, departmental, regional, and indigenous-campesino autonomies all coexist. The new regime of autonomies substantially expands the authority of subnational governments, assigning them exclusive, concurrent, and shared powers. The CPE also defines a number of powers that are exclusive to central government, which could potentially be delegated to the autonomous governments in the future. This change in the country's territorial organization, defined in the CPE, puts Bolivia in a transition period in which it is essential to define the legal framework and coordination mechanisms needed to fulfill the new mandates. A key element in this definition has been the enactment of the Autonomies and Decentralization Framework Law (LMAD), passed on 20 July 2010, which provides a general legal framework for the transfer and delegation of expenditure and revenue powers, as well as for coordination between the central level and the decentralized and autonomous territorial entities.
- 1.9 Despite the progress made in Bolivia's decentralization process, several challenges have yet to be addressed. Firstly, the delegation of expenditure responsibilities to subnational governments has not been matched by a commensurate transfer of taxing powers, thereby generating a significant vertical fiscal imbalance. Whereas subnational spending represented 10.7% of GDP in 2008, the subnational entities' own revenues accounted for just 4.4% of GDP in that year (Economic Commission for Latin America and the Caribbean (ECLAC), 2011).<sup>4</sup> The ensuing vertical imbalance has increasingly been covered by fiscal transfers from the central government, which represented 7.4% of GDP in 2008. In view of the inappropriate fiscal incentives that accompany this high level of dependency, the income effect of the transfers could increase local spending (flypaper effect) thereby putting additional pressure on the country's macrofiscal stability. Moreover, a heavy reliance on transfers could have undesirable effects on the subnational fiscal effort, as well as negative consequences for local capacity to provide services and infrastructure, accountability for the results of such services, and local autonomy in general. Chaparro, Smart, and Zapata (2005) found that in Colombia in 1985-1999, a one-Colombian-peso increase in transfers reduced the municipios' fiscal effort by

---

<sup>3</sup> Zapata, Juan Antonio, *Descentralización en Bolivia* [Decentralization in Bolivia], Inter-American Development Bank, August 2007.

<sup>4</sup> Gómez and Jiménez (2011), *El Financiamiento de los Gobiernos Subnacionales en América Latina: un análisis de casos* [The financing of subnational governments in Latin America: a case study], ECLAC.



an average of 26 cents. These authors also found that additional transfers were fully absorbed by increases in total municipal spending.<sup>5</sup> The challenge for Bolivia is to provide the new territorial authorities with productive income sources and a framework of incentives that encourage a greater fiscal effort. The LMAD also includes the mandate for a tax classification law that defines how taxes are distributed between government levels and the mechanisms to create and alter taxes. In view of the new taxation powers assigned to subnational governments, adequate coordination between government levels requires mechanisms to integrate the tax information generated by the autonomous governments, including registration of the departmental and municipal laws used to create, amend, or abolish taxes, and the recording of the tax revenues.

- 1.10 Secondly, subnational public debt in Bolivia has averaged just 1% of GDP over the last decade (ECLAC, 2011). Although this is relatively low and sustainable compared to levels in other Latin American countries (such as Argentina (9%), Brazil (13%), and Colombia (1.4%)), the subnational governments' new borrowing powers require a legal framework that provides incentives for responsible borrowing; minimizes moral risk by rejecting a possible financial bailout by the central government; and maximizes borrowing potential as a vehicle for financing local development. The LMAD calls on the Plurinational Legislative Assembly (ALP) to pass a public borrowing law, defining the principles, processes, and procedures for contracting credit, and for managing the public debt of all public entities.
- 1.11 Thirdly, the 2009 Public Expenditure and Financial Accountability (PEFA)<sup>6</sup> exercise identified opportunities for improvements in the management of subnational fiscal information and coordination with the central government. These include the need to generate information on the outstanding balance of subnational debt, and general reports on the financial position and debt of the territorial entities. The lack of adequate cash information systems in relation to subnational public spending, revenue, and debt in Bolivia has hindered the effective monitoring of the fiscal risk of subnational governments.
- 1.12 Lastly, the new territorial structure arising from the CPE and LMAD requires the regulatory framework on treasury issues to be amended, both in the central government and in the treasuries of subnational governments, to ensure proper management of resources and custody of securities and other assets.
- 1.13 In this context, the main challenge facing the Bolivian government is to develop a regulatory framework and fiscal information systems to ensure fiscal sustainability,

---

<sup>5</sup> Bird, Poterba, and Slemrod (2005), *Fiscal Reform in Colombia: Problems and Prospects*. MIT Press. The "flypaper effect" has been studied extensively in North America and Western Europe. For a full summary, see Hines and Thaler (1995), "Anomalies: The Flypaper Effect," *Journal of Economic Perspectives*, Vol. 9, No. 4.

<sup>6</sup> IDB-World Bank (2009), *Bolivia – Evaluación de las finanzas públicas* [Bolivia – Evaluation of public finances]. Report No. AAA40-BO.

in order to move forward in the fiscal decentralization process. These reform actions should be undertaken gradually, strategically, and on a fiscally neutral basis, to avoid endangering the fiscal stability achieved in recent years. The late-1990s experiences of Argentina, Brazil, and Colombia with vertical fiscal imbalances, rapid growth of subnational debt, and subsequent financial bailouts by their central governments, illustrate the need to design a regulatory framework that minimizes fiscal risk and promotes macrofiscal stability.<sup>7</sup> In Colombia, for example, the subnational deficit grew from 0.2% of GDP in 1990, when the decentralization process began, to 2% of GDP in 1998. This subnational fiscal deficit, and that of subsequent years, was mainly financed with debt, the balance of which represented 7.8% of GDP in 2002. Reforms to strengthen subnational governments' internal revenues, control their borrowing, and create an institutional framework of accountability and fiscal transparency, among other measures, substantially improved the territorial deficit, resulting in fiscal surpluses averaging 0.3% of GDP between 2000 and 2008.<sup>8</sup>

- 1.14 This program will provide technical and financial assistance to support the Bolivian government's efforts to promote structural reforms to strengthen fiscal policy and the fiscal decentralization process, as required by the new institutional context. The program will contribute to an appropriate balance in the intergovernmental fiscal structure and rules providing resources in keeping with the powers transferred to subnational governments, in a framework of medium- and long-term fiscal sustainability. This requires well-founded criteria and mechanisms to define the transfer of authority and resources to the autonomous entities, and to promote fiscal responsibility in subnational governments when exercising those new powers. It is also essential to strengthen the debt monitoring and control systems to be able to take timely steps to avert potential imbalances in the autonomous entities and the need for fiscal bailouts by central government.

## **B. The government commitment**

- 1.15 The Bolivian government has recognized the importance of maintaining a prudent fiscal policy for the sustainability of public accounts as a premise of the fiscal decentralization process. The central government aims to move the process forward by ensuring the sustainability of public finances at both the subnational and central government levels. The government expressed the need for a gradual transition of authority to the subnational autonomous bodies, pursuant to the mandates of the CPE and LMAD and in line with the implementation capacities developed by the subnational entities. To preserve the fiscal balance at all levels of government, the CPE provides that any assignment or transfer of powers to subnational governments

---

<sup>7</sup> Rodden, Eskeland, and Litvack (2003), *Fiscal Decentralization and the Challenge of Hard Budget Constraints*.

<sup>8</sup> Ministry of Finance of Colombia, *Diez Años de Transformación Fiscal Territorial en Colombia 1998-2008* [Ten years of territorial fiscal transformation in Colombia, 1998-2008].

will be accompanied by a definition of the source of economic and financial resources needed to exercise them.

- 1.16 The LMAD is a framework law that defines certain basic principles, but does not exhaustively define the distribution of expenditure and resource authority for the autonomous entities. Once the general framework has been defined, the central government expects to move ahead with the process of strengthening fiscal policy and decentralizing it with actions framed by the Plan of Action to Improve Public Financial Management for the period 2010-2015, approved in December 2010 and prepared with assistance from the European Union and the Bank. This plan seeks to develop a set of public policies and actions aimed at consolidating more efficient, transparent, and responsible public financial management. The actions in the plan are based on three pillars: (i) fiscal discipline; (ii) strategic resource allocation; and (iii) efficient provision of services and optimization of resource use. The plan includes the design of regulations in areas such as budget, tax policy and administration, public debt and treasury policy, training programs, expansion and improvement of fiscal information systems, and the implementation of technological infrastructure and equipment. In addition, to strengthen and deepen the political and administrative decentralization process, the central government has created the Ministry of Autonomy. The ministry's functions include designing and proposing policies and mechanisms allowing for the fiscal and financial sustainability of the autonomous and decentralized entities, and coordinating with the autonomous and the centralized territorial entities, the Ministry of Planning and Development (MPD), and the Ministry of Economy and Public Finance (MEFP).

**C. The Bank's strategy with the country and sector**

- 1.17 This operation will support the fourth pillar of the Bank's current strategy with Bolivia (document GN-2485-2), namely strengthening government institutions at the national and decentralized levels. This envisages that the focus on subnational levels of governance should be complemented with institutional strengthening programs to promote engagement and coordination between the various levels of government. This operation will thus contribute to the sustainability of public finances, while strengthening the legal and institutional framework governing fiscal matters at the subnational level, and its coordination with central government.
- 1.18 The Bank's Strategy with Bolivia for 2011-2015, which is currently under discussion, proposes the strengthening of public governance as one of its priority sectors. The proposed strategy will help the central government adopt a legal framework for full implementation of the LMAD. In particular, the Bank will support initiatives based on the principles of accountability, order, transparency, and control in the autonomy process, with the aim of achieving a framework of economic stability and sustainable public finances. It is expected to help consolidate progress made on decentralization by supporting adaptation of the macrofiscal regulatory framework, strengthening fiscal management topics in intergovernmental relations, and ensuring an orderly handover of resources and transfers to subnational authorities in a context of responsible and sustainable

subnational public finances. Lastly, through the regulatory framework governing the distribution of taxes between government levels, the program also makes a direct contribution to the target defined in the Bank's Ninth Capital Increase (GCI-9) of increasing tax revenues in the region.

#### **D. Program objectives and structure**

- 1.19 The program's objective is to support the Bolivian government in securing the fiscal sustainability of the consolidated public sector, with a view to deepening the fiscal decentralization process under the new constitutional framework. The program was designed as two consecutive single-tranche operations, financed independently as programmatic PBLs. The two operations are technically linked through three policy areas that ensure temporal consistency, subject to the verification of measures aimed at adapting and redesigning the regulatory framework to strengthen fiscal policy and improve public financial management processes. As a whole, the measures envisaged in the policy matrix will help develop a new regulatory framework for the central government and autonomous entities, consistent with a medium-term target of fiscal balance and subnational fiscal accountability. They will also improve the efficiency and effectiveness of coordination between the central and subnational governments on fiscal information. The first operation was designed and executed in 2010.
- 1.20 The first programmatic operation (2448/BL-BO) focused on supporting reforms to the design of the regulatory framework for public financial management in the autonomous entities, and supporting the central government in its relations with them, by defining an appropriate plan of action to make public financial management more effective, efficient, and transparent. In terms of the regulatory framework, the operation supported the design of the economic, fiscal, and financial regime of the LMAD, for submission to the ALP, to fulfill the principles of: (i) responsibility and sustainability of subnational public finances; (ii) stimulus for internally-generated revenue; (iii) delegation of tax and spending responsibilities among the different levels of autonomous entities; (iv) territorial equity to ensure a balanced distribution of resources between the autonomous entities; (v) the existence of mechanisms for coordination between the Bolivian government and the autonomous territorial entities; and (vi) incentives for transparency and accountability of the public resources of subnational governments. To strengthen public financial management and consolidate the State's fiscal policy management capacity, the first operation also supported preparation of the plan of action arising from the PEFA report. This identified opportunities for improvement and sought to define reform priorities in a comprehensive medium-term plan of action. The opportunities prioritized by the government included strengthening fiscal relations between the different government levels, by generating consolidated fiscal information for adequate and transparent budgetary, financial, and debt management; and improvements to central government supervision of the aggregate fiscal risk generated by the subnational entities. In December 2010, all of the targets agreed upon in the first operation's policy matrix had been fulfilled, and significant

progress had been made toward achieving the expected outcomes. Considering the gradual nature of decentralization processes, the outcomes and impacts of the first programmatic operation will be achieved by 2015. As this is a programmatic loan consisting of two operations, the project completion report (PCR) for the first operation will be produced once the second operation is complete.

- 1.21 The program's proposed second operation, for an agreed amount of US\$62 million, will consolidate the results achieved in the first one, providing support to the central government: (i) to perform the review, adaptation, and regulation of the fiscal framework arising from the LMAD mandate; and (ii) to implement actions to improve coordination mechanisms between the central government and subnational governments. The activities in the second operation focus on strengthening the revenue, treasury, and public debt areas, both in central government and in the territorial autonomies defined in the CPE.

#### **E. Program components**

- 1.22 **Component I. Macroeconomic stability.** As a general disbursement condition, the program requires the maintenance of a stable macroeconomic framework, in line with program objectives and the guidelines set out in the country's Sector Policy Letter.
- 1.23 **Component II. Support for fiscal decentralization.** This component supports the design of the draft Tax Classification Law (PLCI) and the development of the Territorial Statistical Information System (SIET).
- 1.24 The PLCI aims to define tax bases and taxing powers for the different levels of government, and to regulate processes for creating and administering subnational taxes under optimal taxation principles, which include the following factors: (i) local autonomy to control and administer the taxes assigned; (ii) relative stability of tax bases; (iii) visibility and correspondence, where tax burdens fall on those directly benefitting from the public services received; (iv) neutrality, to avoid distortions and/or restrictions on trade and factor mobility between regions; (v) low potential for exporting the tax to residents in other jurisdictions; (vi) universality; and (vii) administrative simplicity. The Bank's project team has provided technical assistance to the government in preparing the PLCI, through missions to Bolivia and videoconferences.
- 1.25 In the SIET framework, the program will contribute to the consolidation, expansion, and technological improvement of the current fiscal information system, to make the generation of subnational tax and financial data more comprehensive, relevant, and timely. The SIET aims to: (i) integrate various, currently dispersed, databases, systems, and processes for generating fiscal information; (ii) update the technological platform for developing the systems on which the various databases operate; (iii) extend the coverage of fiscal information to a larger number of territorial entities; (iv) make the consultation system more efficient through networking; (v) improve the control of data generation and transmission; and (vi) ensure an adequate level of user security. The Bank team has provided

- technical assistance to the government in developing the SIET prototype, through the operational input of technical-cooperation operation ATN/SF-12303-BO.
- 1.26 **Component III. Strengthening of public financial management.** This component supports the design of a draft Treasury and Public Credit Law (PLTEP), for submission to the ALP, and creation of a National Tax Information System (SNIT).
- 1.27 In the treasury context, the PLTEP aims to define principles, processes, and functions for the TGN, as well as for the subnational government treasuries. With the aim of improving efficiency, return, and security in the administration of public funds, the Bank's support focuses on fulfilling the following principles: (i) efficiency, to ensure revenue and financing, while programming commitments, obligations, and payments on a timely basis to execute the expenditure budget at the lowest possible cost; (ii) fiscal sustainability, for public entities to prepare and administer their budgets in a framework of fiscal balance; (iii) a single cash fund, for the consolidation of a single account in which all public revenues are credited, irrespective of their category or origin, and against which all payments needed to fulfill the obligations legally assumed by institutions under MEFP jurisdiction are debited; (iv) prudent treasury management to ensure returns while minimizing risks; (v) timely execution of treasury procedures; (vi) generation of accurate, timely, and reliable information; and (vii) transparent access to information on State resources and expenditures.
- 1.28 The PLTEP also regulates the principles, processes, and procedures relating to public borrowing at the different government levels, so as to satisfy the government's financial needs and payment obligations at the lowest possible cost and under the most advantageous conditions, while preserving the sustainability of public finances. The Bank's support will focus on fulfilling the following principles: (i) efficiency and prudence, to ensure that the contracting of debt covers the public sector's financing requirements at the lowest possible cost, subject to a prudent risk level and in line with the payment capacity of the entity contracting the debt; (ii) fiscal sustainability, to ensure that public borrowing does not threaten the stability of the economy as a whole or intergenerational equity; (iii) transparency and credibility, to ensure that the public borrowing process is undertaken through transparent and predictable mechanisms provided for by law; and (iv) regulatory centralization and operational decentralization, to ensure that public borrowing is subject to a single regulatory framework applicable to the entire consolidated public sector, while each jurisdiction manages its debt on a decentralized basis. The Bank's project team has provided technical assistance to the government in preparing the PLTEP through the operational input for technical-cooperation operation ATN/SF-12303-BO.
- 1.29 The SNIT aims to integrate the tax information generated by the autonomous governments, including registration of the departmental and municipal laws used to create, amend, or abolish taxes; and the recording of revenue from the taxes collected by the autonomous governments. The agency responsible for the SNIT

will be the Office of the Deputy Minister of Tax Policy (VPT), which has made a commitment to the executive branch and the legislature to manage the budget in a way that ensures its implementation and sustainability.

**F. Key results indicators**

- 1.30 Disbursement of the loan proceeds allocated to the second program operation will be subject to fulfillment of the conditions specified in the Policy Matrix (Annex II). The outcomes expected from the program are set out in the Results Matrix. The program contributes to: (i) economic stability and fiscal balance; (ii) the design of a new regulatory framework to distribute taxes between government levels, thereby supporting the generation of tax revenues at the subnational level; (iii) the development of an information system that makes complete, relevant, and timely subnational fiscal and financial information available for fiscal policy decision-making; (iv) adaptation of the regulatory framework governing treasury and public borrowing; and (v) creation of a subnational tax legislation and revenue information system.
- 1.31 These policy actions have been identified in the operation's Policy Matrix through the following targets: (i) a macroeconomic framework that is consistent with the program's objectives and the guidelines set out in the Policy Letter; (ii) submission of the PLCI to the ALP, containing provisions that develop the principles of optimal taxation, such as: local authority, relative stability of tax bases, visibility and correspondence, neutrality, low potential for exporting the tax to other jurisdictions, and administrative simplicity; (iii) design of the SIET prototype to: (a) integrate various, currently dispersed databases, systems, and fiscal-data-generating processes; (b) update the technological platform for developing the systems on which the various databases operate; (c) extend the coverage of fiscal information to a larger number of territorial entities; (d) make the consultation system more efficient through networking; (e) improve control of data generation and transmission; and (f) ensure an adequate level of user security; (iv) submission of the PLTEP to the ALP, which will include treasury-related provisions that develop the principles of efficiency, fiscal sustainability, single cash fund, prudence, timeliness, and the generation of accurate, timely, and reliable information; and transparency; (v) the PLTEP articles dealing with public borrowing will include provisions developing the principles of efficiency and prudence, fiscal sustainability, transparency and credibility, and regulatory centralization with operational decentralization; and (vi) submission to the ALP of a draft law to include the creation of the SNIT, together with articles containing provisions aimed at integrating the tax information generated by autonomous governments, including the registration of the departmental and municipal laws through which taxes are created, amended, or abolished, and recording of the tax

revenue collected by the autonomous governments.<sup>9</sup> The Tax Classification Law was passed by the Plurinational Legislative Assembly of Bolivia and enacted by the government on 14 July 2011. This law also created the SNIT. The project team considers that the enacted law fulfills the principles established in policy targets (ii) and (vi).

- 1.32 The program will contribute to the fiscal sustainability of the consolidated public sector by creating a new regulatory framework that will spur the generation of own resources in subnational governments, the setting of rules that encourage fiscal responsibility and efficient administration of public resources, and optimal monitoring of the consolidated public sector's fiscal position. The following indicators will be used to measure the results to be attained through the policy actions: (i) inflation and fiscal balance performance; (ii) the internally generated revenues of the autonomous municipal governments of capital cities; (iii) the time needed to determine the subnational fiscal balance; (iv) current TGN income and expenditure; (v) the debt stock of the autonomous municipal governments of capital cities in relation to their internally generated revenues; and (vi) the supply of information to the central government on tax regulations and tax revenues collected by subnational governments.

## **II. FINANCING STRUCTURE AND MANAGEMENT**

### **A. Financing instrument, amount, and currency**

- 2.1 This operation, structured as a programmatic PBL, based on the guidelines and directives set out in the New Lending Framework (document GN-2200-13), and on the guidelines for preparing and implementing policy-based loans (document CS-3633), is the second operation in the fiscal reform program, in which each operation is financed independently. The loan amount for the second operation is US\$62 million, which will contribute to funding the fiscal deficit appearing in the 2011 General State Budget. This amount will be disbursed in a single tranche. The operation will be funded with resources drawn from the Single Currency Facility of the Bank's Ordinary Capital (75%) and from the Fund for Special Operations (FSO) (25%).

### **B. Social and environmental risks**

- 2.2 As the program basically involves institutional strengthening activities, there are no associated environmental or social risks. According to Directive B-13, and based on the results of the Safeguards Policy Filter Report, the operation does not require classification.

---

<sup>9</sup> With the exception of policy targets (iii) and (vi), all of the targets included in the policy matrix for the second operation, were preidentified in the first operation. It was decided to include policy actions (iii) and (vi) with the aim of strengthening fiscal decision-making with more and better statistical information and knowledge on subnational tax regulations and thus make the program more comprehensive.



**C. Other issues and risks**

- 2.3 The program is classified as a medium-risk operation. Based on the analysis undertaken during program preparation, three main risks were identified: (i) the fiscal impact of public expenditure growth arising from the investment plan and social program; (ii) the program's objectives, implementation, and outcomes could be affected by delays in the schedule for submitting reforms to the Assembly, and by changes made during the process of passing the draft laws; and (iii) lack of ownership of the reforms, which could put their sustainability and the progress of the fiscal decentralization process at risk.
- 2.4 The risks identified are described below with their mitigating measures. With respect to macrofiscal risk, Bolivia has achieved high growth rates over the last five years; and enjoys a controlled macroeconomic situation and sound fiscal position, backed by a high level of international reserves. Nonetheless, execution of the public investments plan "*Bolivia, para Vivir Bien*," which consists of a set of plans and programs to be executed by the government between now and 2029, could cause Bolivia's fiscal position to deteriorate, as a result of a significant increase in public capital spending. To mitigate this risk, the proposed program seeks to strengthen public finances, encouraging fiscal responsibility and the generation of own resources among subnational governments, while providing freely available resources to the TGN, thus contributing to fiscal balance.
- 2.5 There is also a risk that the objectives, implementation, and results of the program could be affected by delays in scheduling the submission of the reforms to the Assembly, as well as by the amendments introduced during the process of approving the draft laws. This risk has been reduced considering that the Tax Classification Law was already approved by the Assembly, also creating the SNIT. Moreover, to mitigate the risk of delays in the submission of the PLTEP to the Assembly and amendments during the approval process, technical discussions are planned on the draft law in the Executive Branch and the Assembly, led by the Office of the Vice Minister of Treasury and Public Credit (VTCP) team, to explain the technical benefits of the reforms and to respond to concerns and clarify doubts. Lastly, the technical assistance provided under the proposed program, partly financed with funds from the operational input of technical-cooperation operation ATN/SF-12303-BO, mitigates the risk of a lack of capacity to design the reforms.
- 2.6 The mandate under the constitution and the LMAD, together with the determination of the top government authorities to ensure its effective fulfillment and MEFP leadership in adopting the program's reforms, mitigate the risks of a lack of ownership of the reforms. To mitigate the governance risk in the fiscal decentralization process, the proposed program supports the Bolivian government's strategy of a gradual transition to the autonomous entities. The process is unfolding in accordance with the agreements reached between the different levels of government and the implementation capacities developed by the subnational entities. As a framework law, the LMAD defines certain basic principles to ensure an orderly and harmonious fiscal decentralization process. In particular, the

transition provisions of the LMAD envisage the enactment of public borrowing and tax classification laws. Following the logic of a gradual decentralization process, the PLTEP will establish principles in each of these areas, while leaving more specific issues to regulatory decrees. Moreover, the fact that the reforms identified in the operation are included in the Medium-Term Plan of Action (2011-2015) guarantees their high priority and the budgetary funding needed for their implementation, thus contributing to their sustainability.

- 2.7 Lastly, given the leadership of the MEFP, through the VTCP, and a willingness to work with the Bank on program preparation and the provision of technical assistance, the Bank and VTCP teams will jointly monitor the evolution of program risks.

### **III. IMPLEMENTATION AND MANAGEMENT ARRANGEMENTS**

- 3.1 **Borrower and executing agency.** The Plurinational State of Bolivia will be the borrower in this operation, and the MEFP will be responsible for fulfillment of the actions defined in the Policy Matrix. The MEFP, through the VTCP, will: (i) coordinate with the VPT, which is responsible for the adoption of measures, or technical execution of activities, in components II and III; (ii) monitor and promote actions to achieve the program's defined policy goals; and (iii) prepare and submit reports and evidence of fulfillment of the conditions for disbursement of the operation's financing, and any other reports that the Bank may request, in the established, agreed upon timeframes.
- 3.2 With a view to organizing the support provided to the country, the Bank's project team has implemented a strategy consisting of: (i) providing the necessary technical assistance on identified issues, partly financed with funds from the operational input of technical-cooperation operation ATN/SF-12303-BO; (ii) undertaking special missions at key points in the program's design and implementation; and (iii) maintaining close monitoring, in conjunction with the Bolivian government, to anticipate and adequately resolve risks and strategic, technical, and coordination difficulties associated with program execution.
- 3.3 With the monitoring and evaluation plan designed, an ex post evaluation will be made of program's impact, which will provide empirical evidence to fill knowledge gaps in the fiscal and decentralization sector. This evaluation will be an input for the PCR, which will be undertaken within six months after the proposed operation has concluded. The PCR will evaluate the impact obtained and the degree of fulfillment of the objectives set for the program's two operations. The borrower will compile and process all of the data needed to monitor and evaluate the operation, including the financial costs of such compiling and processing. Consulting services to verify the indicators specified in the Results Matrix and the activities included in the Policy Matrix, will be funded with resources from the operational input of technical-cooperation operation ATN/SF-12303-BO, included in the Bank's 2011 programming with Bolivia.

#### **IV. POLICY LETTER**

- 4.1 The Policy Matrix (Annex II) for the proposed operation is aligned with the [Policy Letter](#) sent by the MEFP on 14 June 2011.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to the lending program for small and vulnerable countries.		
Regional Development Goals	The intervention contributes to i) Ratio of actual to potencial tax revenue and ii) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the Bank's outputs of: i) Public financial systems implemented or upgraded (budgeted, treasury, accounting, debt, and revenues), and ii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2485-2	The operation contributes to the public sector strenghtening by supporting subnational governments institutional strengthening.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.2		10
3. Evidence-based Assessment & Solution	5.5	25%	10
4. Ex ante Economic Analysis	7.0	25%	10
5. Monitoring and Evaluation	6.1	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B-13		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: budget and treasury.	
The project uses another country system different from the ones above for implementing the program	Yes	The SAIDS (Sistema Administración e información de Deuda Subnacional) system is used for monitoring subnational public debt.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Operational Input of the program ATN/SF-12303-BO.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

This is the second phase of a program to strenghten fiscal policy and decentralization in Bolivia under the PBP modality. It is financed with US\$46.5 millions from the Bank's ordinary capital and US\$15.5 millions from the FSO. The objective of the program is to support the Government of Bolivia in its effort to strenghten public sector fiscal sustainability and consolidate the decentralization process initiated by the new constitution.

The program has a relatively clear diagnostic of the factors contributing to the problem and includes evidence-based explanation on the causes of the problem and the size of the intervention. Outputs and outcomes are correctly defined and all indicators are SMART. The targets are realistic. General mechanisms for monitoring have been defined, a budget has been included for this activity, and there is reference to the sources of the data to be collected. The operation has a reflexive evaluation methodology and an evaluation plan with the principal activities to be undertaken and the responsible party for each. There is an economic analysis for some of its components. The program has identified risks, as well as all the required mitigation measures.

## POLICY MATRIX

OBJECTIVE	ACTIONS PRECEDENT TO DISBURSEMENT OF THE FIRST OPERATION	ACTIONS PRECEDENT TO DISBURSEMENT OF THE SECOND OPERATION
<b>General program objective:</b> The program's objective is to support the Bolivian government in securing the fiscal sustainability of the consolidated public sector, with a view to deepening the fiscal decentralization process under the new constitutional framework.		
<b>COMPONENT I. MACROECONOMIC STABILITY</b>		
Macroeconomic stability and sustainable fiscal balance	The macroeconomic framework is consistent with the program's objectives and the guidelines set out in the policy letter. <i>Means of verification:</i> IMA (Independent Macroeconomic Assessment) prepared by the Bank and the IMF assessment letter	The macroeconomic framework is consistent with the program's objectives and the guidelines set out in the policy letter. <i>Means of verification:</i> IMA prepared by the Bank and the IMF assessment letter
<b>COMPONENT II. SUPPORT FOR FISCAL DECENTRALIZATION</b>		
Consolidation of the autonomy process in a framework of economic stability and sustainability of public finances	Presentation to the Plurinational Legislative Assembly (ALP) of the draft Framework Law on Autonomy and Decentralization, <sup>1</sup> whose articles contain: (i) A requirement for autonomous territorial entities to approve their budgets, according to the principle of fiscal balance, while guaranteeing financial sustainability for exercising their authority, so as to preserve fiscal responsibility and the financial-fiscal sustainability of the autonomous territorial entities. The LMAD will also require that, for contracting domestic or foreign public debt, the autonomous territorial entities will be covered by the policies on levels of borrowing and concession, striving to obtain the most advantageous conditions in terms of rates, terms, and amount, as well as demonstrating the capacity to generate income to cover principal and interest.	Submission to the ALP of a draft Tax Classification Law, which will contain provisions reflecting the following principles: (i) "Local autonomy" to control and administer the assigned taxes; (ii) Relative "stability" of tax bases; (iii) "Visibility" and "correspondence" in which the tax burden falls directly on those benefitting from the public services received; (iv) "Neutrality" to avoid distortions and/or restrictions on trade and factor mobility between regions; (v) Low potential for "exporting" the taxes to residents in other jurisdictions; (vi) "Universality"; and (vii) "Administrative simplicity."

<sup>1</sup> The LMAD was approved by the Plurinational Legislative Assembly of Bolivia and enacted by the government on 20 July 2010. The enacted law upholds the principles defined for this program, and thus fulfills the objective of this component.

OBJECTIVE	ACTIONS PRECEDENT TO DISBURSEMENT OF THE FIRST OPERATION	ACTIONS PRECEDENT TO DISBURSEMENT OF THE SECOND OPERATION
	<ul style="list-style-type: none"> <li>(ii) Definition of the delegation of expenditure responsibilities among the different government levels, defining exclusive, concurrent, and shared powers among the autonomous territorial entities.</li> <li>(iii) Transfer of tax administration to the autonomous territorial entities.</li> <li>(iv) Recognition of the tax authority according to government level. In addition, the LMAD will define the mechanism whereby new taxes are created or current taxes amended.</li> <li>(v) The requirement that the resources of autonomous territorial entities be administered under the principle of territorial equity, through the coordinated implementation of mechanisms that contribute to the most equitable distribution of available resources to finance their powers.</li> <li>(vi) Creation of a technical advisory body for coordination, proposal, and consensus-building between the central government and the autonomous territorial entities.</li> <li>(vii) A requirement for the autonomous territorial entities to publish information on the physical and financial evaluation of institutional management, to strengthen their transparency and accountability.</li> </ul> <p><i>Means of verification:</i> Independent consulting report verifying that the draft law sent to the Assembly fulfills principles (i) to (vii).</p>	<p><i>Means of verification:</i> Evidence of the enactment of the Tax Classification Law in the Official Gazette, and an independent consulting report documenting that the draft law submitted fulfills the principles established in principles (i)-(vii).</p> <p>Design by the MEFP of the prototype of a fiscal statistics system aimed at:</p> <ul style="list-style-type: none"> <li>(i) Integrating various, currently dispersed databases, systems, and processes for generating fiscal information;</li> <li>(ii) Updating the technological platform for development of the systems on which the various databases operate;</li> <li>(iii) Expanding coverage of fiscal information to a larger number of territorial entities;</li> <li>(iv) Improving the efficiency of the consultation system through networking;</li> <li>(v) Improving control of data generation and transmission; and</li> <li>(vi) Ensuring an adequate level of user security.</li> </ul> <p><i>Means of verification:</i> Independent consulting report verifying that the prototype of the system includes actions fulfilling principles (i)-(vi).</p>
<b>COMPONENT III. STRENGTHENING OF PUBLIC FINANCIAL MANAGEMENT</b>		
More efficient and effective fiscal policy and coordination thereof between the central and subnational levels	<p>MEFP approval of a comprehensive medium-term plan of action, arising from the PEFA report, which includes the preparation, validation, and execution of actions to:</p> <ul style="list-style-type: none"> <li>(i) Improve the transparency of intergovernmental fiscal relations, by instituting explicit rules for distributing central government transfers among subnational authorities of a given level.</li> </ul>	<p>Submission to the ALP of a draft law regulating public borrowing, which will contain provisions reflecting the following principles:</p> <ul style="list-style-type: none"> <li>(i) “Efficiency and prudence,” to ensure that debt contracting covers public-sector financing requirements at the lowest possible cost, subject to a prudent degree of risk, and in accordance with the payment capacity of the entity contracting the debt;</li> </ul>

OBJECTIVE	ACTIONS PRECEDENT TO DISBURSEMENT OF THE FIRST OPERATION	ACTIONS PRECEDENT TO DISBURSEMENT OF THE SECOND OPERATION
	<p>(ii) Improve central government supervision of the aggregate fiscal risk generated by territorial entities, to facilitate the recording, control, and adequate monitoring of subnational debt, and to provide comprehensive information on the basis of which general fiscal risk reports can be prepared.</p> <p><i>Means of verification:</i> Independent consulting report verifying that the plan of action arising from the PEFA report, approved by ministerial resolution, includes actions to fulfill principles (i) and (ii).</p>	<p>(ii) “Fiscal sustainability,” to ensure that the contracting of public debt does not threaten the stability of the economy as a whole or intergenerational equity;</p> <p>(iii) “Transparency and credibility” to ensure that the public borrowing process is undertaken through transparent and predictable mechanisms defined by law;</p> <p>(iv) “Regulatory centralization and operational decentralization,” to ensure that public borrowing is subject to a single set of regulations for the entire consolidated public sector, while each jurisdiction manages its debt on a decentralized basis.</p> <p><i>Means of verification:</i> Evidence of submission to the ALP of a draft law regulating public borrowing, and an independent consulting report verifying that the draft law sent to the Assembly fulfills principles (i)-(iv). Submission to the ALP of a draft law regulating treasury issues, which will contain provisions reflecting the principles of:</p> <p>(i) “Efficiency,” to ensure revenue and financing are obtained, while scheduling commitments, obligations, and payments on a timely basis to execute the expenditure budget at the lowest possible cost;</p> <p>(ii) “Fiscal sustainability,” to ensure that public entities prepare and administer their budgets in a framework of fiscal balance;</p> <p>(iii) “Single cash fund,” the consolidation of a single account in which all public revenue is credited, irrespective of its category or origin, and against which all payments are debited, for obligations legally assumed by institutions under the jurisdiction of the MEPF;</p> <p>(iv) “Prudence,” in treasury management to secure returns while minimizing risks;</p> <p>(v) “Timeliness” in the execution of treasury-related procedures;</p> <p>(vi) Generation of “accurate, timely, and reliable” information;</p> <p>(vii) “Transparency” in access to information on State resources</p>

OBJECTIVE	ACTIONS PRECEDENT TO DISBURSEMENT OF THE FIRST OPERATION	ACTIONS PRECEDENT TO DISBURSEMENT OF THE SECOND OPERATION
		<p>and spending.</p> <p><i>Means of verification:</i></p> <p>Evidence of the submission to the ALP of a draft law regulating treasury issues, and an independent consulting report verifying that the draft law submitted to the ALP fulfills principles (i)-(vii).</p> <p>Submission to the ALP of a draft law creating the SNIT, to include the following:</p> <ul style="list-style-type: none"> <li>(i) Registration of the departmental and municipal laws used to create, amend, or abolish taxes;</li> <li>(ii) Recording of tax revenues collected by the autonomous governments;</li> <li>(iii) Requests and technical reports required by the Ministry of Economy and Public Finance.</li> </ul> <p><i>Means of verification:</i></p> <p>Evidence of the enactment of the law creating the SNIT in the Official Gazette; and an independent consulting report verifying that the draft law sent to the Assembly includes provisions (i)-(iii).</p>