

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

**PROGRAM TO ENHANCE THE EFFICIENCY OF TAX ADMINISTRATION AND
PUBLIC EXPENDITURE MANAGEMENT IN THE DOMINICAN REPUBLIC**

(DR-L1117)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Multiyear execution plan
2.	Annual work plan
3.	Monitoring and evaluation plan
4.	Procurement plan
OPTIONAL	
1.	Project economic analysis
2.	Itemized budget
3.	Program Operating Regulations (draft)
4.	Detailed execution plan
5.	Safeguard Policy Filter and Safeguard Screening Form

ABBREVIATIONS

BCRD	Central Bank of the Dominican Republic
CAPTAC-DR	Central America Panama Dominican Republic Regional Technical Assistance Center
CIAT	Centro Interamericano de Administraciones Tributarias [Inter-American Center of Tax Administrations]
CUT	Cuenta Única del Tesoro [Single Treasury Account]
DGII	Dirección General de Impuestos Internos [Internal Revenue Bureau]
ECLAC	Economic Commission for Latin America and the Caribbean
FAD	Fiscal Affairs Department, IMF
ICMS	Imposto sobre operações relativas à circulação de mercadorias e sobre prestações de serviços de transporte interestadual, intermunicipal e de comunicação [Brazil's value added tax]
ICT	Information and communication technologies
IMF	International Monetary Fund
ITBIS	Impuesto a las Transferencias de Bienes Industrializados y Servicios [tax on the transfer of commercial goods and services]
MEPyD	Ministry of Economic Affairs, Planning, and Development
MTFF	Medium-term Fiscal Framework
OECD	Organization for Economic Cooperation and Development
PCR	Project completion report
PEFA	Public Expenditure and Financial Accountability
PETI	Plan Estratégico de Tecnología de la Información [Strategic Information Technology Plan]
RNC	Registro Nacional de Contribuyentes [National Taxpayer Roll]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Administration System]
SIAFE	Sistema Integrado de Administración Financiera del Estado [Integrated Financial Administration System of the State]
SIGADE	Sistema de Gestión y Análisis de la Deuda [Debt Management and Analysis System]
SIGEF	Sistema de Información de la Gestión Financiera [Financial Management Information System]
UEPEX	Unidad Ejecutora de Proyectos con Financiamiento Externo [financial management system for the executing units of projects with external financing]

PROJECT SUMMARY

DOMINICAN REPUBLIC PROGRAM TO ENHANCE THE EFFICIENCY OF TAX ADMINISTRATION AND PUBLIC EXPENDITURE MANAGEMENT IN THE DOMINICAN REPUBLIC (DR-L1117)

Financial Terms and Conditions				
Borrower: Dominican Republic			Flexible Financing Facility ^(a)	
			Amortization period:	24.5 years
Executing agency: Dirección General de Impuestos Internos [Internal Revenue Bureau] (DGII) for Component I and the Ministry of Finance for Component II			Original WAL:	15.16 years ^(b)
			Disbursement period:	5 years
			Grace period:	5.5 years
Source	Amount (US\$)	%	Inspection and supervision fee: ^(c)	
IDB (Ordinary Capital)	50 million	100	Interest rate:	LIBOR-based
			Credit fee:	^(c)
Total	50 million	100	Approval currency:	U.S. dollars from the Ordinary Capital
Project at a Glance				
Project objective/description: The general objective is to contribute to a sustainable reduction in the fiscal deficit. The specific objectives are to: (i) increase tax revenue as a proportion of GDP, through greater administrative efficiency; and (ii) make more funds and information available for efficient cash management.				
Special contractual conditions precedent to the first disbursement: Approval and entry into effect of program Operating Regulations agreed upon in advance by the borrower and the Bank will be a special condition precedent to the first disbursement. Formal establishment of the executing units, including appointment of their respective coordinators, will be conditions precedent to the first disbursement of each component (paragraph 3.5).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(d)	SI	<input type="checkbox"/>	PI	<input type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) The original WAL of the loan could be shorter, depending on the date on which the loan contract is signed.

^(c) 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 corresponding policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 The Dominican economy has one of the highest growth rates in the region, with annual GDP growth of 5.1% between 1990 and 2013, and over 7% in 2014-2015 in real terms.¹ This growth translated into poverty being reduced by 15.5 percentage points between 2005 and 2010, to a rate of 32.3%.² However, poverty is above the average level for Latin America and the Caribbean (28.2% in 2014), inequality is among the highest in the region (Gini coefficient of 0.52 in 2014), and informal sector employment is high (57% in 2013).³ This economic expansion has not been reflected in better fiscal accounts, which post a sustained deficit that peaked in 2012 (6.9% of GDP). In 2013, a fiscal consolidation program was undertaken that included tax reform and spending-control measures⁴ that enabled central government total revenue to grow between 2012 and 2015 from 13.36% of GDP to 14.4% and total spending to fall from 19.93% of GDP to 17.43%, reducing the nonfinancial public sector deficit from 6.9% of GDP in 2012 to 3% in 2015.⁵ While progress has been made, significant challenges remain.
- 1.2 To achieve fiscal consolidation, measures are needed to counteract insufficient tax revenues and strengthen public expenditure management. On the revenue side, the tax reform failed to have the expected return (10% of GDP compared to an actual yield of 0.7% in 2015). Since 2000, tax receipts have not exceeded 15% of GDP and are below the average for Central America (17%) and Latin America and the Caribbean (25%)⁶ as a consequence of weaknesses in the tax administration and the complexity of the tax system.⁷ Income tax noncompliance rose from 55.2% (2007) to 61.2% (2015), while noncompliance with the tax on commercial goods and services (ITBIS)—equivalent to the value added tax in other countries—ranged from 33.3% to 35.6% (2007-2012), both compared to their collection potential.⁸ Expenditures, in turn, have started to grow again, at an estimated 18.7% and 20% of GDP in 2016 and 2017, respectively, outstripping the levels seen prior to the

¹ The macrofiscal data in paragraphs 1.1 and 1.2 are from the Central Bank of the Dominican Republic (BCRD).

² Ministry of Economic Affairs, Planning, and Development (MEPyD) calculations.

³ Income inequality, measured by the Gini coefficient, went from 0.57 points in 2005 to 0.52 in 2014, falling 8.8%, compared to 7.9% in Latin America and the Caribbean (ECLAC). According to Bourguignon (2003), growth has a lower impact on poverty reduction in countries with high income inequality.

⁴ Supported by the fiscal strengthening program ([3110/OC-DR](#)).

⁵ The estimated deficit for 2015 excludes repurchase of PetroCaribe discounted debt (3.1% of GDP, capital income reported as donations). The central government deficit fell from 6.57% (2012) of GDP to 0% (2015).

⁶ *Hacia una Administración Tributaria Eficaz* [Toward efficient tax administration], seminar/workshop, Díaz Yubero and Vázquez, 2016.

⁷ As a result of exemptions and incentives that generate high tax expenditures (6.7% of GDP in 2015 exceeding the Latin American average of 4.7%). *Gastos Tributarios en República Dominicana: Estimación para el Presupuesto General del Estado de 2016* [Tax spending in the Dominican Republic: Estimate for the 2016 general budget], Interagency Commission coordinated by the Tax Policy and Legislation Bureau of the Ministry of Finance, 2015.

⁸ Includes evasion, avoidance, and arrears. [Estimación del incumplimiento tributario](#) [Estimated tax noncompliance], Customs Bureau, DGII-MH-BCRD-MEPyD, 2016.

consolidation program (19.9% of GDP in 2012). This uptick is due to growth in current spending⁹ associated with growth in public sector employment.

- 1.3 The main challenge to be mitigated is the fiscal deficit, which is growing due to:
(i) insufficient tax receipts to sustainably finance public spending requirements; and
(ii) limited funds and information available for efficient cash management. The causes associated with these two specific problems are described below.
- 1.4 The following institutional and operational shortcomings in tax administration need to be corrected.
 - a. **Inadequate organizational and regulatory framework:** (i) the [organizational structure of the Internal Revenue Bureau \(DGII\)](#) does not establish adequate separation of regulatory and operational functions and is not based on an integrated view of processes; management measurements are tightly compartmentalized;¹⁰ there are no strategic or operational indicators to depict results by units and central business processes ([Fiscal Affairs Department \(FAD\) - 2016](#), paragraphs 12-15);¹¹ (ii) the regulatory framework and operating processes are out of date; and (iii) the DGII has no specific plan for retaining human talent (FAD, 2016, paragraph 20)^{12,13} and no systematic training plan for personnel.
 - b. **Weaknesses in the processes for facilitation and enforcement of tax obligations, as illustrated by the following:** (i) the Registro Nacional de Contribuyentes [National Taxpayer Roll] (RNC) is out of date,¹⁴ incomplete,¹⁵ and has no controls to prevent the creation of shell companies¹⁶ (Report of the tax administration mission. Development of an action plan to reform the DGII,

⁹ On average, 55% of tax revenue is spent on wages, interest, and social benefits (2010-2015), BCRD.

¹⁰ Silos where information does not flow between departments.

¹¹ International Monetary Fund [FAD. Desafíos para la recuperación de la administración tributaria de la República Dominicana. Rojas, E y Díaz Yubero, F, 2016](#). [Challenges for the recovery of the Dominican Republic's tax administration]. Good tax administration governance and management practices group strategic/tactical and operational responsibilities into different organizational units.

¹² Between 2012-2016, 417 employees resigned out of a total of 2,674. DGII.

¹³ As for gender, since 2014 the DGII has been working in coordination with the Ministry of Women's Affairs to incorporate a gender approach, through different initiatives (nursing room, inclusive language, awareness activities). Informe Implementación de la perspectiva de género en la DGII [Report on implementation of the gender perspective in the DGII], Human Resources Office, 2015. One of the initiatives pending implementation is a protocol for cases of violence and harassment. According to the [Informe del Centro de Investigación para la Acción Femenina \(2010\)](#) [Women's Action Research Center Report, 2010], 31.9% of women in public institutions are victims of sexual harassment and, according to the Civil Service Administration System, women make up 64.19% of the public sector workforce. Apart from violating human rights, sexual harassment in the workplace has been identified as a factor that reduces the productivity of victims, according to the International Labor Organization ([Meeting of experts on violence against women and men in the world of work, 2016](#)).

¹⁴ In 2015, 28.7% of cases under investigation were closed due to erroneous information. Fortalecimiento de la Fiscalización en la DGII [Strengthening oversight in the DGII] Trujillo, J., 2016.

¹⁵ The RNC does not include individuals who earn less than the minimum exemption, but it does include vehicles, which is incompatible with international best practices. In 2010, 2.5% of the total population was registered as taxpayers; the average for Latin America and the Caribbean was 23%; and the average for the OECD countries was 59.2%. (IDB – Central America Panama Dominican Republic Regional Technical Assistance Center (CAPTAC-DR) – Inter-American Center of Tax Administrations (CIAT), Estado de la Administración Tributaria en América Latina: 2006-2010 [Status of tax administration in Latin America 2006-2010], 2013.

¹⁶ Legally established companies that conceal illegal activities and normally exist only on paper.

IMF, 2013, paragraph 27); (ii) the taxpayer current account¹⁷ is incomplete, and payment agreements and refunds are reported and processed manually (FAD, 2016, paragraph 34); (iii) the cost of complying with tax obligations is high;¹⁸ taxpayer assistance is mainly provided in person which, together with outdated rules, does not guarantee that all taxpayers will be treated in the same way;¹⁹ (iv) oversight of the billing process is limited to monitoring the authorization of tax receipts and limits are not established on the number authorized by activity, transaction volume, or tax behavior of the applicant (FAD, 2016, paragraph 21); furthermore, there is no comprehensive oversight of the refund and compensation process;²⁰ (v) the tax collection process is fragmented and not effectively supervised, with little automation²¹ (FAD, 2016, paragraph 21 and [Plan Estratégico de Tecnología de la Información](#) [Strategic Information Technology Plan] (PETI) 2017-2020, paragraph 23); collection results are not measured and the close of the cycle is not controlled; and (vi) audits cover a limited percentage of activities,²² and risk analysis is in the incipient stages of development (FAD, 2016, paragraph 24). The taxpayer enforcement cycle is fragmented into different areas of the tax administration.²³ As a result, taxpayer perception of risk is low.²⁴

c. Obsolete and incomplete technology systems and infrastructure

- (i) **Limited productivity of work procedures:** (i) the virtual office offers limited services,²⁵ and there are security risks;²⁶ (ii) the tax system is based on a set of applications that are conceived of as departmental solutions, but which have scant integration of information and work flows (PETI, paragraphs 43 and 59);²⁷ and (iii) there is no institutional database to support business processes or enable data to be cross-checked with third parties. The sole source of external information integrated with the DGII is Social Security (PETI, paragraph 26).

¹⁷ Sole repository of taxpayer information for tax enforcement.

¹⁸ It takes 316 hours/year for companies to pay taxes in the Dominican Republic; the Central American average is 269; and for the OECD countries it is 176. Díaz-Yubero and Vázquez, 2016.

¹⁹ Limited assistance via the Internet. The main channels are in person (2.6 million taxpayers were assisted in 2015, mostly in relation to vehicles), by telephone (337,000 users), and by Internet (50,000 users). FAD, 2016, page 37.

²⁰ The principle of administrative silence is applied to taxpayer requests, which is deemed to be positive after two months.

²¹ Arrears are monitored manually. In 2010, 6.8% of amounts in arrears were recovered. IDB-CAPTAC-DR-CIAT, 2013.

²² Internal and external audits covered 42.7% of large taxpayers and 3.8% of the remaining taxpayers (2015). Trujillo, 2016.

²³ Tax control area is distributed into tactical and operational areas and four sections (planning, audit, general, and tax collection), which are not coordinated, leading to redundancies. Trujillo, 2016.

²⁴ Since 2014, 3,764,232 omissions have been detected in ITBIS declarations, but only 431 fines were levied. The fine/active taxpayer ratio was 0.25% in 2015. DGII, 2016.

²⁵ The main service used by taxpayers is the submission of tax returns (PETI, paragraph 77).

²⁶ The authentication of taxpayers and their representatives and the technical and legal validity of transactions is not monitored. (PETI, paragraph 76).

²⁷ The DGII does not have an information integration layer for all processes and businesses (FAD, 2016, paragraph 42).

- (ii) **Limited capacity of information technology solutions:** (i) the architecture is unsophisticated (PETI, paragraphs 60 and 180),²⁸ which makes it difficult to implement the new functionality that is required; (ii) there is no technology plan linked to the business to guide developments and procurement to support the DGII's information management (FAD, 2016, paragraph 35); and (iii) the financial and human resources management system has functional limitations, is technologically obsolete, and has scant capacity for developing the product or for maintenance (PETI, paragraphs 125-129).
- (iii) **Deficient information system security:** (i) each application has established its own control system, which compromises information security. Not all access systems allow user queries and changes in their information to be tracked (PETI, paragraphs 30 and 35); and (ii) the current technological infrastructure does not have the capacity to implement new projects. Current capacity is at 70% use, the band width is too narrow to expand services, and most of the hardware was procured 10 years ago (FAD, 2016, page 41 and PETI, paragraph 180).
- (iv) **Weak governance and management of information and communication technology (ICT):** (i) there is no body or mechanism that sets ICT priorities; few initiatives exist to promote an integrated vision of the information system; applications meet isolated needs in a given area as if they were independent organizations (PETI, paragraphs 46-48); and (ii) ICT management focuses on the operation of technological resources and only responds to the technology requirements of the different departments without contributing value added to improving processes (PETI, paragraphs 55-57).

1.5 The main weaknesses in government budget planning and management are:

- a. **Deficient macrofiscal planning:**²⁹ (i) absence of tools for macroeconomic and fiscal analysis³⁰ and no medium-term fiscal targets; (ii) absence of a methodology for estimating a medium-term expenditure framework;³¹ and programs and administrative units have spending redundancies;³² and (iii) fiscal information is not consolidated. No tools or databases are available to compile and consolidate fiscal statistics.³³
- b. **Incomplete functionality in the financial management information system (SIGEF) and deficient budget execution processes:** (i) the Single Treasury

²⁸ Signifies the extent to which the organization's technological components (information, information and communication systems) meet ICT requirements.

²⁹ Deviations in budget planning compared to execution. [Public Expenditure and Financial Accountability \(PEFA\), 2016.](#)

³⁰ PEFA, 2016. PI-14 Macroeconomic and fiscal projections, macrofiscal sustainability analysis dimension, score D. The budget does not include fiscal scenarios or sensitivity analysis based on external risk factors that impact revenue and spending.

³¹ PEFA, 2016, PI-16 Medium-term perspective in expenditure budgeting, medium-term expenditure ceilings dimension, score D. No medium-term expenditure ceilings are established.

³² Executive decrees have created programs and administrative units with overlapping functions. The Bank is supporting a study in five government institutions to identify these spending redundancies.

³³ Ministry of Finance, Fiscal Policy Unit.

Account (CUT) is not consolidated, since some institutions operate outside it,³⁴ expenditure execution is based on advances,³⁵ and cash programming focuses on payment management;³⁶ expenditures financed with external funding are made outside the CUT and are reported through regularization;³⁷ (ii) the SIGEF is not interoperable with some subsystems that support budget execution and does not provide information on accounts payable and receivable that can be used to prepare balance sheets,³⁸ particularly for earned income and debt;³⁹ (iii) the record and inventory of public assets is incomplete⁴⁰ and is not automated; there is no module in the SIGEF for reporting fixed and moveable assets and inventory;⁴¹ and (iv) information from the property register and the cadaster is not integrated,⁴² and there are no georeferencing tools for producing a complete property register.

- 1.6 **Bank experience.** The Bank has been supporting the strengthening of public finance in the Dominican Republic in recent years. It supported modernization of the tax administration (1902/OC-DR in 2007) and the fiscal program through tax policy reform and spending control measures (3110/OC-DR in 2013). It has also supported strengthening the analysis, monitoring, and evaluation of fiscal policy (ATN/FG-11860-DR). Technical assistance is being provided to strengthen related systems, such as human resources (ATN/FI-14511-DR) and procurement and contracting (ATN/ME-13937-DR). Legal and institutional changes and technology development in financial administration have been promoted (1093/OC-DR and 1809/OC-DR). This new operation is aimed at consolidating the managerial capacity of the tax administration to reduce tax noncompliance and increase receipts. It also aims to lock in the progress made in financial administration, with a view to achieving a sustainable balance in public finances through better planning and management of budget expenditures. Other international agencies are working with the DGII: the U.S. Treasury Department, with technical assistance to strengthen auditing and internal control; the World Bank, with a diagnostic assessment of the DGII's main processes; and the Japan International Cooperation Agency, through strengthening for local tax administrations. In addition, the Bank is supporting the country in meeting the OECD Global Forum's transparency standards.
- 1.7 The proposed program is part of Bank support to strengthen management of income and expenditures in the region. The Bank's recent experiences with tax administration reforms in Jamaica (2658/OC-JA), Ecuador (3325/OC-EC),

³⁴ Legislative, judicial, and electoral branches and constituent bodies.

³⁵ PEFA, 2016, PI-27 Financial data integrity, advance accounts dimension, score D. Advances to contractors are pending reconciliation from previous years.

³⁶ Ninety-eight percent of payments are reported simultaneously with the commitment and the obligation stages (SIGEF, 2016).

³⁷ A stand-alone application is used known as UEPEX [financial management system for the executing unit of projects with external financing]. In 2015, the central government's multilateral and bilateral financing amounted to 2.1% of GDP, BCRD.

³⁸ Two of the five main accountability reports are generated automatically.

³⁹ SIGEF is not interoperable with other budget execution support systems, such the debt management and analysis system (SIGADE).

⁴⁰ It reports 17,000 public deeds for approximately 100,000 properties. National Assets Bureau.

⁴¹ Government Accounting Bureau.

⁴² The Cadaster Office is currently updating its system to georeference and digitize data on public properties, including property deeds.

Honduras (3541/BL-HO), Peru (3214/OC-PE), El Salvador (3852/OC-ES), and Guatemala (3786/OC-GU), and programs to modernize financial management systems in Honduras (2032/BL-HO), Guatemala (2050/OC-GU and 2766/OC-GU), and Guyana (1550/SF-GY and 1551/SF-GY) have been taken into account in the proposed operation, and some of the lessons learned are described below.

- 1.8 **Lessons learned and international evidence.** On the revenue side, evaluations and comparative analyses of tax administrations show that for them to carry out their tax collection role and provide better service, their organization and processes need to be strengthened across the board: (i) improve access to and the quality of information: complete, up-to-date, and automated records, including information from third parties, which reduces opportunities for evasion;⁴³ (ii) implement auditing models that rely on the intensive use of quality information;⁴⁴ (iii) simplify procedures to facilitate compliance with tax obligations;⁴⁵ and (iv) set strategies to ensure the suitability and motivation of human resources.⁴⁶ Experience points to the importance of improving information, processes, and computer systems to obtain more effective tax administration, aspects that have been strengthened in several of the region's tax administrations, particularly Brazil (BR-X1005) and Uruguay (1783/OC-UR).⁴⁷ The incorporation of technology into taxpayer services improved voluntary compliance⁴⁸ in Argentina, Chile, Ecuador, Mexico, Peru, and Brazil.⁴⁹ Electronic billing is compulsory and increasingly widespread in sophisticated tax administrations such as those in Brazil, Chile, and Mexico. Impact evaluations of electronic billing have been performed. The electronic tax invoice program to implement electronic billing in Brazil's states has had a positive impact on increased revenues from the value-added tax (ICMS).⁵⁰ The São Paulo tax invoice program had a positive, statistically significant impact on revenue from the ICMS of US\$226 million,⁵¹ for an average increase of 12% in receipts after electronic billing was introduced.⁵²

⁴³ Evasion rates for certain taxes are up to eight times higher when the tax administration does not have an automated system to verify taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011, monitoring and evaluation plan bibliography).

⁴⁴ The availability of information complements audits of companies according to an impact evaluation of Spain's Large Taxpayer Unit (Almunia and López Rodríguez, 2016, monitoring and evaluation plan bibliography).

⁴⁵ Simplification of procedures can lead to increases in payment rates of up to four percentage points (Hallsworth et al., 2014, monitoring and evaluation plan bibliography).

⁴⁶ Incentive plans for key tax administration staff to generate additional receipts obtained rates of return of 35% to 51% (Khan et al., 2016).

⁴⁷ [Project Completion Report \(PCR\) 1783/OC-UR](#). The program to support tax management was able to increase tax pressure by two percentage points between 2006 and 2012.

⁴⁸ [World Bank. 2013. Beyond the Annual Budget: Global Experience with Medium-term Expenditure Frameworks. Washington, DC: World Bank](#). The level of compliance improves when the costs incurred by taxpayers in calculating their taxes are low.

⁴⁹ In Brazil, the [digital accounting records system](#) has enabled the federal and state tax administrations to access taxpayer information more rapidly and issue penalties in real time, thus increasing receipts. IDB-CAPTAC-DR-CIAT, 2013, page 341.

⁵⁰ PROFISCO – Program to support the management and integration of finance administrations in Brazil, CCLIP, BR-X1005.

⁵¹ Calculated using the exchange rate at 31 December 2014 (US\$=2.6574).

⁵² [Impacto del Programa Nota Fiscal Paulista en la expansión de la Recaudación Tributaria del Estado de São Paulo. Naritomi, 2015.](#) [Impact of the São Paulo Tax Invoice Program on increased tax receipts in the state of São Paulo].

- 1.9 As for strengthening public spending management,⁵³ the main lessons learned are: (i) automation without improving processes does not produce the expected results; and (ii) modernization should be accompanied by the generation of financial resources for the State. Based on these lessons, Component II of the proposed operation includes actions to improve procedures as a requirement for automation and to consolidate implementation of the CUT, which will generate financial resources ([economic analysis](#)). There is evidence showing that measures similar to those proposed by the project are effective. With regard to fiscal planning, a study evaluating countries that implemented a medium-term fiscal framework (MTFF) found that fiscal deficits were reduced on average from 3% of GDP to 0.4% in the three years following implementation of a MTFF, as a result of increased revenue and/or lower expenditures.⁵⁴ There is also ample literature on the benefits of integrated financial administration systems (SIAFs)⁵⁵ and of implementing or expanding coverage of the CUT.⁵⁶ In Nigeria, simply by closing the bank accounts of 93 of the nearly 2,000 project executing units, the overdraft in the treasury account⁵⁷ fell from US\$610 million to US\$26 million.
- 1.10 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the crosscutting theme of institutional capacity and rule of law, because it strengthens tax administration and the tools for managing and planning public finance. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the results indicator on a 0.5% increase in tax revenue as a percentage of GDP to be attained through increased tax compliance, and through the output indicators for government agencies with strengthened systems that contribute to better government systems by strengthening tax systems and public resource management and planning. The program is aligned with the IDB's country strategy with the Dominican Republic 2013-2016 (document GN-2748) through the fiscal management pillar, the main objectives of which are to improve domestic taxation and consolidate financial management systems. The program is also consistent with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) with respect to the capacity to generate revenue and improve public expenditure management, and with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3) through higher tax receipts and improved public expenditure management. Lastly, the loan is

⁵³ The PCR for 1550/SF-GY and 1551/SF-GY outlines the lessons learned from this and other programs.

⁵⁴ [World Bank. 2013. Beyond the Annual Budget: Global Experience with Medium-term Expenditure Frameworks. Washington, DC: World Bank](#), page 35, Benefits of MTFF: Income and expenditure projections are aligned with macroeconomic projections, supporting financial discipline and fiscal sustainability. Page 42: The fiscal deficit is, on average, 2.2% of GDP lower three years after MTFF implementation (study of 40 countries that implemented a MTFF between 1990 and 2008).

⁵⁵ [Pimenta, C and Pessoa, M. Gestión Financiera Pública en América Latina \[Public Financial Management in Latin America\]. 2015. IDB and World Bank: 2015](#). Page 302: SIAFs generate timely information, promote the implementation of optimized processes, and support financial management. Page 313: Peru's SIAF operates on three levels of government (national, regional, and local) using a single budget classifier and chart of account. The budget is executed through 1,450 spending units, and the treasury operates as a bank that centralizes resources in a CUT.

⁵⁶ Pimenta and Pessoa, Eds. (2015), page 7. The CUT is an essential tool for efficient cash management. It can save resources by avoiding short-term debt or concentrating liquidity. Guatemala declared savings in 2014 of US\$5.6 million (1.5% of interest paid on the domestic debt) which it attributed to consolidating resources in the CUT. Other countries have reported similar savings.

⁵⁷ Account with a negative balance in need of financing.

included in the 2017 Operational Program Report (document GN-2884), approved by the Board of Executive Directors on 8 March 2017. The program also provides additionality in gender equity since it includes actions to strengthen human resource management with a gender approach (footnotes 13 and 60).

B. Objective, components, and cost

- 1.11 The general objective is to contribute to a sustainable reduction in the fiscal deficit. The specific objectives are to: (i) increase tax revenue as a proportion of GDP, through greater administrative efficiency; and (ii) make more funds and information available for efficient cash management.⁵⁸ The program is divided into two main components.
- 1.12 **Component I. Strengthening of tax administration (US\$41.37 million).** This component seeks to increase tax collection capacity and reduce tax noncompliance by strengthening the administration's management tools and human resources.
- a. **Organizational and regulatory framework:** The objective is to improve the organizational structure and professional quality of human talent to carry out the tax administration's mandate effectively. The following outputs and activities will be financed: (i) implementation of a new organizational structure and processes in the DGII on strategic, operational, measurement, and results-control levels, including a review of functions, profiles, and workloads; (ii) adjustment of the regulatory framework and instruments to support the organizational model; (iii) design and implementation of a program to support change management during the transition and evaluations to measure progress; and (iv) design and implementation of a program to strengthen human resources with a gender approach⁵⁹ that includes a skills evaluation system, training programs, and a review of human resource management subsystems.⁶⁰
 - b. **Tax administration operating processes:** This seeks to make tax processes more efficient for tax administration management, in accordance with the Dominican legal framework. The following outputs and activities will be financed: (i) implementation of a new model for the RNC, including automation; (ii) implementation of a functional model for the taxpayer current account, including automation; (iii) implementation of a new operating model for taxpayer services and tax education (call center, virtual office, and in-person service), including automated facilities for taxpayers; (iv) update of the billing model, including implementation of electronic billing for large taxpayers; (v) updating and implementation of the collection and recovery model, including automation of processes; and (vi) revision and implementation of the audit model, including the creation of a risk unit, and automation of processes.

⁵⁸ Defined as having adequate funds at the right place and time to cover the government's obligations with maximum efficiency in function of costs. Storkey, 2003.

⁵⁹ Includes implementation of a protocol for referral of and assisting with cases of violence and harassment.

⁶⁰ The organizational structure review could include a redistribution of functions and voluntary separations.

- c. **Technology infrastructure and systems:**⁶¹ The objective is to generate reliable, timely information for efficient taxpayer audits and collections. The following will be financed:

- (i) **More productive working procedures:** Implementation of: (i) virtual office services and security for taxpayers; (ii) workflow management system; and (iii) data warehouse.
- (ii) **Increased capacity of information technology solutions:** Implementation of: (i) institutional architecture for ICT services; (ii) plan to improve ICT procedures, capacity, methodologies, and tools; and (iii) off-the-shelf applications for administrative and human resource management.
- (iii) **Improved information system security:** (i) strengthening the security system; and (ii) implementing a plan for updating the technological infrastructure.
- (iv) **Stronger ICT governance and management:** Implementation of: (i) a new ICT governance structure; and (ii) an ICT management system.

1.13 **Component II. Improved public finance planning and management (US\$5.12 million).** This component seeks to broaden the availability of funds and information for efficient management of public finances.

- a. **Macrofiscal planning:** The objective is to increase the availability of good quality information for better macrofiscal planning. The following will be financed: (i) completion of the financial programming model, including the MTFF and development of a macroeconomic consistency model; (ii) implementation of a medium-term expenditure framework, including macrofiscal analytical studies and expenditure reengineering;⁶² and (iii) updating of the data processing model used by the Fiscal Statistics Unit and its publication to strengthen the Fiscal Analysis and Policy Unit.
- b. **Adjustments to the SIGEF and improvement in budget execution processes:** This seeks to increase the availability of funds for more efficient management of public finances. The following will be financed: (i) implementation of a new treasury business model, including consolidation of the CUT⁶³ and strengthening of cash programming;⁶⁴ (ii) implementation of a management system for accounts receivable and payable that includes the development of the module and an interface with SIGADE [Debt Management and Analysis System]; (iii) implementation of a property management system, that includes support for registering public property and development of a property management module integrated into the cadaster system; and (iv) implementation of a plan to strengthen the national cadaster, including development of technical standards and completion of the cadaster system.

⁶¹ The strategic information technology plan contains a timetable, investments, risk management, and supervision. It includes the creation of an architecture department to optimize ICT resources and investment sustainability.

⁶² Including consulting services needed for implementation.

⁶³ Includes adjustments to UEPEX and replacement of cash advances with an institutional credit card.

⁶⁴ One of the main results of the new business model that simultaneous reporting of expenditures is eliminated.

- 1.14 The activities to be financed include funding for consulting services, training, systems, and equipment.⁶⁵

C. Key results indicators

- 1.15 The expected impact is a reduction in the fiscal deficit of at least 0.5% of GDP, from 2.7% in 2016 to 2.2% in 2021.⁶⁶ The main expected outcomes are: (i) an increase in tax revenue as a percentage of GDP of at least 0.5% of GDP, from 13.5% in 2015 to 14% in 2021; and (ii) an increase in the expenditures budget handled through the CUT from 97% in 2015 to 100% in 2021. The program will benefit: (i) the government, with more funds to carry out its public policies; and (ii) citizens, with better conditions for complying with their tax obligations.
- 1.16 **Economic rationale.** An [economic analysis](#) was performed of the program, including the economic/financial costs and benefits. It was estimated that program interventions will generate a real increase in tax receipts (higher than the natural increase) by implementing electronic billing for large local taxpayers and increasing the funds available for cash management, through expansion of the CUT. Using a discount rate of 12%, by the end of 2028 (10 years), the project's investments will generate a net present value of US\$27.6 million with an internal rate of return of 18%. The results are robust when subject to a sensitivity analysis.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This specific investment loan has a total cost of US\$50 million, of which the Bank will finance 100% from its Ordinary Capital:

Table 1. Total budget (US\$)

Category	IDB	%
1. Direct costs	46,488,900	92.98
Component I. Strengthening of tax administration	41,366,795	82.73
Component II. Improved public finance planning and management	5,122,105	10.24
2. Project administration	2,163,800	4.33
3. Contingencies	1,347,300	2.69
Total	50,000,000	100

- 2.2 **Disbursement schedule.** Disbursements will be made over a five-year period:

Table 2. Disbursement schedule

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2,935,307	13,447,350	15,585,099	10,655,711	7,376,532	50,000,000
Total	2,935,307	13,447,350	15,585,099	10,655,711	7,376,532	50,000,000
%	5.87	26.89	31.17	21.31	14.75	100

B. Environmental and social risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703) and the results of applying the Safeguard Policy Filter (Annex IV), this is classified as a category "C" operation. It will support the strengthening of tax

⁶⁵ Does not include physical infrastructure works.

⁶⁶ A lower deficit could create more fiscal leeway and conditions for higher economic growth.

processes through systems development and institutional strengthening, and no socioenvironmental risks are anticipated.

C. Fiduciary risks

- 2.4 The risk of delays in program execution is medium because: (i) the annual budget allocations have not been made; and (ii) projects financed with external resources will now be governed by the same procedures as those with national funding, in which payment is subject to prior control, as a result of the proposed changes in procedures governing the management and execution of external funding. These risks will be mitigated by: (i) implementing the tools of the Bank's project management cycle and making arrangements with the Budget and Public Credit Offices to justify the funds requested; and (ii) establishing a working group drawn from the Bank and the executing units to study the dynamics of execution and propose measures to minimize any delays that might occur. Training will also be provided for the executing units during the workshop to launch the project to explain how the new management process will be carried out.

D. Other project risks

- 2.5 A risk management workshop was held using the Bank's methodology and it was determined that the operation poses medium risk. The risks are:
- a. **Public management and governance.** The risk of delays in starting up the operation is classified as medium because delays might occur in obtaining legislative approval of the program. This risk will be mitigated by appointing a technical committee consisting of authorities from both executing units to monitor the approval process and present the objectives, benefits, scope, and expected results of the project to congressional representatives. There is also a medium risk that execution delays will occur owing to coordination problems: (i) between the two components, because two different institutions will be participating; and (ii) between the different lead agencies (treasury, accounting, cadaster, property) for execution of Component II. The program coordination risk will be mitigated through an independent coexecution arrangement (DGII and Ministry of Finance) that will enable the performance of each institution to be evaluated separately. The risks in Component II will be mitigated through: (i) the establishment of a technical committee for SIAFE, which has already been approved;⁶⁷ and (ii) the approval of program Operating Regulations establishing roles and responsibilities.
 - b. **Development.** The risk that difficulties will arise in implementing the project's outputs due to resistance by the staff affected by the changes and by taxpayers, in the case of electronic billing, has been classified as medium. This risk will be mitigated by contracting a firm that specializes in managing change to support the entire process of implementing the project's new procedures and tools.
 - c. **Sustainability.** There is a medium risk that tax revenue does not increase as much as expected by the end of execution because the activities are not as effective as anticipated. This risk will be mitigated by conducting, during the project, different impact evaluation studies of the effectiveness of activities (output 1.3). The evaluations will be done in accordance with international best

⁶⁷ Ministry of Finance Resolution [065-2017](#).

practices and in collaboration with other organizations supporting the DGII (see paragraph 1.6). The risk that the information required for the new modules proposed for the SIGEF (such as the accounts payable module) will not be available on time has been classified as high because the commitment, obligation, and payment stages are not reported when they occur. This risk is already being mitigated by the government, which is taking internal control measures and establishing new penalties for violations ([Executive Decree 15-17 of 8 February 2017](#)). The program also includes a review of the cash management business model, which will strengthen the measures already taken by the government.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Dominican Republic, represented by the Ministry of Finance. The executing agencies⁶⁸ will be: (i) the DGII for Component I, through the Planning and Development Division (SPD); and (ii) the Ministry of Finance for Component II, through the Office of the Deputy Treasury Minister, since the tax and financial administration systems are each governed by a specific, independent, legal and institutional framework.
- 3.2 Two executing units will be established to execute the components,⁶⁹ one in the DGII and one in the Ministry of Finance. They will each have a component coordinator, and a procurement, a financial, and a monitoring specialist. In addition to these specialists, the DGII has staff with experience in procurement and monitoring that will support execution of its component.⁷⁰ These two units, through their respective coordinators, will coordinate activities related to monitoring, evaluation, and auditing, to track proper program execution and attainment of the operation's objectives.
- 3.3 The main functions of the executing units will be to: (i) plan the execution of activities; (ii) prepare, implement, and update the project cycle tools, i.e. the multiyear execution plan,⁷¹ the procurement plan, the annual work plan, and the progress monitoring reports; (iii) supervise execution and submit the progress reports; (iv) prepare terms of reference and bids, procure goods, and select and contract services; (v) submit justifications and disbursement requests to the Bank; (vi) prepare the financial statements; and (vii) prepare the program evaluation. Program Operating Regulations will be drafted that will describe: (i) the functions, procedures, and rules for executing the two components, setting out the functions of the executing units in the Ministry of Finance and the DGII; and (ii) the operational

⁶⁸ The executing agencies, or other entities responsible for conducting activities, will sign a subsidiary agreement pledging to fulfill the program Operating Regulations and comply with the rights and duties for program execution.

⁶⁹ Given the capacity and experience of both institutions in Bank-financed projects and their independent technical roles, two executing units will be established and act independently, so the performance of one component will not affect execution of the other. To avoid high administrative costs, each executing agency will strengthen its executing unit with its own staff.

⁷⁰ The Bank will support the execution of this program (DR-L1117) through technical cooperation operation DR-T1153.

⁷¹ The multiyear execution plan and the procurement plan were prepared at workshops with the executing agencies, consolidating procurements in function of outputs and the nature of the goods.

and contractual relations between the parties involved in the program, also defining the roles of the members of the SIAFE technical committee.

- 3.4 For effective execution of Component II, SIAFE's technical committee, composed of the lead agencies of the public finance systems and chaired by the Office of the Deputy Treasury Minister, will unify criteria and present recommendations on rules and processes for the financial administration and operation of the SIGEF.⁷² The committee will be responsible for reviewing the work plans and reform proposals and for monitoring and evaluating progress in Component II.
- 3.5 **Special contractual conditions precedent to the first disbursement. Approval and entry into effect of the program Operating Regulations agreed upon in advance by the borrower and the Bank will be a special condition precedent to the first disbursement. Conditions precedent to the first disbursement of each component will be formal establishment of the executing units, including appointment of their respective coordinators.**
- 3.6 **Retroactive financing and recognition of expenditures.** The Bank may use loan proceeds to retroactively finance eligible expenditures made by the borrower prior to the date the loan is approved to contract consulting services to prepare the conceptual designs and establish the executing units for up to US\$2 million (4% of the loan), provided requirements substantially similar to those established in the loan contract were met. The expenditures must have been made after 14 March 2017, the project profile approval date, but in no case may expenditures incurred more than 18 months prior to approval of the loan be recognized.
- 3.7 **Disbursement period and method.** The disbursement period will be five years. Disbursements will take the form of advances based on the cash flow of payments to cover duly acquired commitments for the following six months. The disbursements will be paid into the accounts designated by the borrower through formal requests by the designated officials.
- 3.8 **Procurement.** Program procurement and contracting will be carried out in accordance with the Policies for the procurement of goods and works financed by the IDB (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9) and the procurement plan.
- 3.9 **Audited financial reports.** The borrower will submit audited financial reports annually to the Bank within 120 days after the close of each fiscal year. Preliminary reports corresponding to the first half of each period will be required within 60 days after the end of each six-month period. The DGII will be responsible for contracting the auditors for the entire program, and the terms of reference will be cleared by both executing agencies and will have the Bank's no objection.

B. Summary of results monitoring arrangements

- 3.10 **Monitoring** will be based on: (i) the [multiyear execution plan](#) and the [annual work plan](#); (ii) the [procurement plan](#); (iii) the results matrix; (iv) the [monitoring and evaluation plan](#); and (v) the progress monitoring report. The executing units will prepare semiannual reports on progress toward the outcome, output, and financial targets for approval by the Bank, which will conduct inspection visits and ex post reviews as part of program monitoring.

⁷² Ministry of Finance Resolution 065-2017.

- 3.11 **Evaluation.** The program will be evaluated based on the annual targets and outcome and output indicators in the program's results matrix. The monitoring and evaluation plan provides for independent midterm and final evaluations.⁷³ The borrower will prepare and send the Bank a midterm evaluation 90 days after 50% of the loan has been disbursed or after 36 months of execution, whichever comes first. It will also send the Bank a final evaluation to be used as input for the project completion report, 90 days after 95% of the loan proceeds have been disbursed. Lastly, the program provides for a random impact evaluation in cooperation with the DGII to identify the causal effect on voluntary compliance of strengthening tax processes. Data compilation will begin in the second year and the evaluation will end in the final year (Table 9, monitoring and evaluation plan). The DGII will be responsible for the evaluation, in coordination with the Bank's project team.

⁷³ The DGII will contract these evaluations using terms of reference that have been cleared by both executing agencies and have the Bank's no objection.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2748	Improvements in domestic taxation; and consolidation of financial management systems.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.8	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.8	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: nformation System, parison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality	Yes	Several gender equality related activities are carried out. The result of these activities is measured with a product indicator in the results matrix.
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		
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	Yes	Impact assessments will provide knowledge into how taxation tools work in countries where tax administration is in development. The most part of the evidence for this type of interventions comes from OECD countries (and within the region) with a higher degree of maturity of tax administration.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The overall objective of this program is to contribute sustainably to the reduction of the fiscal deficit. The specific objectives are to increase the tax burden and the availability of resources for an efficient cash management, by strengthening the Tax Administration (component I) and by improving the planning and management of public finances (component II).

The main problem is the increasing fiscal deficit resulting from: (i) the insufficient tax revenue to sustainably finance public spending needs due to institutional, operational and technological weaknesses; and (ii) the limited availability of resources and information to carry out an efficient cash management due to weaknesses in macro-fiscal planning, information systems and budget execution processes.

The POD clearly identifies the potential beneficiaries of the project. The project's vertical logic is clear and well specified. The link between interventions and problems has been adequately established. The project presents adequate evidence of external and internal validity of the proposed solutions. The Result Matrix is adequately constructed and contains the required elements for monitoring the project. The proposed impact, outcomes and output indicators are SMART.

An ex ante Economic Analysis is included, where the economic benefits have been clearly quantified and the costs reflect real resource costs to the economy. The estimated Net Present Value (NPV) is US\$ 27,6 million and the Internal Rate of Return (IRR) is 18%. The assumptions used are clearly presented and a sensitivity analysis has been performed undertaking variations in key assumptions.

The program includes an adequate monitoring and evaluation plan. The program includes an impact evaluation with an experimental design. The impact evaluation will contribute to sector knowledge of what works, by evaluating the effectiveness of a taxation tool in a country where tax administration is still in development. Most of the evidence for this type of interventions comes from OECD countries (and within the region) with a higher maturity degree of the tax administration.

The POD documentation includes a risk matrix and identifies mitigation measures with adequate monitoring indicators.

RESULTS MATRIX

Project objective:	The general objective is to contribute to a sustainable reduction in the fiscal deficit. The specific objectives are to: (i) increase tax revenue as a proportion of GDP, through greater administrative efficiency; and (ii) make more funds and information available for efficient cash management.
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EXPECTED IMPACT

Indicator	Unit of measure	Baseline	2017	2018	2019	2020	2021	End target	Means of verification	Comments
IMPACT 1: Reduction of the fiscal deficit										
Indicator 1: Balance of NFPS/GDP	%	2.7 (2016)	-	-	-	2.2	2.2	2.2	BCRD annual reports	The purpose is to measure the country's fiscal sustainability resulting from higher tax receipts and the increase in funds available for public expenditures. The target is estimated following international best practices, which recommend that the fiscal deficit be kept as low as possible. The target is the same as the expected percentage increase in tax collection. Baseline: NFPS% of GDP=2.7.

EXPECTED RESULTS¹

Indicator	Unit of measure	Baseline	2017	2018	2019	2020	2021	End target	Means of verification	Comments
RESULT 1: Real increase in tax receipts										
Indicator 1: Tax receipts/GDP	%	13.5 (2015)	-	-	-	14.0	14.0	14.0	Annual reports of the DGII's Revenue Division (SDR-DGII)	Contributes directly to the impact indicator by narrowing the difference between income and expenditures. The target is based on an economic analysis that estimated an increase of 0.5% of GDP (see economic analysis). Baseline: Tax revenues = RD\$412.7 billion. ²
Indicator 2: Actual collections from audits/total tax receipts	%	0.086 (2016)	-	-	-	-	1.3	1.3	Annual reports of the DGII's Audit Office	Contributes directly to the increase in receipts by increasing the financial returns from tax audits. The target is based on tax administration best practices which demonstrate that using risk analysis as a method of selecting taxpayers for audit increases accuracy to close to 90%. Baseline: Taxes actually collected through audits = RD\$277.6 million. Total tax receipts = RD\$412.7 billion.
Indicator 3: Annual average number of taxpayers declaring the ITBIS/total number of taxpayers required to declare	%	27 (2015)	-	-	-	50	60	60	Annual reports of the SDR-DGII	Contributes to the increase in receipts by increasing timely tax compliance. The target is estimated based on the average for Latin American and Caribbean countries. Baseline: ³ Annual average number of taxpayers declaring the ITBIS = 43,593. Total number of taxpayers required to declare = 159,956.

¹ The results are cumulative.

² [BCRD](#).

³ DGII.

Indicator	Unit of measure	Baseline	2017	2018	2019	2020	2021	End target	Means of verification	Comments
Indicator 4: Annual average number of taxpayers declaring the corporate income tax (IRPJ)/total number of taxpayers required to declare	%	41 (2015)	-	-	-	50	60	60	Idem	Contributes to the increase in receipts by increasing timely tax compliance. The target is estimated based on the average for Latin American and Caribbean countries. Baseline: ⁴ Annual average number of taxpayers declaring the IRPJ = 53,453. Total number of taxpayers required to declare = 131,659.
RESULT 2: Increase in funds available for efficient cash management										
Indicator 1: Central government funds expended through the CUT/total funds expended	%	97 (2015)	-	-	100	100	100	100	Annual reports of the Ministry of Finance's National Treasury Department	Contributes directly to the impact indicator by helping to keep public spending at sustainable levels. The target was established based on the experience of countries that successfully manage the CUT. Baseline: ⁵ Central government resources expended through the CUT = 774.8 billion. Total resources expended = 798.4 billion.
Indicator 2: Number of payments whose stages are recorded simultaneously (commitment, obligation, and payment)/total records	%	95.15 (2016)	-	-	50	40	10	0	Idem	Contributes to the increase in resource availability by eliminating expenditures not authorized in the financial programming. The target is estimated based on budget execution rules that determine that the commitment, obligation, and payment stages should be reported at the appropriate stage of execution and not at the time of payment.

⁴ DGII report.

⁵ Treasury Department report.

Indicator	Unit of measure	Baseline	2017	2018	2019	2020	2021	End target	Means of verification	Comments
										Baseline: ⁶ Number of payments that are recorded simultaneously = 101,044. Total number of records = 106,194.
Indicator 3: Budget executed through advances/total amount executed	%	1.1 (2016)	-	-	0	0	0	0	Idem	Contributes to the increase in resource availability by guaranteeing that expenditures are executed through the CUT. The target is estimated based on budget execution rules that determine that all transactions should be executed through the system and all funds should be expended through the CUT. Baseline: ⁷ Amount executed through advances = 9.5 billion. Total funds executed = 798.4 billion.

⁶ Idem.

⁷ Idem.

OUTPUTS⁸

Indicator	Unit of measure	Baseline 2016	2017	2018	2019	2020	2021	End target	Means of verification
Component I – Strengthening of tax administration									
a. Organizational and regulatory framework									
1.1 Organizational structure of the DGII updated and implemented	Structure	0	0	1	0	0	0	1	Monitoring report by the DGII's SPD
1.2 Regulatory framework and supporting instruments adjusted	Regulatory framework	0	0	0	0	1	0	1	Monitoring report by the DGII's Legal Division
1.3 Program to help manage change in the DGII implemented	Program	0	0	0	0	1	0	1	Monitoring report by the DGII's Human Resources Office
1.4 Program to strengthen the DGII's human resources with a gender approach implemented	Program	0	0	0	0	1	0	1	Monitoring report by the DGII's SPD
1.4.1. Protocol for referral of and assisting with cases of harassment implemented	Protocol	0	0	0	0	1	0	1	Rules for implementing the protocol
b. Tax administration operating processes									
1.5 New RNC model implemented and automated	Model	0	0	1	0	0	0	1	Monitoring report by the DGII's Taxpayer Registration Office
1.6 Functional model of the taxpayer current account implemented and automated	Model	0	0	1	0	0	0	1	Monitoring report by the SDR-DGII
1.7 New operating model for taxpayer services and tax education implemented and automated facilities for taxpayers	Model	0	0	1	0	0	0	1	Monitoring report by the DGII's SPD
1.8 Billing model updated and implemented	Model	0	0	0	1	0	0	1	Monitoring report by the DGII's Billing Control Office

⁸ The results are annual.

Indicator	Unit of measure	Baseline 2016	2017	2018	2019	2020	2021	End target	Means of verification
1.9 New collections and recovery model updated and implemented, and processes automated	Model	0	0	0	1	0	0	1	Monitoring report by the DGII's Collections Office
1.10 Audit model revised and implemented, and processes automated	Model	0	0	0	1	0	0	1	Monitoring report by the DGII's Audit Division
c. Technology infrastructure and systems									
1.11 Services ⁹ and security for the taxpayer virtual office expanded	Services	4	0	2	2	0	0	8	Monitoring report by the DGII's ICT Office
1.12 DGII workflow management system implemented	System	0	0	0	0	0	1	1	Idem
1.13 Data warehouse implemented	Database	0	0	1	0	0	0	1	Idem
1.14 Institutional architecture of ICT services implemented	Architecture	0	0	1	0	0	0	1	Idem
1.15 Plan to upgrade procedures, capacity, methodologies, and tools in the ICT area, particularly for their development, implemented	Plan	0	0	0	1	0	0	1	Idem
1.16 Off-the-shelf application for administrative and human resource management implemented	System	0	0	0	1	0	0	1	Monitoring report by the DGII's Human Resources Office
1.17 Security system strengthened	System	0	0	0	0	1	0	1	Monitoring report by the DGII's ICT Office
1.18 Plan to update technology infrastructure implemented	Plan	0	0	0	0	0	1	1	Idem
1.19 New governance structure for ICT implemented	Structure	0	0	1	0	0	0	1	Idem

⁹ The services currently offered by the virtual office are registration, income tax and ITBIS declarations, authorization of tax receipts, and payments.

Indicator	Unit of measure	Baseline 2016	2017	2018	2019	2020	2021	End target	Means of verification
1.20 ICT management system implemented	System	0	0	0	1	0	0	1	Idem
Component II – Improved public finance planning and management									
a. Macroeconomic planning									
2.1 Financial programming model implemented	Model	0	0	0	1	0	0	1	Monitoring report by the Ministry of Finance's Fiscal Analysis and Policy Bureau
2.2 Medium-term expenditure framework implemented	Methodology	0	0	0	0	1	0	1	Monitoring report by the Ministry of Finance's Budgeting Bureau
2.3 Data processing model for the Fiscal Statistics Unit updated and implemented	Model	0	0	0	1	0	0	1	Monitoring report by the Ministry of Finance's Fiscal Analysis and Policy Bureau
b. Adjustments in the SIGEF and improvement in budget execution processes									
2.4 New treasury business model, including consolidation of the CUT and strengthening of cash programming implemented	Model	0	0	0	0	1	0	1	Monitoring report by Ministry of Finance's National Treasury Department
2.5 Accounts payable and receivable management system implemented	System	0	0	0	0	1	0	1	Monitoring report by the Ministry of Finance's Government Accounting Bureau
2.6 Public property management system implemented	System	0	0	0	0	1	0	1	Monitoring report by the Ministry of Finance's National Property Bureau
2.7 Plan to strengthen the National Cadaster implemented	Plan	0	0	0	0	1	0	1	Monitoring report by the Ministry of Finance's National Cadaster Bureau

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Dominican Republic
Project No.: DR-L1117
Name: Program to Enhance the Efficiency of Tax Administration and Public Expenditure Management in the Dominican Republic
Executing agencies: Ministry of Finance and Internal Revenue Bureau (DGII)
Prepared by: Christian Contín (financial management) and Willy Bendix (procurement), FMP/CDR

I. EXECUTIVE SUMMARY

- 1.1 Given the specialized technical characteristics of each component, a coexecution mechanism is proposed involving the DGII, through its Planning and Development Division (SPD), and the Ministry of Finance, through the Office of the Deputy Treasury Minister. Since both institutions have experience with Bank-financed operations, no high fiduciary risks associated with the management and execution of this new program are anticipated.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The Ministry of Finance has been executing two operations (1093/OC-DR and 1809/OC-DR) since 2000, through a program executing unit (PEU) established for that purpose, generically known as the Integrated Financial Administration Program (PAFI). The operations was aimed at promoting legal and institutional changes and technological development in the area of financial administration. For its part, the DGII has valuable experience executing the program to strengthen tax administration (1902/OC-DR) with the Bank, on three levels: strategic, which is the responsibility of a steering committee; administrative, which is the responsibility of a general coordinator; and technical, which is a line responsibility in the DGII. DGII officials were responsible for executing the technical activities and for compiling, organizing, and producing the necessary reports to comply with the monitoring, supervision, and evaluation plan established by the Bank.

III. FIDUCIARY RISK ASSESSMENT AND MITIGATION ACTIONS

- 3.1 A study was conducted on an institutional structure that would ensure the continuity of SIAFE [Integrated Financial Administration System of the State] and SIGEF [Financial Management Information System] in the Ministry of Finance. It found that the PEU created for the earlier operations has still not been given a formal place in the Ministry of Finance's structure, which poses sustainability risks for maintaining the capacity and technical and fiduciary experience the PEU has built up in the earlier loans.¹ Moreover, the risk analysis exercise for the operation identified a medium public management and governance risk related to the probability of problems arising in coordinating the two components because two institutions are

¹ To mitigate the risk, the Ministry of Finance has begun negotiations with the Public Administration Ministry (MAP) to establish an Integrated Financial Management Office (DAFI) in the Office of the Deputy Treasury Minister. DAFI would take over the functions of the former PAFI. The MAP has not concluded its analysis of the request.

participating. To mitigate this risk, a coexecution mechanism has been proposed for the program: (i) the DGII for Component I (strengthening of tax administration), through the SPD; and (ii) the Ministry of Finance for Component II (improved public finance planning and management), through the Office of the Deputy Treasury Minister. Each of the executing agencies will be strengthened with line officials trained in strategic, technical, and fiduciary aspects. A medium fiduciary risk was identified relating to delays in program execution, because: (i) the annual budget allocations have not been made; and (ii) projects financed with external resources will now be governed by the same procedures as those with national funds, payment of which is subject to prior control, as a result of the proposed changes in procedures governing the management and execution of external funding. These risks will be mitigated by: (i) implementing the tools of the Bank's project management cycle and making arrangements with the Budget and Public Credit Offices to justify the funds requested; and (ii) establishing a working group drawn from the Bank and the executing units to study the dynamics of execution and propose measures to minimize any delays that might occur. Training will also be provided for the executing units during the workshop to launch the project, to explain how the new management process will be carried out.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF CONTRACTS

- 4.1 To facilitate negotiation of the contract by the project team, the following agreements and requirements should be considered in the special conditions:
- a. **Conditions precedent to the first disbursement.** The special conditions precedent to the first disbursement should include the approval and entry into effect of program Operating Regulations agreed upon in advance by the borrower and the Bank, defining the roles of the members of SIAFE's technical committee and of the units in the Ministry of Finance and the DGII responsible for program execution. A further condition precedent to the disbursement of each component should be the formal establishment of the executing units in each agency, including the appointment of their respective coordinators.
 - b. **Other general contractual requirements.** All changes and updates to the program Operating Regulations must obtain the Bank's no objection.
 - c. **Exchange rate agreed on with the executing agency for accounting purposes.** The exchange rate to be used will be the effective U.S. dollar/local currency rate at the time of conversion of the resources disbursed by the Bank (Article 4.09 (a) (1)).
 - d. **Audited financial reports.** (i) submission of audited annual financial reports for the program within 120 after the close of each fiscal year for each of the executing agencies during the original disbursement period (60 months) and any agreed extension, duly certified by an independent firm of auditors acceptable to the Bank. The last such report will be submitted within 120 days after the date of the last program disbursement; and (ii) submission of interim financial reports within 60 days after 30 June during the original disbursement period, covering the period from 1 January to 30 June. Within six months after the loan contract is signed, financial auditors will be contracted to audit the financial reports for the entire program execution period. The firm will be selected from a list of eligible firms. The interim reports will be audited by the same firm as part of its annual external auditing contract so no additional

financing will be required. The DGII will be responsible for contracting the auditors for the entire program, and the terms of reference will be cleared by both executing agencies and will have the Bank's no objection.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement establish the provisions applicable to execution of all procurements planned for the program.
- 5.2 **Procurement execution:** (i) the DGII for Component I, through the SPD; and (ii) the Ministry of Finance for Component II, through the Office of the Deputy Treasury Minister, will be responsible for the selection, tendering, contracting, supervision, and acceptance of program procurements.
- a. **Procurement of goods and nonconsulting services.** Contracts for goods and nonconsulting services generated under the project and subject to international competitive bidding (ICB) will be procured using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using the project's bidding documents. The project team leader will be responsible for reviewing the technical specifications for procurements during preparation of the selection processes.
 - b. **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be implemented using standard bidding documents issued by or agreed upon with the Bank. The project team leader will be responsible for reviewing the terms of reference for consulting services. Individual consultants may be selected and contracted through national or international announcements to draw up a shortlist of qualified individuals
 - c. **Recurring expenditures.** These refer to operating and maintenance costs for the project during execution, which will be financed by the project under the procurement plan and executed in accordance with procedures agreed upon with the Bank. Recurring expenditures also include the costs of consultants hired to assist the PEU during the execution period. Operating costs do not include the salaries of civil servants or other regular operating expenses of the Ministry of Finance or the DGII, which will be accorded priority in the entities' institutional budgets during program execution.
 - d. **Temporary expenditures.** These expenditures are provided for in the program and may be required to cover the cost of indemnities or compensation as part of the reform process planned for the DGII. They will be eligible provided they are part of the reform program and contribute to the institutional development necessary to achieve the program's development objective. They must have been made in accordance with Bank policies and procedures. Financing of these temporary expenditures is necessary since, under the program's specific objectives, tax receipts will be increased and, to do so, the component to strengthen tax administration will implement a new organizational and regulatory framework in the DGII with process and structural reengineering to strengthen its operating model and boost its capacity for efficient tax administration and collection. Financing for these expenditures, which are expected to be up to a maximum of 10% of the loan, will only be required during the program execution

period and will be carried out in accordance with established internal procedures for voluntary retirement or mutually agreed separation.

- e. **Advance procurement/retroactive financing.** The Bank may retroactively finance from the loan proceeds eligible expenditures made by the borrower prior to the date on which the loan is approved, to contract the consulting services for preparing the conceptual designs and establishing the PEUs, of up to US\$2 million (4% of the loan), provided requirements substantially similar to those established in the loan contract have been met. The expenditures must have been made after 14 March 2017 (date on which the project profile was approved), but in no case will expenditures made more than 18 months prior to the date on which the program was approved be recognized.
- f. **Thresholds.** The thresholds that determine the use of international competitive bidding and the make-up of a shortlist of international consultants will be made available to the executing agency on the [Bank's portal](#). Below those thresholds, the selection method will be determined based on the complexity and characteristics of the procurement or contract, which will be reflected in the procurement plan approved by the Bank.

5.3 **Use of country systems.** Based on the process established in the Guide for Acceptance of the Use of Country Procurement Systems (document GN-2538-13), in November 2016, the Bank's Board of Executive Directors approved partial use² of the Dominican Republic's National Procurement System (SNCC-RD) in document GN-2538-19, specifically: (i) for all contracts for goods and nonconsulting services subject to the small procurement or price comparison subsystems as required under the SNCC-RD that are below the threshold established by the Bank for use of price comparison for complex goods and/services (referentially US\$50,000); and (ii) all contracts for civil works subject to the price comparison subsystem as required in the SNCC-RD that are below the Bank's threshold for use of the price comparison method for complex civil works (referentially US\$250,000) in Bank-financed operations that are negotiated after that approval, and for projects in execution when requested by the Dominican government. The approved subsystems may be used in Bank-financed operations once they have adopted the implementation procedures in the guide and in the technical reports for acceptance of the partial use of procurement systems.

5.4 **Main procurement processes.** The major procurement processes envisaged for this operation are listed below.

² As established in the guide, partial use of a country procurement system corresponds to the use of at least one of its subsystems for all contracts for goods and services below the threshold established by the Bank for applying ICB. Contracts in excess of those amounts will be governed by Bank policies (documents GN-2349-9 and GN-2350-9).

Activity	Type of bidding	Estimated date	Estimated amount (US\$ thousands)
Goods			
Updates of information technology and communications equipment	ICB	2018	10,000
Purchase of software licenses	ICB	2018	5,000
Consulting services			
Implementation of a skills evaluation system in the DGII	ICB	2018	2,000
Design of technology infrastructure architecture	ICB	2018	200
Development of the property management module	ICB	2019	500
Transfer of knowledge in developing the audit application	ICB	2019	1,000
Contracting specialized consulting services in different fields	IC	2017-2021	11,000

- 5.5 **Procurement supervision.** Given the fiduciary risk identified for the project, the supervision method will be that established in the procurement plan and its subsequent updates. Ex post reviews will be performed every six months, in accordance with the program supervision plan. The ex post review reports will include at least one physical inspection visit to the procurement processes subject to ex post review. The thresholds for ex post review of procurement processes will be established in the program procurement plan.
- 5.6 **Files and records.** The PEU in each of the executing agencies will be responsible for maintaining the files and documentation supporting procurement processes and all receipts issued for payments made with program resources, using established procedures.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** The annual budget is prepared by the Ministry of Finance through the Budget Bureau, in coordination with the Ministry of Economic Affairs, Planning, and Development and with the other government institutions. Although this operation does not require counterpart funds, each PEU will be responsible for ensuring that budget allocations are available to carry out the activities included in the Bank's planning tools (annual work plan, multiyear execution plan, and procurement plan) and for applying to the Bank for budget modifications (transfers) in the event that the allocations to the components are insufficient for the planned activities.
- 6.2 **Accounting and information systems.** Cash accounting will be used by the program. Each executing agency's PEU will use the UEPEX/SIGEF module for accounting records and financial reporting, which is the official country system in widespread use among executing units that receive financial resources from international agencies. This module allows online verification of the availability of program resources, budget control, contract supervision, and the automatic generation of disbursement requests and related forms for submittal to the Bank. In 2013, responsibility for the UEPEX/SIGEF model was transferred to the Government Accounting Bureau (DIGECOG), which is in the process of adopting the International Public Sector Accounting Standards. In the medium term, this will enable the nonfinancial public sector to use accrual accounting.

- 6.3 **Disbursements and cash flow.** The funds to be administered by each executing agency as advances will be: (i) deposited in a special bank account in the project's name opened by the borrower in the Central Bank (in U.S. dollars) and in the Banco de Reservas (in Dominican pesos) or through another mechanism specified by the National Treasury Department; and (ii) reported in the borrower's general account (in the event that, before the loan becomes eligible for disbursement, the Single Treasury Account, which is currently in the pilot implementation phase, comes on stream for external loans), and then in a separate subaccount in the project's name, in which all deposits of funds and payments made under the Bank-financed operation will be recorded (provided the mechanism is satisfactory to the Bank). For each fiscal period, the PEU in each executing agency will ensure that it has the budget appropriations required for proper program execution, and that they are included in the national budget. Each PEU will be responsible for justifying program expenditures and their eligibility and for channeling requests for the Bank's no objection. The borrower and the executing agencies will use program funds exclusively for eligible expenditures, and an adequate financial management system and controls will be in place for budget execution, following the procedures established in the loan contract and reflected in the program Operating Regulations, in accordance with the financing plan agreed upon periodically with the Bank.
- 6.4 **Internal control and internal audit.** The Office of the Comptroller General of the Republic (CGR) is the executive branch agency responsible for the design, effectiveness, updating, and supervision of the National Public Sector Internal Control System, which includes the operation of internal audit units. Despite efforts in recent years that yielded the Basic Internal Control Standards, which consist of a set of guidelines that define the control environment, risk management, control activities, communication, monitoring, and accountability of public agencies, application of those compulsory standards has not taken place as anticipated and the CGR does not actually perform the internal audit function for control processes. Instead, it continues to focus on reviewing payments. This situation may affect the time required to pay for project goods and services and, consequently, execution. As a result, the PEU must maintain close communications with the internal audit unit and begin adopting the Basic Internal Control Standards.
- 6.5 **External control and reports.** The Cámara de Cuentas [Auditor General's Office] is the senior external body for fiscal control of public resources, administrative processes, and State assets. However, its institutional weaknesses make it ineligible to perform the program's external audits. The function will therefore be performed by a firm of independent auditors acceptable to the Bank. The external audit reports and terms of reference must comply with the requirements and guidelines established in the financial reporting and external auditing guidelines for Bank-financed operations. The auditing costs will be financed from the loan.
- 6.6 **Financial supervision plan.** Since both PEUs already have experience working with the Bank, financial supervision, training, support, and monitoring will be adjusted to their situations to ensure the success of the program's financial execution. During the program, a moderate program of visits will be required that includes the necessary strengthening activities. As a means of mitigating potential execution risks, the external auditor and the performance auditors will be included in the internal control review process and meetings will be held between the executing agencies and the Bank to review the findings of the preliminary audit

reports before the end of the fiscal period each year. The sustainability risk of the PEUs will be continuously monitored by the project team.

- 6.7 **Execution mechanism.** The program is aimed at strengthening and modernizing two public management systems—tax administration and financial administration—that are governed by specific, independent legal and institutional frameworks. Nonetheless, strengthening the two systems has the common objective of better public finance management and, ultimately, of reducing the fiscal deficit, which explains the complementarity of the two interventions. Given the characteristics of each of the systems and components of this new operation, a coexecution mechanism has been proposed for the program: (i) the DGII, as the party responsible for the tax administration system, for Component I (strengthening the tax administration) through the SPD; and (ii) the Ministry of Finance, as the party responsible for the financial administration system, for Component II (improved public finance planning and management), through the Office of the Deputy Treasury Minister. The DGII's SPD and the Ministry of Finance's Office of the Deputy Treasury Minister will be independently responsible for technical and fiduciary execution of their respective components (procurements, contracts and payments, justifying and preparing disbursement requests). Two PEUs will be established to execute the components, one in the DGII and the other in the Ministry of Finance, which will each have a component coordinator, and a procurement, a financial and a monitoring specialist. In addition to these specialists, the DGII has staff with procurement and monitoring experience who will support execution of its component. Lastly, at specific times in the life of the project, coordination will be necessary between the two executing agencies—through the component coordinators—for monitoring, evaluation, and auditing activities, which will allow for proper monitoring of program execution and attainment of the operation's objectives.
- 6.8 **Other financial management agreements and requirements.** N/A.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Dominican Republic. Loan ____/OC-DR to the Dominican Republic
Program to enhance the efficiency of tax administration
and public expenditure management
in the Dominican Republic

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Dominican Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to enhance the efficiency of tax administration and public expenditure management in the Dominican Republic. Such financing will be for the amount of up to US\$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ _____, 2017)