

**TECHNICAL COOPERATION LOAN FOR THE FISCAL ADMINISTRATION  
MODERNIZATION PROGRAM**

(ES-0105)

**EXECUTIVE SUMMARY**

**BORROWER:** Republic of El Salvador

**EXECUTING AGENCIES:** The Presidential Commission for Public Sector Modernization [Comisión Presidencial para la Modernización del Sector Público] (CPM) will be the executing agency for the component financed with FSO funds in local currency (strengthening of the coordinating technical unit or CTU); the Ministry of the Treasury [Ministerio de Hacienda] (MINHAC) will be the executing agency for the components financed with the ordinary capital (integrated financial management; internal revenue service; customs revenue service; rationalization and modernization of the procurement and contracting system).

**AMOUNT AND SOURCE:**

IDB/OC:	US\$ 6,636,000
	US\$ 9,300,000 (IFF)
IDB/FSO:	US\$ 3,774,000
Local counterpart funding:	US\$ 3,247,000
Total:	US\$22,957,000

**FINANCIAL TERMS AND CONDITIONS:**

FSO in local currency:

Amortization period:	20 years
Disbursement period:	4 years
Interest rate:	1% for the first 10 years and 2% thereafter
Grace period:	10 years
Inspection and supervision:	1%

OC:

Amortization period:	25 years
Disbursement period:	4 years
Interest rate:	variable
Grace period:	4 years
Inspection and supervision:	1%
Credit fee:	0.75%

**OBJECTIVES:** The general purpose of this operation is to support the Government of El Salvador with its public sector modernization program [Programa de Modernización del Sector Público] (PMSP) to: (i) improve management of

government finances through a more efficient use of State revenues; (ii) improve the delivery of client-oriented services; (iii) monitor more efficiently the collection of duties on foreign trade; and (iv) streamline the public sector's procurement and contracting system and make it more efficient.

**DESCRIPTION:**

The program devised to achieve the objectives summarized above involves the following components: (i) integrated financial management system; (ii) internal revenue service; (iii) customs revenue service; (iv) rationalization and modernization of the procurement and contracting system. During this operation, Bank resources and the local counterpart funding will also be used to finance the CTU (the coordinators of each component in this plan of operations and of the other components of the PMSP, other consulting services needed and the procurement of equipment needed for the CTU to function properly).

1. Integrated financial management system. With this component, an integrated financial management system (SAFI) will be introduced in government offices, autonomous State institutions and government-funded enterprises, by applying systems theory and the basic principles of centralizing regulatory functions within the Ministry of the Treasury and decentralizing functional operations to the central government's primary units. The specific areas that will receive support are the following: budget; treasury; government accounting; public debt; computer systems and training.
2. Internal revenue service. This component will continue the support the Bank has been providing to the government since 1990 for tax administration (ATN-SF-3455-ES, in the amount of US\$1.54 million), with technical assistance from the Inter-American Center of Tax Administrators (CIAT). This component is primarily intended to improve regulation of the sector; decentralize taxpayer assistance and auditing services; and consolidate a system for ongoing monitoring of tax compliance.
3. Customs revenue service. The activities planned under this component focus on organization and regulation, to lay the foundations for a modern customs revenue service by simplifying and computerizing operating procedures; particular attention will be given to training staff in

customs techniques and in how to use information technology.

4. Streamlining and modernizing the procurement and contracting system. Under this component, the MINHAC will receive support to: (i) design and draft a standardized procurement bill; (ii) develop, computerize and introduce standardized public-sector bidding documents; and (iii) train civil servants in how to apply the law and use the new documents and procedures.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of May 14, 1996, classified this as a Category II operation.

**RECOGNITION OF  
EXPENDITURES:**

Up to US\$600,000 in expenses incurred prior to the loan's approval to contract consulting services and procure support equipment will be recognized provided the expenses were incurred subsequent to January 1, 1996, and in accordance with the Bank's guidelines for procurement of goods and services.

**BENEFITS:**

The benefits will include an improvement in the management of public finances by maximizing efficiency in the use of State revenues; improvements in the delivery of services; more efficient control of public spending; and a modern and more efficient system of procurement and contracting. All of this will dramatically increase fiscal revenues, savings in the public sector and the private sector's confidence in democratic institutions. This operation will continue the implementation of reform by ensuring the institutional and technical support needed to carry out other components of the PMSP, a project that the IDB and the IBRD are analyzing jointly at the present time (ES-0036) and that is directly related to the program proposed herein.

**RISKS:**

*A priori*, the program does not pose any particular problems. However, certain factors could prove to be problematic for successful implementation of the proposed operation as part of the PMSP: (i) difficulties keeping political and technical issues entirely separate during the program, and (ii) resistance to change among the various institutions and civil servants affected.

The political issues mentioned in the preceding paragraph should be minimal, since the PMSP has solid backing at the highest levels of government (Presidency of the Republic). Moreover, thus far the Commissioner has done an excellent job of "selling" the program. As for the technical aspects, while the

program's design includes ample assistance from international experts, seminars and workshops have also been held for policy-makers and technicians to discuss successful experiences in other countries. All this has helped to increase acceptance for public sector modernization among the institutions and civil servants involved.

**EXCEPTIONS TO THE  
BANK PROCUREMENT  
AND CONTRACTING  
PROCEDURES:**

It is recommended that an exception vis-a-vis the Bank's contracting and procurement policy be made in the case of 10 of the CTU's consultants (see paragraphs 4.14 to 4.17) for the following reasons: (a) these specialists have been working on preparation of the PMSP since it began in 1990; (b) the project team's analysis of their professional qualifications found that the wealth of proven experience and expertise that these coordinators command is crucial to the program's success.

Therefore, this operation will involve an exception to Bank policy in two respects: (i) waiving the selection and contracting process for the individuals in question, and (ii) waiving one of the eligibility criteria, since the specialists in question will not have completed the six-month waiting period required under Bank policy (see GS-101, page 1 of 3, point 6).

**EXCEPTIONS TO THE  
BANK POLICY:**

It is recommended that the following be contracted on a "no-bid" basis: (i) the CIAT as executing agency for the internal revenue service component; (ii) the CIAT as administrator of the financial management component; and (iii) the UNDP as administrator of the customs revenue service component (see paragraphs 4.3 to 4.6).

**THE BANK'S COUNTRY  
AND SECTOR  
STRATEGY:**

The proposed program is consistent with the Bank's strategy for the country, under which the Bank has undertaken to support efforts that the government is making to modernize the public sector and play a leading role in the public sector modernization program. The proposed program is also consistent with the guidelines of the Bank's policy on modernization of the State, recently submitted to the Board of Executive Directors for consideration.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions precedent to the first disbursement:

- a. An agreement between the Republic of El Salvador (borrower) and the Presidential Commission for Public Sector Modernization concerning transfer of the loan proceeds and the local counterpart funding.

- b. For the integrated financial management system (SAFI) component, regulations governing the related law.
- c. Evidence that the CTU technical coordinators have been hired by mutual agreement with the Bank.
- d. A work plan containing the timetable for the execution of the project's components and activities and a description of the activities, specifying the benchmarks and means of verification to be used to measure the accomplishment of goals.
- e. Evidence of having contracted the CIAT: (i) as executing agency for the internal revenue service component; and (ii) as administrator of the financial management component; and the UNDP as administrator of the customs revenue service component.

**OTHER CONTRACTUAL  
CONDITIONS:**

- a. An interim evaluation of each component will be performed, once 50% of the Bank resources allocated to the component have been committed, in order to measure the program's progress against the benchmarks established for each component.
- b. An evaluation of the program will be performed during the final month of execution.

**PUBLIC BIDDING:**

The threshold amounts above which international public bidding will be required are as follows: (i) consulting services valued at US\$200,000 equivalent or more, and (ii) goods valued at US\$250,000 equivalent or more.

**PROCEDURE:**

Pursuant to Part III, Section 2 (a) of the Regulations of the Board of Executive Directors, this operation must be submitted for consideration by the Committee of the Whole.

## **I. FRAME OF REFERENCE**

### **A. Frame of reference**

#### **1. Economic climate**

- 1.1 The positive macroeconomic climate that took hold in the 1990s continued into 1995. For the fourth consecutive year, the country's growth rate was over 5 percent (driven mainly by trade, services and manufactures), the fiscal deficit was less than 0.5 percent of GDP and cumulative inflation was under 12 percent. Although the balance-of-payments deficit increased to 17 percent of GDP, the strong performance of remittances and the capital account balance left the balance of payments in the black. In 1996, the government's main objective is to consolidate macroeconomic stability and create conditions conducive to growth in the productive sectors so that the targeted five-percent increase in GDP and single-digit inflation can be achieved and the structural reforms continued. These objectives are part of the 1996 economic program under the 14-month standby agreement concluded with the IMF in June of 1995.
- 1.2 Given this situation, one of the most important reforms in the country is public sector modernization to foster greater private-sector participation and a more efficient public sector. To achieve this, a number of important steps were taken in 1995, including the appointment of the Presidential Commissioner for Public Sector Modernization and passage of the financial management law and a law that cuts employment in the public sector (financial compensation law). However, more effort is needed from the authorities to accelerate privatization of the major public enterprises and of the pension system.

### **B. The public sector modernization program**

#### **1. Background**

- 1.3 Starting in President Calderón Sol's administration and once hostilities had ceased, the government adopted a new economic plan to bring the country into the world economy (globalization), as one means of accomplishing its objectives of: consolidating democratic government, fulfilling the peace accords and achieving economic growth with equity. To accomplish these goals, the authorities visualize an export economy led by a strong private sector, backed by a small but efficient public sector that facilitates the private sector's activities.
- 1.4 However, if it is to succeed the government has to correct existing macroeconomic limitations, develop its human capital, rebuild the physical infrastructure, and modernize and adapt the legal and regulatory framework of the sectors in which the authorities are

considering privatization as a means to attract foreign investment. All of this will help strengthen the democratic process and promote growth in the private sector.

- 1.5 The Salvadoran authorities have managed to make considerable progress in most of the areas mentioned above. With financial support from international donors and multilateral institutions (IDB/IBRD, AID, UNDP), the government is today working on a number of projects (reform and modernization of the education sector and the judiciary; expansion of the energy sector, and so on). While success with these projects will help achieve the goals set out in the political and economic plan mentioned earlier, the reform process needs to be carried further. The urgency of consolidating reforms and restoring confidence places a heavy burden on public sector institutions, which are presently ill-prepared to manage the change.
- 1.6 The first public-sector reforms began in 1989 with the Economic and Social Advisory Group [Grupo Asesor Económico y Social] (GAES), part of the Ministry of Planning (MIPLAN) and funded with grants and loans from a number of international organizations (World Bank, USAID, UNDP, etc.). With the reform process, the GAES became the Economic and Social Policy Directorate; later, MIPLAN became the Ministry of Coordination (MICDES). Then, in December 1995, MICDES was eliminated (by presidential decree) and the group of professionals who had theretofore developed the PMSP strategy and had the relevant experience, became the PMSP's coordinating technical unit (see paragraph 1.12).

## 2. Public sector modernization program

- 1.7 Despite considerable political and economic progress, the Salvadoran public sector still has structural weaknesses and problems: (i) serious functional inefficiencies caused by an oversized and centralized State structure; (ii) unsatisfactory financial management and a civil service system that is not conducive to creating a corps of professional civil servants; (iii) obsolete public services incapable of supplying the services the public requires, especially social services. These institutional weaknesses threaten to cause setbacks in policy development and public sector reforms before greater private sector participation is able to gain sufficient momentum.
- 1.8 Consequently, the government has made the PMSP a top priority, as a vehicle for accomplishing its long-term development plans. At the present time, the IDB and the World Bank are jointly examining the PMSP, which includes the following components: (i) strengthening the fiscal administration in its broadest sense, encompassing financial management and the internal revenue and customs revenue services; (ii) modernizing human resource management; (iii) restructuring the public sector at the macro institutional level; and (iv) privatizing services provided by the public sector

and increasing competition among them. The investments planned under item (i) of this paragraph are for the components of the program that is the subject of this plan of operations.

1.9 The government's commitment to reform is evident in the progress and activities already accomplished.

- a. El Salvador instituted structural changes within its internal revenue service to make tax collection more efficient and ease tax reform. The strategy adopted was to monitor the major taxpayers closely. Also, a sales tax was introduced in the form of a value added tax (VAT). Under the PMSP, the emphasis will be on monitoring tax collection and auditing.
- b. One of the most crucial factors in the transformation of El Salvador's public sector is more effective control of public spending in a climate of fiscal discipline. Here, the PMSP will introduce integrated financial management systems to replace the present systems in which each module of the budget cycle is managed separately.

The integrated systems cover the four basic elements of financial management: budget, treasury, accounting and public debt. The basic premise of these systems is that since all components are interdependent they should have access to the same data source, thus obviating the need to exchange information and eliminating delays and redundant functions and making the government's financial management more transparent and flexible.

- c. With the move towards economic liberalization, the government has endeavored to restructure and modernize the customs revenue service. A more open economy calls for urgent reform of the customs revenue service to develop inspection systems and introduce computerized data systems to improve customs procedures and detect smuggling. In recent years, customs revenues have held relatively steady at around 3% of GDP. The reforms are to strengthen customs and create the proper infrastructure and institutions to foster export activity and facilitate the flow of goods.

1.10 Other measures will greatly affect the PMSP: (i) the November 1995 passage of the state financial management law (Legislative Decree 516); 1/ (ii) passage of the law on the government accounting office; (iii) passage of the law on compensation for length of service in the public sector (legislative decree 471)

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1/ The purpose of this law is to regulate and standardize public sector financial management and establish the integrated financial management system that combines the budget, treasury, public debt and government accounting subsystems.



whereby approximately 14,000 jobs in the public sector were cut effective January 1, 1996; (iv) progress in drafting the bills setting forth the regulations governing the telecommunications and energy sectors; (v) preparation of the civil service bill, and (vi) design of the public sector's new macro-structure.

- 1.11 Finally, since the success of these reforms will also depend on the competence and efficiency of the human resources involved, training and development will be an integral part of the reforms planned under the PMSP in the years ahead. This plan of operations includes human resource training and development in areas that the identified components require.
- 1.12 To carry out the PMSP, the GOES has a Presidential Commission for Public Sector Modernization (CPM) composed of the Treasury and Economy ministers and the Presidential Commissioner for the PMSP (a presidential appointee with the rank of minister). The PMSP coordinating technical unit (CTU), created as part of the Commissioner's Office in order to promote operational reform, is made up of: (i) one technical coordinator; (ii) a coordinator for each component of the PMSP, and (iii) specialists in relevant areas of the PMSP (streamlining, privatization, financial management, and so on).

### 3. PMSP financing structure

- 1.13 The proposal presented by the government to finance the PMSP is as follows: (i) a technical cooperation loan from the IDB (US\$15.9 million from the OC and US\$3.8 million from the FSO) to finance consulting services and equipment for the coordinating technical unit and for the fiscal administration component and the procurement and contracting component (which are the components of this plan of operations); (ii) a technical assistance credit from the World Bank (US\$24.6 million) for consulting services and equipment for the components for institutional restructuring, modernization of human resource management, and privatizing government services and increasing competition among them, and (iii) a sectoral, fast disbursing loan from the IDB (US\$51.5 million from the OC) to back the government in the reforms planned under the PMSP.
- 1.14 Given the agreements with the World Bank on the operation's design and by agreement with the government, in May 1995 an analysis mission was sent to prepare the plan of operations for a technical cooperation loan to finance the component for strengthening and modernizing the fiscal administration. Subsequently, it was decided to process this operation to parallel the PMSP (IDB/IBRD). Finally, based on discussions with Salvadoran authorities

concerning terms and conditions <sup>2/</sup> required by the Bank for approval of the PMSP (ES-0036) but that could slow its processing, the government requested, and the Bank agreed, that a technical cooperation loan be processed that includes: (i) modernizing the fiscal administration and (ii) streamlining and modernizing the procurement and contracting system.

C. Justification for the technical cooperation loan

- 1.15 **Financial management.** Although the government has made progress on introducing an integrated financial management system, the latter is still flawed on the expenditures (borrowing) side and on the revenue (tax and customs) side. The government has been working on this problem with USAID's assistance, through the services of K.P.M.G. Peat Marwick; thus far, however, not enough progress has been made with the various subsystems to put an integrated system into place.
- 1.16 **Internal revenue service.** Despite the improvements made in the area of domestic taxes (DGII) with help from the Bank (see paragraphs 1.21 and 1.22) and other donors (AID), tax evasion is still a problem. To correct it, tax laws have to be amended and new internal revenue service strategies and techniques introduced. The mechanisms for improving the service and making it easier for taxpayers to fulfill their obligations need to be strengthened. While little in the way of auditing has been done thus far, the change of functions planned under the reforms with bank collection and better data available, will make the internal revenue service more efficient and dynamic.
- 1.17 **Customs revenue service.** The controls used by customs are weak and its procedures inefficient, resulting in a considerable loss of revenue for government coffers and distortions in the economy. Simplifying the procedures, developing the auditing and inspection system and introducing computerized data systems will, first and foremost, facilitate trade as an engine of growth under the new economic development model that the government is introducing.

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<sup>2/</sup> The laws to establish the regulatory framework in the energy and telecommunications sectors are part of the conditionality of the investment sector loan (714/OC-ES) and the electric power sector expansion loan (838/OC-ES). Consequently, the authorities were told that the PMSP conditionality matrix would include the Legislative Assembly's passage of those laws before the operation is presented to the Bank's Board of Executive Directors. The government told the Banks that it would introduce those bills in the Legislative Assembly in May or June 1996. Consequently, although preparation of the operation continues, its final approval will be subject to the Salvadoran Legislative Assembly's passage of those bills.

- 1.18 **Procurement and contracting.** For maximum advantage, public funds spent to procure goods and services must be used more rationally and transparently. The present procurement and contracting system is governed by many different sets of regulations, with the result that the procedure varies according to the purchaser. This creates uncertainty among the suppliers vary. In the end the asking price is needlessly inflated.
- 1.19 The loan to which this plan of operations refers will help correct problems at various levels of the fiscal administration and in procedures for procuring goods and services, the goal being a modern and efficient public administration.

**D. Previous operations**

- 1.20 One component of this operation will continue the support to the internal revenue service that the Bank has been providing to the government since 1990 through technical cooperation ATN/SF-3455-ES (US\$1.54 million), with technical assistance from the Inter-American Center of Tax Administrators (CIAT). The Bank's participation has focused on structural reform in the internal revenue service to make it more efficient and ensure that the tax-revenue targets are achieved, not just by simplifying procedures and tax systems but also by changing the organizational structure of the internal revenue service and developing human resources.
- 1.21 That operation was very effective in achieving its proposed objectives: (i) tax revenues increased from 12.4% of GDP in 1990 to 16.1% (preliminary figures) by 1995; (ii) a roster of taxpayers was established that identifies who the taxpayers are for each DGII-administered tax; (iii) a major taxpayers unit was established, which monitors the 1,000 major taxpayers who together account for 80% of tax revenues; and (iv) auditing was improved by introducing a technical selection process and by training new auditors and retraining existing auditors.
- 1.22 In the regulatory area, diagnostic studies were done and a draft tax code was prepared that standardizes, unifies and simplifies tax procedure, improves the legal instruments for enforcing tax compliance, and equips the internal revenue service with a tax career service and disciplinary and incentives systems.

## II. OBJECTIVES AND ACTIVITIES 3/

### A. General objective

- 2.1 The general objective of the technical cooperation is to help the government implement the PMSP for better management of public finances, maximizing efficient use of State revenues; improvements in the delivery of client-oriented tax services; more efficient control of customs revenues and a more intelligent and efficient system of public sector procurement and contracting.

### B. Specific objectives

- 2.2 To accomplish the general objective, the government will be assisted in its efforts at modernization, making it more efficient by: (i) supporting implementation of an integrated financial management system; (ii) strengthening the DGII's tax auditing and management capacity; (iii) making the customs revenue service more efficient by increasing revenue control and simplifying operating procedures, and (iv) streamlining and simplifying the procurement and contracting system.

## III. PROJECT DESCRIPTION

- 3.1 The program designed to accomplish these objectives involves the following components: (i) an integrated financial management system; (ii) strengthening of the internal revenue service; (iii) administration of customs revenues, and (iv) streamlining and modernization of the procurement and contracting system.

### A. Components

1. Integrated financial management system (SAFI) (Amount: US\$9.2 million)
- 3.2 Through this component, the program will support the process of financial management reform undertaken by the government by implementing an integrated system encompassing the budget, treasury, accounting and public credit subsystems, using modern management instruments based on advanced information technology and the general principle of centralizing regulatory functions and decentralizing operations. With the support of other financing

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3/ This operation was designed in coordination with the program to support reform of the justice system (loans 919/OC-ES and 920/OC-ES), to avoid duplication in drafting laws and other legal texts.

agencies, the government has made progress to varying degrees on the aforesaid subsystems, and this component will take up the modernization of each of them and bring them within the parameters of the public financial management law (Decree-Law 516) passed in December 1995.

- 3.3 It is hoped that the Bank's support will have a substantial impact on the government's financial management, including: (i) support for linking macroeconomic policy with fiscal policy and the latter, in turn, with budgetary policy, to ensure that the budget is in tune with the government's economic plan; (ii) information mechanisms to facilitate an evaluation of budget performance in material and financial terms in order to determine unit costs; (iii) optimizing the management of the government's liquid funds through the Treasury; and (iv) improving the definition of debt policy and management in order to take full advantage of capital market conditions for the benefit, *inter alia*, of public finance.
- 3.4 The component will be divided into subcomponents to cover each major area of action, as follows:
  - a. **SAFI general framework:** Based on the integrated system's conceptual design, completion of the information technology strategy and drafting of the regulations and internal provisions for the budget, treasury, accounting and public debt subsystems, in accordance with the provisions of the state financial management law.
  - b. **Budget:** Development of the technical instruments for efficient preparation, analysis and comprehensive evaluation of the budget, by adjusting the methods used to prepare and plan budget execution, supporting macro-fiscal analysis and introducing mechanisms for material-financial evaluation. The reform is therefore sustained by the use at various stages of the budgetary process of income and expenditure classifiers, as part of an integrated system. The income budgets are to contain all the sources of funds and will be structured in a standard basic classification for the entire public sector. The structure of the expenditure budget involves the use of budgetary programming techniques as a basic tool for achieving greater efficiency in management, since it will make it possible to take decisions in terms of both setting priorities and allocating resources.
  - c. **Treasury:** Technical support for the government's decision to decentralize payments to public institutions and agencies and development of financial management instruments that provide current information on fiscal revenues and mechanisms for managing securities and excess liquidity to harmonize budget performance. The execution of this subcomponent includes elements designed to achieve the treasury subsystem goal of

maintaining the necessary liquidity for timely fulfillment of the financial commitments of the national budget, through efficient financial programming.

- d. **Accounting:** Harmonization of accounting techniques, including sources of accounting data, the mechanisms used to generate financial statements, and the uniform accounting classification so that SAFI-administered records are used to maximum advantage. The design of this system will allow any operation within any of the subsystems to be recorded automatically, updating information on budget performance and facilitating both the evaluation of budget performance and decision-making on economic and financial policy.
- e. **Public debt:** Strengthening of the capacity to manage the public debt using the integrated system, and development of advanced debt management techniques to tap capital markets with the best possible borrowing terms guaranteed.
- f. **Computer systems:** Development and introduction of a computer system that relies on a relational database, composed of a central system at the Ministry of the Treasury that consolidates and checks SAFI-related budget transactions, and on databases for decentralized management at each institutional financial unit. The application of the integrated systems built upon the development of computer systems will offer greater transparency in the management and control of public resources, as well as providing timely and reliable information in support of the decision-making process and economic planning.
- g. **Training:** Design and implementation of a training plan for the civil servants involved in the SAFI, to teach them the techniques developed by the program. Strengthening human resources and training are two aspects accompanying this program which are included in the process of institutionalizing the changes and improvements envisaged.

### 3.5 Benchmarks

#### Fourth quarter, 1996

- Fox-Pro computer systems at the institutional financial units fully developed;
- Regulations governing the application of the law on integrated financial management.

Third quarter, 1997

- On-line connection between the public debt management system and the SAFI operating platform.
- Computerized and integrated government accounting system using the SAFI records.

Fourth quarter, 1997

- Start-up of the central database in SYBASE;
- Start-up of the institutional financial units' databases in SYBASE;
- Actual operation of the financial management instruments provided for (complete resource data, tools for managing securities, short-term investment mechanisms, etc.);
- Operation of the public debt office using modern capital-markets analysis and management technique;
- Complete budgetary information subsystem updated and integrated with the SAFI.

Third quarter, 1998

- Integrated government accounting operation;
- Presentation of an initial, comprehensive physical-financial evaluation of the budget based on the system developed by the program.

Fourth quarter, 1998

- Training of civil servants in the use of SAFI, particularly using the new operating platform.
- Start-up of the integrated computer system.

2. Internal revenue service (Amount: US\$1.9 million)

- 3.6 The goals with this component are: (i) regulation: improve the regulatory framework by introducing a new tax code or, failing that, provisions that simplify and unify tax procedure, improve the legal mechanisms for monitoring tax compliance, and grant the legal authorities to modernize the internal revenue service; (ii) regionalization: create two regional offices - one in the east and one in the west - to decentralize taxpayer assistance and auditing to reduce tax evasion and increase tax revenues; (iii) auditing: develop and assist in the introduction of techniques, systems and procedures intended to consolidate a permanent system for

monitoring tax compliance by means of computerized audit selection and programming mechanisms; (iv) institutional strengthening: support processes that make the DGII more efficient, professional, transparent and service-oriented.

3.7 To these ends, the following activities will be carried out:

- a. **Tax related legislation and regulations:** (i) assist with issuance of the tax code; and (ii) prepare and issue legal regulations for interpreting the tax code.
- b. **Regionalization:** (i) design the organizational and functional structure of the offices in the eastern and western regions; (ii) select, remodel and equip the premises for the regional offices; (iii) select and train new auditors for those regional offices; (iv) select, assign and train the administrative staff of the regional offices; (v) design and put into place the distribution of functions and services that the regional offices will supply.
- c. **Auditing:** (i) conduct studies to measure the extent of income-tax and VAT evasion; (ii) develop and introduce computer-assisted auditing techniques; (iii) develop and introduce programs to audit and check sectors that are difficult to monitor, such as carriers, the informal sector, and the financial sector (banks, finance companies, securities markets and traders, etc.), and (iv) support the development and introduction of techniques and methods for using computer tools in accounting-based auditing and inspections.
- d. **Organizational development:** (i) support the design and introduction of management planning and control offices; (ii) support the design and introduction of the systems auditing office; (iii) strengthen the tax planning and evaluation area; (iv) consolidate the organizational structure and administrative apparatus of the DGII's computer systems area, and (v) improve the DGII's overall organizational structure by adapting it to the tax code and to the tax career service.
- e. **Taxpayer assistance:** (i) design and introduce taxpayer assistance and information programs for various tax-related matters, such as changes in the law, filing requirements, services that the DGII provides, etc.; and (ii) design and introduce and legal counseling system for the taxpayer assistance services and DGII staff.
- f. **Human resources:** (i) craft a human resources management policy that increases productivity and informs the design of the tax career service; (ii) design and introduce the tax career system, covering such aspects as selection, training,



performance evaluation, promotion, etc.; and (iii) design and introduce an incentives system and a disciplinary regime for DGII staff.

- g. **Computer systems:** (i) consolidate the DGII's operating platform (equipment, programs and methods) by adapting existing systems to the MINHAC's new databases; (ii) develop a plan for using the new computer applications that the DGII requires; (iii) develop and introduce the taxpayers' combined current account and the computerized taxpayer file; (iv) develop and support the introduction of computerized operations in DGII offices, and (v) strengthen the DGII data processing office's technical support area.
- h. **Training and development:** Apart from the specific training required to perform each of the activities indicated above, the following activities are included: (i) support creation of the DGII training unit, and (ii) assist development of a national training method and plan for the DGII.

### 3.8 Benchmarks

#### Fourth quarter, 1996

- The tax code submitted to the Legislative Assembly for approval.
- The eastern (San Miguel) office and western (Santa Ana) office in operation, each with a staff of some 100.
- 3,000 new taxpayers added to the auditing system.
- Planning, management-control and systems inspection units up and operating.
- The computer systems office consolidated and equipped with an applications development plan.

#### Fourth quarter, 1997

- Regulations governing the tax code issued.
- All functions of the DGII at the regional subcenters fully operational.
- 8,000 new taxpayers from the informal sector and overlooked taxpayers in the formal sector added.
- Tax revenues as a percentage of GDP up more than 2% over 1995.

- The organizational structure adjusted to fit the tax code, the civil service and the new functions.
- Legal advisory services available for taxpayers and staff.

3. Customs revenue service (Amount: US\$2.4 million)

3.9 This component will consist of the following activities:

- a. **Regulations:** The customs law implementing legislation, regulations, procedural manuals, and rules governing the disciplinary systems and procedures for customs agents will be prepared and drafted.
- b. **Procedures:** Responsive and more effective operating procedures will be designed, developed and introduced, based on a computerized management system and the principles of automated payment and co-accountability of all parties that play some role in the customs system (customs revenue office, CEPA, customs agents, carriers, collection agencies, importers and exporters).
- c. **Organization:** The main activities will be geared toward reviewing the present structure associated with the RECAUCA and preparing a proposal based on criteria of practicality and efficiency; work will be done to set up an inspection or external auditing unit and to strengthen internal auditing in coordination with the government accounting office and based on principles of independence and selective, "ex post" inspection; the functions of the new units will have to be redefined and job descriptions prepared.
- d. **Computer systems:** Support will be provided to purchase and physically install computer and communications equipment so that the customs offices and the users of the customs system are able to exchange data. The computer center will need to be strengthened up in order to ensure that the system functions smoothly.
- e. **Training:** The program will teach customs personnel and other users how to apply the new operating procedures and use the data processing system intelligently and to maximum advantage.

3.10 **Benchmarks**

- a. Bearing in mind that all merchandise listed on manifests must be declared within 45 days of the arrival date, the stock (S) of merchandise (awaiting shipment) in warehouses matches the merchandise shown on manifests (M) declared within the last 45 days, less the merchandise dispatched (D), regardless of

mode, plus merchandise being processed as abandoned goods  
(A):  $S = M - D + A$ .

- b. The transit record establishes that the goods that passed through the customs of origin (T1) match those that arrive at the customs of destination (T2), plus cases involving penalties and/or enforcement of guarantees (E);  $T1 = T2 + E$ ; if control is effective, the number of E cases should be from 0 to 20% of T1 at any given time, but under 5% by program's end.
- c. A number of variables used to gauge the efficiency increase, such as: the ratio of the collection agency's revenues collected to its operating expenses ( $C2/R2 < C1/R1$ ), revenue collections per staff member, documents processed, processing time, etc.
- d. The anticipated increase in revenues collected (R2) in the form of customs duties (10%) weighted by the tariff reduction planned for 1996 (T1-T2):  $R2 = R1 - (R1 \times 0.1) - (T1-T2 \times R2/100)$ .
- e. Dispatch of over 90% of the import and export merchandise the same day the declaration is presented.

4. Rationalization and modernization of the procurement and contracting system (Amount: US\$0.4 million)

- 3.11 The purpose of this program component is to make the public sector's procurement and contracting system more efficient. Support will be given to the MINHAC to: (i) design and draft a standardized procurement bill and submit it to the Legislative Assembly for passage into law; (ii) prepare, computerize and introduce standardized forms (bidding documents) for public sector competitive bidding; (iii) train civil servants in how to apply the law and use the new documents and procedures; and (iv) conduct an on-going review of the system to find and eliminate problems not anticipated when the component was originally designed.

3.12 **Benchmarks**

First quarter, 1997

- Standardized procurement bill introduced in the Legislative Assembly for passage.
- Standardized bidding documents introduced in the public sector.

Third quarter, 1997

- 50 civil servants (three or four from each ministry and from the government accounting office) instructed in how to apply the law and use the new bidding documents.

3.13 The files for the operation contain an itemized budget for each component. The preliminary terms of reference for all consulting services have been prepared and may be found in the technical files for this operation.

**B. Execution mechanisms**

3.14 To ensure that this plan is fully coordinated with the PMSP and that its components and the reforms are properly carried out, the coordinating technical unit (CTU) that will provide technical guidance and undertake responsibility for those areas of the PMSP that correspond to it will be reinforced.

3.15 The CTU will be strengthened by the services of the technical coordinator, a coordinator for each component of this plan of operations and of other components of the PMSP and the other consulting services and equipment required for the unit to function properly. These requirements are justified given the very technical and policy-related nature of the unit's functions: (i) analysis and design of the alternatives for macroinstitutional reorganization of the Executive Branch and their presentation to high-ranking officials; (ii) interinstitutional coordination of the PMSP; (iii) design and implementation of a strategy to steer, advise and monitor the sector's institutions to facilitate the PMSP's execution; (iv) supervision or coordination of the institutional restructuring plans (PRIs) and development of a strategy and plan of action to assist and coordinate the reform groups and financial management units [unidades de administración financiera] (UDAFs) created in the line ministries; and (v) promotion and "sale" of the PMSP in the relevant sectors.

3.16 The financing requested for the CTU is under US\$7 million (IDB: US\$3.8 million; IBRD: US\$1.4 million; local counterpart funding: US\$1.1 million), which is fully justified when one considers the PMSP's total cost of approximately US\$95 million (around 1% of GDP) and the effort that will be required to coordinate all PMSP activities.

**C. Cost and financing**

3.17 The program's total cost is an estimated US\$22,957,000. The Bank would finance US\$15,936,000 with ordinary capital resources, and US\$3,774,000 equivalent in local currency from the FSO. A breakdown of the investment and source of financing appears below:

CONSOLIDATED BUDGET (US\$)					
Budget classification	IDB/FSO	IDB/OC	GOVT	TOTAL	%
<b>A. STRENGTHENING/TECHNICAL UNIT</b>					
1. Consulting services	3,000,000		725,200	3,725,200	
2. General support	60,000		328,000	388,000	
3. Equipment	350,000			350,000	
4. Contingencies	290,000		58,800	348,800	
<b>SUBTOTAL</b>	<b>3,700,000</b>		<b>1,112,000</b>	<b>4,812,000</b>	<b>20.9</b>
<b>B. FINANCIAL MANAGEMENT</b>					
1. Consulting services		3,285,500	341,000	3,326,500	
2. Training		401,100	40,000	441,100	
3. Equipment		4,299,500	300,000	4,599,500	
4. General support					
5. Overhead and contingencies		1,213,900		1,213,900	
<b>SUBTOTAL</b>		<b>9,200,000</b>	<b>681,000</b>	<b>9,881,000</b>	<b>43.0</b>
<b>C. INTERNAL REVENUE SERVICE</b>					
1. Consulting services		456,000	132,000	588,000	
2. Training		300,000		300,000	
3. Equipment		810,500		810,500	
4. General support			450,000	450,000	
5. Overhead and contingencies		333,500		333,500	
<b>SUBTOTAL</b>		<b>1,900,000</b>	<b>582,000</b>	<b>2,482,000</b>	<b>10.8</b>
<b>D. CUSTOMS REVENUE SERVICE</b>					
1. Consulting services		801,000	105,000	906,000	
2. Training, advisory services and others		576,000		576,000	
3. Equipment		730,000		730,000	
4. Overhead and contingencies		293,000		293,000	
<b>SUBTOTAL</b>		<b>2,400,000</b>	<b>105,000</b>	<b>2,505,000</b>	<b>10.8</b>
<b>E. PROCUREMENT AND CONTRACTING</b>					
1. Consulting services		168,000		168,000	
2. Equipment		100,000	20,000	120,000	
3. Training		100,000		100,000	
4. Contingencies		22,000		32,000	
<b>SUBTOTAL</b>		<b>400,000</b>	<b>20,000</b>	<b>420,000</b>	<b>2.0</b>
<b>SUBTOTAL/CLASSIFICATIONS</b>	<b>3,700,000</b>	<b>13,900,000</b>	<b>2,500,000</b>	<b>20,100,000</b>	<b>87.9</b>
5. Finance charges	74,000	2,036,000	747,000	2,857,000	12.4
5.1 Interest	37,000	1,877,000	551,000	2,465,000	
5.2 Credit fee			196,000	196,000	
5.3 Inspection and supervision	37,000	159,000		196,000	
<b>GENERAL TOTAL</b>	<b>3,774,000</b>	<b>15,936,000</b>	<b>3,247,000</b>	<b>22,957,000</b>	<b>100.0</b>
<b>Percentages</b>	<b>16.4</b>	<b>69.5</b>	<b>14.1</b>	<b>100.0</b>	

- 3.18 **Financing.** The terms and conditions of the Bank's financing would be as follows: (i) OC: amount: US\$15,936,000, of which US\$9,300,000 will be subsidized under the IFF; disbursement period: 4 years; grace period: 4 years; amortization period: 25 years; interest rate: variable; credit fee: 0.75% per annum on the undisbursed balance; and inspection and supervision: 1% of the loan amount. (ii) FSO in local currency: amount: US\$3,774,000 equivalent in local currency; disbursement period: 4 years; grace period: 10 years; amortization: 20 years; interest rate: 1% for the first 10 years and 2% thereafter; and inspection and supervision: 1% of the loan amount.

- 3.19 The government's contribution will be US\$3,247,000 (14.1% of the program's total cost) and will mainly go toward financing counterpart personnel, training support costs, office space, supplies, secretarial services and vehicle operating costs.

#### IV. ORGANIZATION AND EXECUTION

##### A. Organization

###### 1. Borrower and executing agencies

- 4.1 The borrower will be the Republic of El Salvador, which will transfer the program's resources to the executing agencies as follows: (i) the FSO funds for the CTU's institutional strengthening will be transferred to the Presidential Commission for Public Sector Modernization [Comisión Presidencial para la Modernización del Sector Público] (CPM), the executing agency for this component through the CTU; (ii) the OC resources for the SAFI component will be transferred to the Ministry of the Treasury which, in coordination with the CTU, will be the executing agency for that component.
- 4.2 The CPM, created by Presidential Decree 49, of May 28, 1996, is composed of the Ministers of the Treasury and Economic Affairs and coordinated by the Presidential Commissioner for Public Sector Modernization, who has the rank of minister. The CPM has a coordinating technical unit (CTU), headed by the project's technical coordinator, and an adequate professional staff. This unit will provide the technical guidance that the components of the public sector modernization program (PMSP) require.
- 4.3 The Ministry of the Treasury (MINHAC) has requested that the Inter-American Center of Tax Administrators (CIAT) be contracted via the "no-bid" method, to: (i) carry out the internal revenue service program; and (ii) assist MINHAC with hiring consulting services and procuring goods and services related to the financial management component. It also asked that the United Nations Development Programme (UNDP) be contracted to help the MINHAC hire consulting services and procure goods and services related to the customs revenue service component. Under the Bank's policies on contracting consulting firms, no-bid contracting is allowed when some comparative institutional or technical advantage is present. The CIAT will be paid around US\$500,000 for its services, and the UNDP US\$70,000.
- 4.4 The CIAT does have a comparative technical advantage as executing agency of the internal revenue service component as it meets all the requirements stipulated in the Bank's policy (GS-601): (i) it has expertise and experience in professional services that other

firms or agencies do not have or do not have to the degree required; (ii) the staff to be assigned has outstanding qualifications and experience that other firms or agencies either do not have or do not have to the degree required; (iii) it can efficiently coordinate various agencies and prepare specialized consolidated reports, coordinating simultaneously with several countries if necessary; and (iv) the average evaluation of its services in similar work done for the IDB and/or El Salvador is "VERY GOOD" according to the IDB's services evaluation system.

- 4.5 The CIAT has a comparative institutional advantage as administrator of the financial management component, <sup>4/</sup> as it meets all the requirements stipulated in the Bank's policy (GS-601): (i) it has a good working relationship with the MINHAC; (ii) it is able to coordinate various individual specialists effectively and prepare expert consolidated reports, in coordination with several countries if need be; (iii) after the project has concluded, it can keep up the support when the services need to be improved and maintained; (iv) it has the capacity to help the MINHAC administer and fulfill the negotiated clauses of the loan contracts or technical cooperation agreements; (v) it has the means to facilitate project execution and disbursement of funds; (vi) it has a list of qualified consultants and an effective and efficient hiring mechanism; (vii) it offers an efficient administrative support system for quality control during the consulting services, and (viii) the average evaluation of its services in similar work for the Bank or El Salvador is "GOOD", according to the IDB's services evaluation system.
- 4.6 As administrator of the customs revenue service component, the UNDP has a comparative institutional advantage as it meets all the requirements stipulated in the Bank's policy (GS-601): (i) it has a good working relationship with the MINHAC; (ii) it is capable of effectively coordinating a number of individual specialists and prepares consolidated expert reports, coordinating with several countries when necessary; (iii) it can continue to provide assistance after the project is completed, whenever the services need to be improved or maintained; (iv) it has the capacity to help MINHAC administer and fulfill the negotiated clauses of the loan contracts or technical cooperation agreements; (v) it has the capacity to facilitate project execution and disbursement of funds; (vi) it has access to a list of qualified consultants and to an efficient and effective contracting mechanism; (vii) it offers an efficient administrative support system for quality control during the consulting services; and (viii) the average evaluation of its services in similar work for the Bank or El Salvador is "GOOD" according to the IDB's services evaluation system.

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<sup>4/</sup> The CIAT will support the CTU in the selection and contracting of goods and services.

- 4.7 To carry out the integrated financial management subprogram, and as stipulated by the state financial management law (SAFI Law), the MINHAC will create financial management units [unidades de administración financiera] (UFIs) in each of the ministries and decentralized agencies. Each UFI will have a coordinator, who will report to the corresponding minister or authority and remain in constant contact with the CTU's integrated financial management coordinator.

B. Supervision

- 4.8 Project supervision will be handled by the Bank's Country Office in El Salvador, which will have one specialist in projects of this type on staff, and by the project team. With the initial and progress reports required, the program will be monitored constantly from the time it begins.

C. Financial statements

- 4.9 Within 120 days following the close of each fiscal year for the program's duration, the Ministry of the Treasury, through the CTU, will submit financial statements showing how the Bank's resources and the local counterpart funding have been used. For the duration of the program, its financial statements are to be examined by an outside auditing firm acceptable to the Bank and in accordance with the pertinent Bank rules and regulations.

D. Recognition of expenditures

- 4.10 Some program activities are already underway or will begin before the program is approved. Consequently, the government has requested that the Bank recognize up to US\$600,000 in prior expenditures incurred to contract consulting services and procure equipment, and that those expenditures be considered part of the Bank's financing. The cost accounting will be done in accordance with the Bank's rules and regulations for expenditures of this kind, provided they were incurred subsequent to January 1, 1996.

E. Procurement of goods and services

- 4.11 The program does not call for performing construction work with the loan proceeds. International competitive bidding will be used for computer equipment and software purchases valued at approximately US\$6 million. Also planned are: (i) an international call for proposals involving approximately US\$2 million; (ii) local calls for proposals involving approximately US\$3 million in consulting services. The procurement program is detailed below:



Tentative sample of major procurement items	Financing %		Method	Prerequisite	Public notice Six-month period/year
	IBB	Local			
<b>1. CTO component</b>					
<b>a. Individual consultants</b>					
10 consultants (US\$1,776,000) 5/	100%				1st half/year 1
8 consultants (US\$1,224,000)	100%				1st half/year 1
5 consultants (US\$307,000)		100%	LCP		2nd half/year 1
3 consultants (US\$416,000)	100%		RCP		1st half/year 2
<b>b. Equipment</b>					
Computer equipment (US\$350,000)	100%		ICB	Yes	2nd half/year 1
<b>2. Fiscal administration</b>					
<b>a. Individual consultants</b>					
2 international consultants (US\$150,500) (integrated financial management)	100%		RCP		2nd half/year 1
3 national consultants (US\$456,000) (integrated financial management)	100%		LCP		1st half/year 1
2 international consultants (US\$105,000) (budget)	100%		RCP		2nd half/year 2
4 international consultants (US\$105,000) (treasury)	100%		RCP		2nd half/year 1
1 international consultant (US\$139,000) (accounting)	40%	60%	LCP		1st half/year 1
3 international consultants (US\$87,000) (public debt)	70%	30%	RCP		1st half/year 2
Various international consultants (US\$120,000) (training)	100%		RCP		1st half/year 1
Various international consultants (US\$120,000) (training)	100%		RCP		1st half/year 2
Other international consultants (US\$140,000) (training)	100%		RCP		1st half/year 3
<b>b. Consulting firm</b>					
Consulting firm (US\$1,436,000) (computer systems)	100%		ICP	Yes	2nd half/year 1
<b>c. Equipment</b>					
Equipment (US\$4,399,000) (computer)	100%		ICB	Yes	2nd half/year 1
<b>3. Internal revenue service</b>					
<b>a. Individual consultants</b>					
International consultant (US\$153,000)	100%		LCP		1st half/year 1
International consultant (US\$350,000)	100%		ICP	Yes	2nd half/year 1
<b>b. Equipment</b>					
Equipment and software (US\$810,000)	100%		ICB	Yes	2nd half/year 1
<b>4. Customs</b>					
<b>a. Individual consultants</b>					
9 international consultants (US\$423,000) (customs)	80%	20%	RCP		1st half/year 1
9 local consultants (US\$258,000) (customs)	100%		LCP		2nd half/year 2
International consultant (US\$100,000) (training)	100%		LCP		1st half/year 1
International consultant (US\$100,000) (training)	100%		LCP		1st half/year 2
International consultant (US\$80,000) (training)	100%		RCP		1st half/year 3
<b>b. Equipment</b>					
Equipment and software (US\$730,000)	100%		ICB	Yes	1st half/year 2
<b>5. Procurement and contracting</b>					
<b>a. Individual consulting services</b>					
1 international consultant (US\$60,000)	100%		RCP		1st half/year 1
3 national consultants (US\$120,000)	100%		RCP		1st half/year 1
International consultant (US\$100,000) (training)	100%		RCP		1st half/year 2
<b>b. Equipment</b>					
Computer equipment and software (US\$100,000)	100%		CB		2nd half/year 1

ICP = international call for proposals; LCP = local call for proposals; RCP = restricted call for proposals; ICB = international competitive bidding; LCB = local competitive bidding.

4.12 Consulting services: International calls for proposals (ICP) will be used in the case of consulting firm contracts involving

5/ Exceptions provided for (see paragraphs 4.14 to 4.17).

US\$200,000 or more. Local open calls for proposals (LCP), using procedures acceptable to the Bank, will be used for consulting contracts of between US\$100,000 and US\$199,000. Consulting contracts for lesser amounts may be arranged through restricted calls for proposals (RCP), with at least three suppliers invited to make offers. The direct invitations and local calls for proposals will be open to international consultants as well.

- 4.13 Goods: Purchases of the equivalent of US\$150,000 or less will be done by a restricted call for proposals or by inviting bids from at least three prequalified firms. Purchases valued at between US\$150,000 and US\$250,000 will be via local competitive bidding (LCB). The rules for international competitive bidding (ICB) will apply in the case of procurement valued at over US\$250,000. International suppliers may also tender offers in the limited or restricted calls for proposals and local competitive bidding.

F. Exceptions to the procedures required for procuring goods and contracting services

- 4.14 CTU technical staff. It is recommended that the exception allowed in the Bank's procedures for contracting consulting services be made in the case of 10 consultants (technical coordinator; the coordinators for integral financial management, modernization of personnel management, institutional restructuring, decentralization, computer systems, project management and streamlining; and two of the experts in integrated financial management), since these consultants have been working to prepare the PMSP from the beginning.
- 4.15 Based on the project team's analysis of these consultants' professional qualifications, the view is that their involvement is critical to the program's success. Apart from the experience they have gained in the PMSP's implementation by virtue of having been with the program since it began in 1990, these professionals also have a solid record of experience and professional expertise well suited to the program's proposed objectives.
- 4.16 Because the modernization of a State is an ongoing process and too complex to be completed within a short time frame, the team of specialists who form the CTU and who have been advising the government must be kept on if the wealth of knowledge the team has amassed in its institutional memory is to be used to maximum advantage. Given the government's fiscal limitations, caused by the severe constraints the government is under with the fiscal adjustment program now in effect, the CTU is being funded under a special budget that includes grants and temporary funding as well as bridge loans. Therefore, the Bank's financial support is crucial to ensuring the CTU's operations during the PMSP. Thereafter, and once the modernization program has a momentum of

its own, the funding for the CTU will be included in the country's regular budget.

- 4.17 Therefore, for the present technical cooperation to be approved, a departure from the Bank's contracting policy will be required on two counts: (i) an exception in order to select and contract the individual consultants via the "no-bid" method; and (ii) waiver of one eligibility criterion, since the specialists in question will not have completed the six-month waiting period required after leaving a position in the employ of a beneficiary of a Bank loan. Both those requirements are stipulated in the relevant policy (see GS-101, page 1 of 3, point 6).

G. Environmental impact

- 4.18 The Environment Committee, at its meeting of May 14, 1996, classified the proposed project as a Category II operation and recommended that the customs service component include consulting services to advise on the rules and regulations regarding the importation of agrochemicals and transboundary movement of hazardous wastes and their disposal (Basle Convention) and to check for compliance with the Convention on the International Transit in Endangered Wildlife Species (CITES).

H. Evaluations and reports

- 4.19 With the reports and evaluations described below, evaluation of this project will be an ongoing process. The Bank's country office in El Salvador will bear basic responsibility for the project's administration and will carry out the periodic reviews. The reports will be prepared by the executing agencies and sent to the Bank for approval. The project team will work with the Country Office on approval of interim evaluations and reports.

1. Interim evaluations

- 4.20 An interim evaluation of each component will be performed, once 50% of the Bank's resources assigned to the component have been committed, in order to measure the program's progress by the benchmarks established for each component. Another evaluation will be done during the final month of the program.

2. Initial report

- 4.21 A condition precedent to the first disbursement will be that executing agencies submit a work program based on the matrix of activities and outputs (Annex I) agreed upon with the Bank. The work program will contain the timetable for carrying out the components and activities in the project, a description of the activities, the indicators and means of verification. Also, it is important to show how the technical recommendations put forward to improve budget performance will be used for future expenditures in

tune with macroeconomic and sector objectives. Furthermore, the programming of the various components of this operation, including training programs and how they relate to the design under way, should be included in the work program.

3. Progress reports

- 4.22 Within 30 days of the end of each six-month period and for the project's duration, the executing agencies are to present a report on the progress achieved in the previous six months. The reports are to be prepared on the basis of the matrix of activities and the goals set forth therein. The last of these reports, which will be the operation's final report, is to be presented within 60 days after the project's conclusion.

I. Prerequisites for approval

- 4.23 Before the Board of Executive Directors approves the operation, the government is to:

- a. publish the presidential decree whereby the Presidential Commission for Public Sector Modernization and the coordinating technical unit are officially created, stipulating the minimum required staff and providing for an adequate budget;
- b. submit to the Bank the definitive terms of reference for integrated financial management consultants and the specifications for contracting the computer systems consulting firm.

J. Conditions precedent to the first disbursement

- 4.24 As conditions precedent to the first disbursement, the executing agency is to submit the following to the Bank:
- a. The agreement between the Republic of El Salvador (as borrower) and the Presidential Commission for Public Sector Modernization concerning the transfer of the loan proceeds and the local counterpart contribution.
  - b. For the integrated financial management system component, the implementing regulations for the integrated financial management law.
  - c. Evidence of having contracted the technical coordinators needed for the CTU, by mutual agreement with the Bank.
  - d. A work program containing the timetable for carrying out the components and activities in the project and a description of the activities, specifying the indicators and means of verification.

- e. Evidence of having contracted the CIAT: (i) as executing agency of the internal revenue service component and (ii) as administrator of the financial management component; and the UNDP as administrator of the customs revenue service component.

K. Other special terms and conditions

- a. An interim program evaluation will be performed of each component once 50% of the funds allocated to the component have been committed, in order to measure the program's progress by the benchmarks established for each component.
- b. An evaluation of the program will be performed during the final month of execution.

V. BENEFITS, SUSTAINABILITY AND RISKS

A. Benefits

- 5.1 Better management of public funds through prudent use of State resources; improvements in services to make them client-oriented; more efficient control of imports, and a less bureaucratic and more efficient procurement and contracting system will together dramatically increase fiscal revenues, achieve public sector savings, and give the private sector greater confidence in El Salvador's democratic institutions. This operation will also continue the reforms by ensuring the technical and institutional support needed to carry out the other components of the public sector modernization program that the IBRD is currently examining in conjunction with the IDB (ES-0036) and that is directly related to the program proposed here.

B. Sustainability

- 5.2 The added tax revenues that expanded geographic coverage (the DGII's regionalization) will bring about and the reduced tax evasion (auditing program and program to promote voluntary tax compliance by offering incentives), combined with the improved customs procedures and services (better control of merchandise entering the country and collection of the VAT on that merchandise) together account for the bulk of the program's financial impact and fully justify the investment of the loan resources. In addition, passage of the new laws, implementing legislation and regulations that the proposed program will require, *de facto* improvements in the delivery of services (which will be monitored by means of special studies) and extensive training and public relations programs are a guarantee that the reforms will take hold and endure.

C. Risks

- 5.3 *A priori*, the program does not pose any particular problems. However, certain factors could prove to be problematic for the success of the proposed operation as part of the PMSP: (i) difficulties keeping political matters and technical matters separate during the program, and (ii) resistance to change among the various institutions and civil servants affected.
- 5.4 The political issues mentioned in the preceding paragraph should be minimal, since the PMSP has solid backing at the highest level of government (Presidency of the Republic). Moreover, thus far the Commissioner has done an excellent job of selling the program. As for the technical aspects, while the program's design includes ample support from international experts, seminars and workshops have also been held for policy-makers and technicians to discuss successful experiences in other countries. All this has helped to increase acceptance of public sector modernization among the institutions concerned.

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**EL SALVADOR**  
**FINANCING OF THE CTU AND MODERNIZATION OF THE FISCAL ADMINISTRATION**  
**(ES-0105)**

**MATRIX OF ACTIVITIES AND OUTPUTS**

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>S.A.F.I.</b> <b>GENERAL SAFI FRAMEWORK</b>			
a. Diagnostic study of the development of computer systems	Computer systems consultant	Evaluation of the existing computer systems and strategic analysis to ensure an integrated platform.	Have in place a strategic vision for dev the SAFI databases that will make the b possible use of the existing systems.
b. Development of rules and regulations for subsystems	Senior area experts and legal counsel	Vertically and horizontally consistent regulations for application of integrated financial management law.	Clear, modern and consistent standard developed for implementing the SAFI.
c. Design of institutional financial units (UFIs)	Senior technical consultant, UFI consultant	Organizational structure, personnel requirements, job descriptions and equipment for UFIs determined.	Have in place a homogenous structure compatible with the central system for development of the SAFI.
<b>BUDGET SUBSYSTEM</b>			
a. Adjust the apparatus devised for preparing, approving and executing the budget.	Senior budget expert, legal counsel	Manuals, instructions, procedures and other instruments revised and improved for standardized application of budgeting methodology.	Consistency in budget preparation and approval and efficiency and effectiveness in budget execution and evaluation.
b. Develop and apply the method for programming execution of the budget (PEP).	Senior budget expert	Standards and routines established for procedures involved in programming budget execution.	Efficient and transparent procedures to execution of the government budget in the UFIs and in the SAFI's lead agencies.
c. Develop techniques for concurrent monitoring of the budget.	Senior budget expert	A general methodology established for monitoring and evaluating budget execution.	Mechanisms to analyze budget execution and shift its direction when necessary.
d. Strengthen instruments for global analysis and consolidation of the budget.	Senior budget expert and macroeconomic analysis expert	Strengthening of the DGP's technical capacity to produce consolidated budgets consistent with the government's macroeconomic program.	A consolidated national budget that is b internally consistent and consistent with the macroeconomic environment.
e. Complete the budget subsystem database.	Computer systems expert and senior budget expert	A complete and up-to-date budgetary data subsystem integrated with the SAFI.	Management and use of the SAFI database with all necessary budgetary data for integrated financial management.
f. Design and implement a system for a material-financial budget evaluation.	Senior budget expert and budget evaluation expert	A system in operation that produces comprehensive material-financial budget evaluation reports for the government's main programs.	More efficient and rational allocation of resources thanks to the availability of information on costs, pace of execution,

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>TREASURY SUBSYSTEM</b>			
a. Establish the pertinent mechanisms with the DGP to synchronize budget execution with the transfer of funds to UFs.	Senior treasury expert	Programming of Treasury single fund harmonized with payments at UFs.	Prompt payment of the government's financial obligations with as little financial opportunity cost as possible.
b. Decentralize and deconcentrate payments from the Treasury Service to the central government's agencies.	Senior treasury expert and financial programming expert	Operating system that transacts payments through the UFs by effecting transfers from the Treasury single fund to institutional subsidiary accounts.	Each primary unit able to expedite and assume responsibility for paying its obligations, the DGT focusing on financial management.
c. Put the single fund into operation.	Senior treasury expert	Unification of the central government's fund for expenditures and its management with modern programming and management instruments.	Financial control over the central government's resources within DGT.
d. Establish linkage with the revenue systems.	Senior treasury expert and collections expert	Revenue data input into the SAFI database at the various stages of the process.	Integrated financial analysis of revenue and expenditures and borrowing.
e. Apply financial management instruments.	Senior expert and expert in securities markets	Technical and legal instruments developed to enable Treasury to manage its securities portfolio and make short-term financial investments.	The DGT acting as the government's financial manager.
f. Complete development of data processing at the DGT.	Senior treasury expert, computer systems expert	Definition and implementation into IFM computer system of records and internal checks for Treasury management.	The SAFI database with all treasury data included to ensure integrated financial management.
<b>ACCOUNTING SUBSYSTEM</b>			
a. Make technical instruments for classification and records SAFI-compatible.	Senior experts and senior accounting expert	Integrated accounting, based on the records administered by IFM at the central level and UFs.	Prompt and computerized government bookkeeping to meet demands for accounting and management information.
b. Develop a model for analytical management reporting.	Senior accounting expert	Create a method of economic-financial analysis.	Availability of technical information on financial management for purposes of decision-making.
<b>PUBLIC DEBT SUBSYSTEM</b>			
a. Review and strengthen the debt management computer system.	Computer systems expert	Debt-management and analysis systems tested and introduced.	Efficient management of public debt, and full inclusion in the SAFI.
b. Strengthen the process by which debt-related policy is made and provide training in techniques of debt negotiation, renegotiation and borrowing.	Debt management expert and management and negotiation expert	Changes needed for better debt management proposed and their introduction planned.	Greater borrowing capacity on capital markets under the best possible terms and conditions.



AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>TRAINING</b>			
a. Develop and implement a comprehensive training plan in integrated financial management, for the Ministry of the Treasury and the UFls.	PMSP training coordinator, senior experts, short-term experts and a senior technical advisor	A critical mass of personnel trained in integrated financial management.	Guarantee that the reforms introduced in government's financial management are applied and sustained.
<b>COMPUTER SYSTEMS</b>			
a. Analyze, review and document a public debt program and interconnect it with the integrated financial management computer system.	Computer systems expert	A fully operational debt management system interconnected with the SAFI budget execution system for debt repayment and service.	Public debt management integrated with financial management system.
b. Design, implement and document the SAFI computer system.	Computer systems expert, programming and communications experts	Start up of computer system, including the central database, UFI databases , local networks and interconnections.	Operation of integrated financial management using a modern, operating platform to ensure secure, accurate and efficient information management.
c. Assist in the selection and purchase of hardware and software.	Computer systems expert	Selection and purchase of equipment and software to put the new SAFI operating platform into operation.	Operation of the data processing system on suitable equipment and programs.
<b>INTERNAL REVENUE SERVICE RULES AND REGULATIONS</b>			
a. Support issuance of the tax code	CIAT	Tax code analyzed internally and with professional associations and submitted to the Legislative Assembly during 1996. Regulations issued by no later than 1997.	Have in place an appropriate regulatory framework.
b. Prepare and issue the legal regulations.			
<b>REGIONALIZATION</b>			
a. Design the structure of the western and eastern regional offices.	CIAT	Have both offices in operation by the end of 1996, each staffed with about 100 people performing taxpayer assistance and auditing functions.  Have all DGII functions performed at two regional offices by the end of 1997.	Have expanded the DGII's coverage to increase tax revenues.
b. Select and outfit the office premises.			
c. Select and train new auditors.			
d. Assign and train administrative personnel.			
e. Design and carry out dissemination plan.			

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>3. AUDITING</b>			
<ul style="list-style-type: none"> <li>a. Carry out studies to measure tax evasion.</li> <li>b. Introduce computer-assisted auditing techniques.</li> <li>c. Develop and introduce programs for sectors that are difficult to monitor.</li> <li>d. Assist with new auditing techniques.</li> </ul>	CIAT	Have added over 3,000 new taxpayers by late 1996 and over 8,000 by late 1997 (from informal sectors and overights in the formal sector). Econometric studies measuring VAT and income-tax evasion completed by the end of 1997; tax revenues as a percentage of GDP up more than 2%.	Tax revenues increased by adding taxpayers from the informal sector and reducing tax evasion to a minimum.
<b>4. INSTITUTIONAL STRENGTHENING</b>			
<b>I. ORGANIZATIONAL DEVELOPMENT</b> <ul style="list-style-type: none"> <li>a. Establish management planning and control units.</li> <li>b. Establish systems auditing unit</li> <li>c. Consolidate tax programming and evaluation unit.</li> <li>d. Improve organizational structure.</li> </ul> <b>II. TAXPAYER ASSISTANCE</b> <ul style="list-style-type: none"> <li>a. Design and introduce a taxpayer assistance and dissemination plan.</li> <li>b. Design and introduce a legal advisory service.</li> </ul> <b>III. HUMAN RESOURCES</b> <ul style="list-style-type: none"> <li>a. Design personnel policy and introduce tax career service.</li> <li>b. Design and implement an incentives system and a disciplinary system.</li> </ul>	CIAT	<p>Planning, management control and systems auditing units up and operating by late 1996.</p> <p>Economic-tax study techniques and programs in use by the first half of 1997.</p> <p>Organizational structure adjusted in accordance with the tax code, the tax career service and the new functions by the end of 1997.</p> <p>Permanent, institutional instruments for tax information and taxpayer assistance in place and the legal service for taxpayers and staff operating by program's end.</p> <p>Taxpayer assistance system, functioning incentives system and a disciplinary system in use at the DGII by the end of the program.</p>	<p>An institutionally stronger DGII, with an improved internal structure and more efficient planning and management control.</p> <p>A new service-oriented mentality at the DGII as a means of encouraging voluntary tax compliance.</p>



AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<p>d. Review and adapt the charter and operating rules and regulations in accordance with the new customs organization.</p> <p>e. Develop regulations for the PNC's finance division.</p>			
<b>ADMINISTRATIVE ORGANIZATION</b>			
<p>a. Review the existing organization of the customs system and propose ways to make it more efficient, bearing in mind the changes in other areas of the system.</p> <p>b. Establish an institutional structure that provides the new organization with adequate support, which includes giving each customs service the proper authority and means.</p> <p>c. Transfer functions to the private sector and regulate them (storage, custody, handling and shipping of merchandise).</p> <p>d. Award concessions to the private sector for storage, custody, handling and delivery of merchandise and determine the customs revenue service's responsibilities and functions vis-a-vis concession holders.</p> <p>e. Make the PNC's finance division part of the customs service's organizational structure and coordinate its activities.</p> <p>f. Strengthen internal auditing, one of whose main purposes should be to monitor the modernization and automation of the customs revenue service.</p>	<p>Technical advisor</p> <p>Organization and methods expert</p> <p>Merchandise origin expert</p> <p>Inspection expert</p>	<p>An organizational structure that is compatible with the customs revenue service's new roles in facilitating foreign trade, and an efficient inspection and auditing system.</p> <p>Manual of functions suited to the new organizational arrangement.</p> <p>Establishment of a computerized system for monitoring functions and areas transferred to the private sector under concessions.</p>	<p>A new structure for the customs service eliminating redundant functions, creating a structure suited to its new roles and eliminating functions that have become extraneous, all to facilitate foreign trade.</p> <p>Stronger internal auditing to ensure correct procedures and practice.</p>

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>OPERATING PROCEDURES</b>			
<p><i>I. Facilitation</i></p> <p>a. Review the current procedures used in foreign trade operations and propose adjustments to streamline them.</p> <p>b. Introduce automated payment of customs duties and taxes and selective merchandise identification based on rational and random criteria; identify the criteria that can be used for the selection mechanisms.</p> <p>c. Require that Customs carry out the general procedures for dispatching import and export merchandise within no more than 24 hours.</p> <p>d. Support and introduce more expeditious procedures for immediate processing of predetermined cases of justified urgency.</p>	<p>Technical advisor</p> <p>Organization and methods expert</p>	<p>Effective control of merchandise entering and leaving the country.</p> <p>More rapid dispatch of merchandise.</p> <p>Efficient and timely customs inspection.</p> <p>Swift and impartial documents processing.</p> <p>Establishment of a database on merchandise value, origin and classification.</p>	<p>Acceptable levels of satisfaction on the foreign trade agents.</p> <p>Lower costs for the above agents and increased competitiveness.</p> <p>Improvement in the corporate image of Customs Revenues Office.</p> <p>Reliable and current foreign trade statistics.</p>
<p><i>II. Primary Fiscal Control</i></p> <p>a. Establish the customs service's effective control over cargo manifests and equivalent documents, requiring that shipping companies submit them to customs using automated data systems.</p> <p>b. Prepare and introduce a procedure for domestic and international transit operations, that is in keeping with Central American rules and regulations and that safeguards fiscal interests and keeps traffic flowing.</p>	<p>Audit expert</p>		

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<p>c. Review the procedure whereby revenues are collected through banks, determining what the latter's responsibilities are and ensure that they are electronically connected to the computer system at the Customs cashier office.</p> <p>d. Regulate and introduce a procedure for controlling and administering special systems.</p>			
<p><i>III. Merchandise valuation</i></p> <p>a. Restructure the administrative unit in charge of merchandise valuation and properly train the staff selected for that unit.</p> <p>b. Develop the database of international prices and establish rules to ensure that it is properly used, maintained and constantly updated.</p>	Merchandise valuation expert		
<p><i>IV. Ex post inspection (auditing)</i></p> <p>a. Prepare permanent plans for ex post review of customs declarations.</p> <p>b. Define, approve and introduce ex post inspection procedures in coordination with the DGII.</p> <p>c. Prepare a manual on deferred inspection.</p> <p>d. Prepare and carry out semiannual selective auditing of import and/or export businesses and criteria by which to evaluate performance of the plans.</p>	Customs inspection expert		

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<b>HUMAN RESOURCE TRAINING</b>			
<p>a. Develop the job descriptions for employees of the Customs Service.</p> <p>b. Evaluate current Customs personnel to determine what their training needs are and how qualified they are for their positions.</p> <p>c. Prepare and introduce a proposal for establishing a customs revenue career service.</p> <p>d. Create a training model and the agency in charge of applying it.</p> <p>e. Establish a management control program.</p> <p>f. Develop a training plan in the technical areas of valuation, origin, procedures and classification.</p>	<p>Technical advisor</p> <p>Organization and methods expert</p>	<p>Draft of a manual of functions and job descriptions.</p> <p>Nationwide distribution of staff according to workload.</p> <p>Establishment of a pay scale for customs personnel.</p> <p>Proposal for a training academy or agreement with a training institute.</p>	<p>Better command of the organizational structure thereby increasing staff efficiency.</p> <p>Promotion of interest in self-improvement.</p> <p>Employee security and improved mechanism for employee mobility, making known performance the primary consideration for promotion.</p>
<b>COMPUTER SYSTEMS</b>			
<p>a. Determine the users' data needs.</p> <p>b. Introduce the modifications necessitated by the review and changes in operating procedures.</p> <p>c. Develop and introduce the following modules:            (i) international and domestic transit control; (ii) selectivity in determining the extent to which export and import declarations will be checked; (iii) control of guarantees and bonds;            (iv) pending documents;            (v) managing administrative appeals and claims;            (vi) inspection; (vii) management and fiscal statistics to supplement the SIDUNEA statistics.</p> <p>d. Test the various modules and the system as a whole.</p>	<p>Technical advisor</p> <p>Computer systems expert</p> <p>Systems security expert</p> <p>Systems analysts and programmers</p>	<p>All procedures computerized.</p> <p>All units connected to the customs office, and the latter connected to other public and private institutions.</p> <p>Creation and maintenance of an "intelligent" information system.</p>	<p>Swifter procedures and better controls.</p> <p>Timely and reliable data.</p> <p>Better measures by other state agencies.</p> <p>A positive contribution to the decision-making process.</p>

AREA/ACTIVITY	ASSIGNED CONSULTANT	ANTICIPATED RESULT	EXPECTED IMPACT
<p>e. Acquire and install a communications system for prompt relay of information within customs and to other MINHAC agencies.</p> <p>f. Prepare technical and user documentation.</p> <p>g. Advise on the purchase of the equipment needed to develop and run the systems.</p> <p>h. Establish mechanisms that protect the physical safety and security of the computer system.</p>			

**4. PROCUREMENT AND CONTRACTING**

<p>a. Analyze legislation currently in effect and prepare a preliminary draft standardized procurement law for the entire public sector.</p> <p>b. Develop a plan of action and the corresponding alternative for standardizing the bidding documents used in public sector bidding; the new documents are to be patterned after IDB and IBRD models.</p> <p>c. Develop an ongoing training program for the appropriate (public sector) employees, concerning the new law, bidding documents, and procurement in general.</p>	International consultant; local consultants	A streamlined and more transparent sector. Laws, rules and regulations now in force that complicate the procurement process in public sector institutions eliminated.	A simplified procurement process. Clear procedures will benefit private sector organizations that provide goods and services to public institutions and enhance the credibility of public institutions.
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RGII-ES031T  
ES-0105  
Original: Spanish

**PROPOSED RESOLUTION**

**EL SALVADOR. TECHNICAL COOPERATION LOAN FOR THE FISCAL ADMINISTRATION  
MODERNIZATION PROGRAM**

**The Board of Executive Directors**

**RESOLVES:**

1. 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 agreements as may be necessary with the República de El Salvador and to adopt such other measures as may be pertinent for the execution of the program of technical cooperation described in Document \_\_\_\_\_, the objective of which is the modernization of the Fiscal Administration.

2. That up to the sum of US\$15,936,000, or its equivalent, is authorized for the purposes of this resolution, chargeable to the resources of the Bank's Ordinary Capital.

3. That the above-mentioned sum shall be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.

RGII-ES032T  
ES-0105  
Original: Spanish

**PROPOSED RESOLUTION**

**EL SALVADOR. TECHNICAL COOPERATION LOAN FOR THE FISCAL ADMINISTRATION  
MODERNIZATION PROGRAM**

**The Board of Executive Directors**

**RESOLVES:**

1. 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 agreements as may be necessary with the República de El Salvador and to adopt such other measures as may be pertinent for the execution of the program of technical cooperation described in Document \_\_\_\_\_, the objective of which is the modernization of the Fiscal Administration.

2. That up to the equivalent of US\$3,774,000, in local currency, is authorized for the purposes of this resolution, chargeable to the resources of the Bank's Fund for Special Operations.

3. That the above-mentioned sum shall be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.

RGII-ES043T-1  
ES-0105  
Original: Spanish

PROPOSED RESOLUTION

EL SALVADOR. PARTIAL PAYMENT OF INTEREST ON  
LOAN No. \_\_\_\_/OC-ES TO THE REPUBLICA DE EL SALVADOR  
(Fiscal Administration Modernization Program)

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 as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República de El Salvador as Borrower, and to adopt other pertinent measures to use the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of the sum of US\$9,300,000, out of the resources of the loan for up to US\$15,936,000, authorized by Resolution DE- / , in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.