

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

PROGRAM TO MODERNIZE PUBLIC RESOURCE MANAGEMENT

(DR-L1005)

LOAN PROPOSAL

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CONTENTS

PROJECT SUMMARY

I.	FRAME OF REFERENCE	1
A.	Macroeconomic framework	1
B.	Public financial management	2
C.	The Integrated Financial Management Program - PAFI	2
D.	Current problems in the public finance management system.....	6
E.	The Bank's country and sector strategy.....	13
F.	The country's sector strategy	14
G.	Lessons learned.....	14
H.	Coordination with other financing organizations and donors.....	16
II.	THE PROGRAM.....	16
A.	Objectives	16
B.	Description.....	17
1.	Component 1: Institutional strengthening of the Ministry of Finance:.....	17
2.	Component 2: Consolidation of the reform of central government financial management	17
3.	Component 3. Development of the financial management system in decentralized and autonomous institutions	18
4.	Component 4. Strengthening of procurement management	18
5.	Component 5. Institutional strengthening of the Office of the Comptroller General and implementation of the internal oversight system.....	19
C.	Cost and financing	19
III.	PROGRAM EXECUTION	21
A.	Borrower and executing agency	21
B.	Program coordination and technical-administrative execution scheme	21
C.	Program instruments and execution reports.....	22
D.	Procurement mechanisms for works, goods, and services	23
E.	Execution period and disbursement timetable	23
F.	Monitoring and evaluation	24
G.	Recognition of expenditures.....	25
H.	Special contractual clauses	25

IV.	FEASIBILITY AND RISKS	25
A.	Institutional feasibility.....	25
B.	Socioeconomic viability.....	26
C.	Financial viability	27
D.	Benefits and beneficiaries	27
E.	Risks	28
V.	ENVIRONMENTAL IMPACT.....	28

ANNEXES

Annex I Logical Framework

Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/approvals/pdfs/DRen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=DR&L=EN
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=842015
Information available in the RE2/SC2 technical files	<u>IDBDOCS #811957</u>

ABBREVIATIONS

AWP	Annual work plan
BCRD	Banco Central de la República Dominicana [Central Bank of the Dominican Republic]
CFA	Country fiduciary assessment
CG	Contraloría General [Office of the Comptroller General of the Republic]
CQ	Cámara de Cuentas [Accounts Chamber]
CTI	Comité Técnico Interinstitucional [Interagency Technical Committee]
CUT	Cuenta Única del Tesoro [Single Treasury Account]
DAF	Direcciones Administrativas Financieras [Financial Management Offices]
DGA	National Customs Office [Dirección General de Aduanas]
DGCP	General Office for Public Credit
DGII	Dirección General de Impuestos Internos [Internal Revenue Department]
DIGECOG	Dirección General de Contabilidad Gubernamental [General Government Accounting Department]
DR-CAFTA	Dominican Republic-United States-Central America Free-Trade Agreement
EBP-DR	The Bank's Country Strategy
EBP-RD	The Bank's Country Strategy
GDR	Gobierno de la República Dominicana
ICB	International competitive bidding
IMF	International Monetary Fund
ISA	Institución Suprema de Auditoría [Supreme Audit Institution]
LOP	Ley Orgánica de Presupuesto [Budget Act]
NFPS	Nonfinancial public sector
OCI	Oficinas de Compras Institucionales [Institutional Procurement Offices]
ONAPLAN	Oficina Nacional de Planificación [National Planning Office]
ONAPRES	Oficina Nacional de Presupuesto [National Budget Office]
OVE	Office of Evaluation and Oversight
PAFI	Programa de Administración Financiera Integrada [Integrated Financial Management Program]
PCR	Program completion report
PRODEV	Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness
SBA	Stand-by arrangement
SEF	Secretaría de Estado de Finanzas [Ministry of Finance]
SIGEF	Integrated Financial Management System
SPDS	Secretaría de Estado de Planificación y Desarrollo Sostenible [Ministry of Planning and Sustainable Development]
STP	Secretaría Técnica de la Presidencia [Technical Secretariat for the Office of the President]
TN	Tesorería Nacional [National Treasury]
TOR	Terms of reference

UAI	Unidades de auditoria interna [Internal audit units]
UEPEX	Unidades Ejecutoras de Préstamos Externos [External Loan Executing Units]
WB	World Bank

PROJECT SUMMARY

DOMINICAN REPUBLIC PROGRAM TO MODERNIZE PUBLIC RESOURCE MANAGEMENT (DR-L1005)

Financial Terms and Conditions ¹				
Borrower: Dominican Republic			Amortization period:	25 years
Executing agency: Ministry of Finance (SEF)			Grace period:	5 years
Source	Amount (US\$ millions)	%	Disbursement period:	5 years
			Interest rate:	Libor or adjustable
IDB (Ordinary Capital)	US\$21.0	90	Inspection and supervision fee:	0%
Local	US\$2.4	10	Credit fee:	0.25%
Total	US\$23.4	100	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance				
Project objective: The program’s general objective is to improve the financial management of the Dominican State, to ensure more effective, efficient, and transparent resource use.				
Special contractual conditions: (see paragraphs 2.12, 2.13, and 3.1) A condition precedent to the first disbursement will be approval of the Budget Act and entry into force of the program’s Operating Regulation. A condition precedent to the disbursement of funding for the internal oversight component will be approval of the new Law on the Office of the Comptroller General of the Republic, and the signing of a coexecution agreement for that component between the Comptroller General’s Office and the SEF.				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes[X] No[]				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				
Verified by CESI on: 5 August 2005				
Procurement: (see paragraphs 3.16 to 3.21) The Bank’s policies and p rocedures will be followed in the procurement of works, goods and related services, and consulting services. International competitive bidding will be mandatory for contracts with an estimated cost of US\$3 million or more for works and US\$250,000 or more for goods. An international competitive tender will be held for consulting contracts over US\$200,000. Local laws will govern the procurement of works, goods, and services of lesser value.				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Macroeconomic framework

- 1.1 Following a decade of growth and stability, the Dominican economy has since been buffeted by a number of external and domestic shocks. In August 2004, in the wake of a deep macroeconomic and financial crisis the new government took steps to stabilize the economy. On 31 January 2005, the Government of the Dominican Republic started to implement an economic program backed by a new 28-month Standby Arrangement (SBA) with International Monetary Fund (IMF), with the aim of regaining a growth path.
- 1.2 As a result, in late 2005 the economy posted an impressive recovery with GDP growth of 9.3%, while the exchange rate and interest rates stabilized substantially, and inflation fell to 7.4%. These results were supported by prudent fiscal policy. The government achieved a nonfinancial public sector (NFPS) deficit of 0.4% of GDP, which was below the level envisaged in the SBA, against a backdrop of higher oil prices that fueled government subsidy expenditure in the electric power sector.
- 1.3 The SBA program sought a balanced budget (zero deficit) in 2006), which required a primary NFPS surplus of 0.7% of GDP. A further aim was to reduce the quasifiscal deficit of the Central Bank of the Dominican Republic (BCRD) from 4% to 2.9% of GDP. These measures meant an improvement in the consolidated public sector financial result by 4.3% of GDP in 2005-2006. On the external front, the program aims to reduce total public debt from 53% of GDP in 2004 to 44% in 2006. As part of its program, the government is proposing a strategy to gradually reduce the external debt to a sustainable level of around 37% of GDP in 2010. Economic recovery would be accompanied by a balance of payments current account deficit of 2.4% of GDP in 2006.
- 1.4 Attaining the fiscal targets set in the SBA required a new tax reform in December 2005, to compensate for the expected loss of tax revenues following the entry into force of the Dominican Republic-United States-Central America Free Trade Agreement (DR-CAFTA) and abolition of the foreign exchange commission (13%) previously levied on importers. This reform represented a smaller-than-expected increase in revenue for the first half of 2006.
- 1.5 In August 2006, during a mission in relation to the fifth review of the SBA, the IMF detected that, despite the progress achieved in the first half of the year, there had been significant divergence from fiscal targets owing to the loss of revenues, compounded by an expenditure outcome that was way above projections, mainly reflecting the growing level of subsidies to the electric power sector. The fiscal target for June 2006 was not attained, and the overall zero deficit target was missed by 1.8% of GDP. In the absence of corrective measures, the shortfall projected for 2007 could be even larger. In close coordination with the IMF and the Bank, the authorities have identified corrective measures that should make it possible to

approach the initial fiscal target for 2006; and in late 2006 a favorable agreement with the IMF is expected to be reached on those for 2006 and 2007.

- 1.6 The partial progress achieved in terms of fiscal management, and the fluctuations in the corresponding targets and outcomes, clearly reveal the need to modernize all systems involved in public finance management in the Dominican Republic.

B. Public financial management

- 1.7 The management of public funds in the Dominican Republic has been characterized by a disconnect between the country's development goals and the budget, with budgetary appropriations mostly based on the previous year's figures and marginal adjustments to the various items (incrementalism). The budget has traditionally not set operating or economic targets, but only financial targets. In recent years, the budgetary process has become more efficient; substantial progress has been made towards an integrated financial management system, which in turn has improved budgetary execution and has gradually reduced the proportion of the central government budget that is assigned at the discretion of the Office of the President. Nonetheless, the effectiveness of the budgetary formulation, execution, and evaluation phases remains limited as a result of the concentration of decisions in the Office of the President and central agencies, the institutional weaknesses of ministries and executing entities, and the relatively low quality of oversight.
- 1.8 Effective management is seriously hindered by a fierce adherence to a legal framework that favors bureaucracy and the concentration of procedures, compounded by a failure to enforce rules and methodologies that allow for more effective policy decisions and favor operational decentralization. These failings include the absence of a medium-term fiscal strategy and a system for identification, evaluation and prioritization of investment projects, in addition to institutional weakness in the Ministry of Finance and governing authorities. The macroeconomic criteria used to support budgetary formulation and execution are deficient and are not published. Despite progress in the financial reporting process, there are still no adequate mechanisms or systems for preparing and publishing systematic, clear, and periodical budget reports that would enable analysts and civil society to assess the impact of government policies and management. Nor have appropriate social audit mechanisms been developed.

C. The Integrated Financial Management Program - PAFI

- 1.9 In 1996, the government issued Decree No. 581.96 to design and prepare an Integrated Financial Management Program (PAFI), supported by Loan 1093/OC-DR (US\$10.3 million) and a Japanese Grant (US\$750,000), which began executing in late 2000. The program aimed to promote efficiency and transparency in public governance through joint modernization of the legal framework and the financial management system, without neglecting the redefinition of administrative processes and the introduction of important changes in the management and organizational culture. The central point of this reform involved development of the Integrated Financial Management System (SIGEF), which, as a fiscal management

support tool, made a fundamental contribution to decision-making on fiscal performance. Its functional model was designed to ensure harmonious linkage between management and record keeping. Management is understood to mean the administrative procedures involved in the public income and expenditure process; and record keeping refers to mechanisms that allow for the capture and generation of information on financial management. The SIGEF consists of the budget, public credit, treasury, and accounting systems, together with the related tax administration, human resource (financial management), procurement, public investment (financial management) and asset management systems that should operate in conjunction with it.

- 1.10 At the present time, central government ministries and the governing authorities of financial management (National Budget Office, National Treasury, Office of the Comptroller General of the Republic, General Public Credit Department, and General Government Accounting Department), use SIGEF to record data from the budget formulation and execution stages, the latter encompassing the programming of commitment installments, budgetary amendments, funding requests, payments, the recording of revenue and reconciliation of the National Treasury's Bank accounts.
- 1.11 The major achievements of PAFI I in the areas of government transparency, effectiveness, and efficiency, include the following: Establishment of a new budgetary classifier that systematically ranks budgetary accounts and provides them with a structure making it possible to incorporate elements both for operational work and for the analysis and monitoring of fiscal management from a macroeconomic point of view. In addition, from the information system standpoint, the classifier is fundamental for automatically integrating the various accounts used in recording financial operations generated by the budget, public credit, treasury, accounting, human resources, procurement and investment systems; and for ensuring that the information produced by the SIGEF modules is unique and the same for all users.
- 1.12 **Regulatory centralization of subsystems.** The reform made a significant contribution to promoting the definition and drafting of rules and regulations on aspects of budgetary formulation and execution. For example, a rule was developed for fund disbursements in the form of financial advances; the payroll procedure was regulated; and differentiated treatment was established for administrative expenditure and debts.
- 1.13 **Operational decentralization.** The reform promoted the incorporation of an additional classification level in the budget structure, to identify "executing units" as the mechanism of minimum level of responsibility for the management and administration of resources in the various institutions. As a result, "executing units" are now responsible for formulating their budgets and executing them; and it is now possible to identify these units both in the budgetary structure and in the

information system itself. This reform involved a far-reaching change from the previous system, since it decentralized budget execution.

- 1.14 Steady progress has been made on **budget preparation**. The early stages of the reform succeeded in implementing the program budgeting technique as a tool to improve the structuring of budgetary programs. As a result, operating expenses and investment project expenditure are now more accurately quantified. A second stage promoted resource allocation based on expected production, introducing the initial elements of planning into the budget preparation process. At the present time, the country has a relatively developed program budget classification, which is a good prior step for improving the targeting of budgetary management policies, and an opportunity to make performance-based management viable.
- 1.15 In terms of **information management and administration**, the SIGEF budgetary formulation module allows different scenarios to be projected for operational areas (analysts) and for the management level of the National Budget Office (ONAPRES). In addition, the introduction of “commitment quota programming” has made the execution of budgetary programs more predictable, thereby making it possible to control expenditure pressure on the availability of funds at the National Treasury, with a reasonable degree of certainty.
- 1.16 The creation of the General Government Accounts Department (DIGECOG) in the Ministry of Finance (SEF) (the accounting function was previously performed by the Comptroller General’s Office) established the institutional structure needed to move from budgetary accounting to asset accounting, in a governance framework involving information, control, and transparency. The existence of the Government Accounting Authority provides a basis for implementing SIGEF, as the mechanism responsible for managing the system from the functional and information technology standpoints. Automatic recording of asset account entries alongside budgetary execution was introduced experimentally in the SIGEF in October 2005. Asset accounting is expected to be fully implemented during the current fiscal year.
- 1.17 Since 2004, the program has succeeded in introducing a treasury operation model based on coordination between cash management and budgetary execution. This makes it possible to establish a reasonable balance between commitments approved by ONAPRES and the behavior of revenues, which has helped reduce the accumulation of floating debt.
- 1.18 In addition, automation of data and information processing has allowed for more timely and reliable management of financial operations. For this purpose, the National Treasury (TN) has introduced automatic reconciliation of central government bank accounts managed by the National Treasury in Banco de Reservas and at the BCRD. This process began in fiscal 2004, covering 77 bank accounts, including collection accounts, disbursement accounts and special accounts. Since 2005, the number of bank accounts subject to reconciliation has risen to 182, including 87 tax revenue collection accounts and 91 external loan and grant accounts. The reconciliation processes undertaken each day encompass 1,500

financial movements classified in 83 types. The mechanism also makes it possible to automatically generate data on the budgetary execution of tax revenues and external loans and grants. Public administration in the Dominican Republic can now manage information on its cash flows with an acceptable degree of security, for the first time.

- 1.19 With regard to payments, the reform has made a decisive contribution to replacing the check as the sole means of payment, by implementing a payroll payment process via deposits in employee's bank accounts.
- 1.20 In the early phase of SIGEF implementation, the Treasury had to process between 400,000 and 500,000 checks each month, with a minimal proportion being paid by bank transfer. Since 2006, payment by bank transfer has been revived. Nowadays, there are 310,000 transfers totaling roughly R\$2.572 billion, and the number of payroll checks issued has fallen to under 158,000. The cost saving on check issuance has thus been significant.
- 1.21 The General Public Credit Department (DGCP) currently accounts for and manages all information on public sector domestic and external debt, and is embarked on a restructuring and organization process pursuant to its Organic Law. With the aim of ensuring efficient management of external and domestic public debt, the SIGADE system has been implemented to provide an information system and a single reliable database to support comprehensive public debt management in the Ministry of Finance. In the case of external debt, the database previously managed by the central bank has been comprehensively purged, and domestic debt data recorded and reconciled with creditors is now available with an acceptable level of reliability.
- 1.22 The budgetary closure of fiscal 2003, 2004, and 2005, and the formulation of the 2004, 2005, and 2006 budgets have been done entirely using the SIGEF information technology platform. In the first case, the Accounts Chamber was presented with the statement of revenue and investment of income corresponding to fiscal 2005 in February this year, within the timeframe envisaged by Law No. 126-01 on Government Accounting. This step shows the government's determination to stimulate accountability. In the second case, SIGEF has supported the budget preparation process in its different phases, from the preparation of draft budget scenarios, through formulation of the draft budget which the government submits to the National Congress, to its approval in the legislature.
- 1.23 Starting in fiscal 2006, SIGEF will introduce a process for preparing "budget ceilings" that will enable the governing authority to set expenditure policy in quantitative terms. This will also enable institutions to plan their needs more realistically in the framework of guidelines established by that body. The process has been designed with a reasonable degree of flexibility and automation, so that when approving "budget ceilings" institutions can have immediate access to information to prepare their budgets. The system automatically controls both the limits and the levels of the preestablished ceilings. This advance, in addition to

deepening decentralization in budget formulation, strengthens oversight capacity and helps to reduce discretion in the allocation of budgetary resources.

- 1.24 The budget surplus, which previously was not clearly shown in budgetary execution statements, is currently processed through budgetary appropriation and commitment quota control. As a result of these measures, expenditure in this category has been reduced from 40% of budgeted expenses to roughly 10%. In this context, the reform—through SIGEF implementation—has gone a long way toward incorporating the controls established for managing the budget surplus into its processes.
- 1.25 As from 1 January 2006, through General Budget Provisions 2006, the budget surplus mechanism was eliminated for the respective fiscal year and was replaced by a fully budgeted Presidential Fund amounting to 5% of current revenues. This decision was taken in line with the commitments assumed in the Letter of Intent agreed upon with the IMF; and the new system will be definitive once the new Budget Act (LOP) is passed. Expenses financed through the Presidential Fund fulfill all the regulations and processes established for other expenses of a similar nature. This measure made it possible to mitigate the distortion in budget execution, which was mainly affecting the line ministries.
- 1.26 During this first phase of PAFI, development began on the interface between SIGADE (public debt register) and SIGEF, which will be completed in the second stage of this program, which is PAFI phase II.

D. Current problems in the public finance management system

- 1.27 Although the availability of information on central government financial management and on expenditure oversight and transparency has improved thanks to SIGEF implementation, the Country Fiduciary Assessment (CFA) highlights the need to deepen the progress through a set of measures that include: (i) approval, regulation, and implementation of a legal and institutional framework to modernize the Budget Act which has been in force since 1969, and the Laws on the Office of the Comptroller General of the Republic and Integrated Financial Management; (ii) regulation of the Laws on Public Credit, National Treasury and Government Accounting; (iii) extension of SIGEF to decentralized and municipal management bodies; and (iv) introduction of measures to increase the rationality, transparency, and oversight of the main expenditure components (government procurement,

human resources,¹ public investment,² and current and capital transfers). These findings were confirmed during preparation of the draft PCR for PAFI I.

- 1.28 **Legal framework.** Commitments made by the government with the IMF for 2005 and early 2006 include the following: (i) centralization of planning and the public investment system in a Single Ministry of Planning and Sustainable Development (SPDS); (ii) centralization of fiscal policy and management (income, expenditure, and financing) in a single Finance Ministry, replacing the current SEF and absorbing ONAPRES; and (iii) congressional approval for new laws on the budget, public credit, treasury, internal oversight and procurement.
- 1.29 The aforementioned draft laws have been prepared following a wide-ranging debate that began under the previous government and received technical support from the Bank. These laws represent a significant step in improving fiscal discipline, since they will tend to reduce discretion in expenditure allocation and execution, make execution more responsive, and ensure fiscal sustainability in the short, medium, and long terms. The current status of projects to reform State financial management is as follows:
- Law on Public Credit No. 6-06: passed by the National Congress and promulgated by the government.
 - Law on the Office of the Comptroller General of the Republic and the National Internal Oversight System: passed by the Senate, pending in the Chamber of Deputies (bill submitted by the current administration).
 - Law on the National Treasury No. 567-05: passed by the National Congress and promulgated by the government
 - Law on Government Procurement of Goods, Works, Services, and Concessions: passed by the National Congress and promulgated by the government. In this case, the government tabled an amendment to adjust the changes introduced by the legislature to the original bill, relating to the requirements established in DR-CAFTA.
 - Law on the Financial Management System: sent to Congress for analysis.
 - Budget Act: sent to Congress for analysis
 - Law on Planning and Public Investment: sent to Congress for analysis.

¹ In the human resource management area, the Bank will support the government through the program for reform and modernization of the executive branch (1176/OC-DR), which is currently being implemented. The country needs to include financial management of human resources in the SIGEF.

² The public investment system needs modernization in aspects relating to definition of priorities, and the identification, preparation, supervision, monitoring, and evaluation of projects. Better links are needed between local and national priorities (particularly the ERP), and to promote local investment cofinancing between municipios, a process that also is being supported by the Bank through the nonreimbursable technical cooperation entitled Strengthening of the public investment system (ATN/JF-8717-DR)

- Organic Law of the Ministry of Planning and Development: sent to Congress for analysis.
- Organic Law of the Ministry of Finance: sent to Congress for analysis.

- 1.30 **Institutional Framework for Public Finance.** The SEF is the governing authority of the Integrated Financial Management System in the Dominican Republic. At the present time, however, there is an institutional and legal structure in place that distributes the functions of expenditure programming, formulation and execution, as well as cash, debt and revenue management, between the SEF and the Technical Secretariat of the Office of the President (STP). The legislation on financial management is disperse and out of date. The jurisdictions of the National Planning Office (ONAPLAN) and ONAPRES are governed by the previous Law No. 55, which establishes the National Planning System (Official Gazette 8958 of 30 November 1965); the Organic Law on the Public Sector Budget (No. 531, published in Official Gazette 9170 of 20 December 1969); the recent Decree No. 1524-04; and general provisions contained in the annual budget. The aforementioned Law 55 states that the brief of the STP is to “prepare the draft national budget for the nation’s expenditure and outgoings, pursuant to guidelines issued by the National Development Council.” In addition to this function, it has other more political responsibilities.
- 1.31 Nonetheless, in practice, the STP has played a major role in formulation and execution of the budget. As part of the SBA with the IMF, the country has embarked on a process of institutional/organizational re-engineering, with the aim of concentrating all of these fiscal policy and financial management functions in a single governing agency, to be achieved by creating a new Ministry of Finance (Secretaría de Hacienda).
- 1.32 The SEF is currently working on institutional strengthening and redesign of its organizational structure, with a view to the future transfer of ONAPRES to the ministry. It is also reorganizing its management/financial area: In the latter case, it is working in the SIGEF framework, which will enable the system to be used in future as a model in other government ministries. The proposed organization chart in this phase represents a transition structure, making it possible, under current legislation, to immediately initiate substantive changes to the organization and processes underlying the reform bills currently going through Congress, and their respective regulations.
- 1.33 **Budget.** Although SIGEF coverage is currently limited to central government transactions, it covers all basic aspects of income, expenditure and financing at this institutional level. As an SEF information tool, SIGEF provides basic information for decision-making; Nonetheless, an overlap of functions with the STP means that the role of the SEF has been reduced to the tax revenues, public credit, and national treasury domains. In this context, the National Budget Office (ONAPRES) has historically played a major role in approving expenditure requests submitted by government executing units, on a case-by-case basis, despite the fact that these have

budgetary appropriation and a preassigned quota to be committed. In practice, this gives ONAPRES the power to decide what can and what cannot be done, in terms of recurrent expenses and investment, throughout the jurisdiction of central government, thus implementing fiscal management with a single perspective.

- 1.34 As part of the process of improving budget execution, Decree 1524/04 was issued, approving and regulating monthly budget programming and execution. This ensures the rationality of the budgetary execution process, preserves permanent cash balance, and aims to facilitate much more effective management by executing units. Although Decree 1524/04 was approved in December 2004, it has not yet been implemented and the system continues to operate on the basis of case-by-case expenditure approvals by ONAPRES, which is highly discretionary. According to the SBA agreed upon with the IMF, the new Budget Act—sent for consideration by Congress—will finally eliminate the generation of budget surpluses by creating the budgeted Presidential Fund, as mentioned above. Any expenditure above budgeted amounts will only be possible if it is included in a supplementary budget approved by Congress, with an identified funding source.
- 1.35 ONAPLAN (attached to the STP) suffers from a number of administrative weaknesses in the investment planning areas and in administration of the project bank; and these need to be overcome to make public expenditure rational and predictable. In practice there is also insufficient analysis of the impact of current capital expenditure decisions on future current expenditure needs, which compromises future public expenditure.
- 1.36 **Public debt management.** The Public Credit Law, passed in December 2005, creates the Public Credit System and the Public Debt Council with exclusively strategic responsibilities in relation to public borrowing); and it specifies the functions of the DGCP, which will act as the system's governing authority under SEF supervision. The new law centralizes the authorization, contracting and administration of public debt, under SEF supervision. The DGCP is also responsible for record keeping and rigorous accounting of borrowing, participation in the formulation of credit aspects of public finance policy, and acting as the Executive Secretariat of the Public Debt Council.
- 1.37 **Cash management.** A diagnostic study conducted in October 2005 shows that the account management and maintenance system generate considerable operational and financial costs. The TN issues an average of 750,000 checks per month which are delivered to their beneficiaries through budget executing entities. Under the previous legislation (in force until implementation of the new National Treasury Law, passed on 13 December 2005), the check was the only negotiable instrument used for paying State obligations. Payment by check is costly, both financially (between US\$1.25 and US\$5 per check) and in organizational terms (payment offices are required, the TN needs specialized human resources to record and sign the checks, etc). The monthly operating costs arising from the issuance, custody,

and distribution of checks, called for a bank transfer payment system to be set up (covering both payroll and supplier payments).

- 1.38 The TN uses Banco de Reservas (which has branches throughout national territory) as its financial agent for receiving tax revenues and issuing checks. The TN maintains 154 accounts with Banco de Reservas, although all checks are issued against a single account, which is a significant practical improvement that reduces the cost of idle cash in the accounts. Short-term cash management is practiced, whereby funds are transferred between various bank accounts (over 5,000) held by other government entities. In addition, a wide range of official accounts were closed, the balances of which tend to be unknown by the Ministry of Finance since their holders were not subject to a permanent reporting regime, which made it difficult to achieve greater efficiency in managing the funds deposited therein.
- 1.39 The programming of budgetary execution, and hence cash programming, are also at a very preliminary stage. In view of the responsibilities that Decree 1524/04 assigns to the governing authority (National Treasury) with respect to cash programming, it is essential to support the development of a programming methodology.
- 1.40 The most important improvements in terms of TN operations have concerned the management of public funds (income, payments, and bank account management); but system functions relating to the selection and confirmation of payments to final beneficiaries, through the single account by the institutions in question, still need further decentralization. An inventory of public sector current accounts has been performed, as a preliminary step in implementing the Single Treasury Account (CUT) envisaged in the National Treasury Law.
- 1.41 Preliminary diagnostic studies show that substantial funds arising from advances made by the National Treasury are being held by the institutions and not being used by them immediately. By placing such funds in the single account, it is hoped to strengthen the financial capacity of the TN, and at the same time minimize the cost of short-term borrowing needed to bridge the cash-flow gap and achieve better management of budgetary execution.
- 1.42 In view of the responsibilities that the new National Treasury Law gives to the governing authority, it is essential also to support its institutional strengthening, since the National Treasury does not currently have the administrative capacity needed to fulfill its legally assigned functions. The most important improvements in TN operations have concerned the management of public funds (income, payments, and bank account management). The financial programming and bank account management systems have not yet been developed.
- 1.43 **Government accounting.** The functional and information technology development of the central government accounting system is well advanced, and will soon be able to operate automatically, albeit with partial scope. Information from several financial management processes currently has to be entered manually.

- 1.44 The functional and information technology development of this system includes the expenditure execution and income and asset accounting modules (the latter was implemented experimentally in October 2005, with successful results). This module makes it possible to automatically generate double-entry items in asset accounts based on budget records, and to prepare and produce financial statements in the same way. Nonetheless, for the system to be able to generate central government entries and financial statements fully automatically, a number of aspects need to be improved, including: (i) the application of accounting events relating to expenditure execution (commitments, accrual, and payment), and income (accrual, and receipt), as indicated in the doctrine; (ii) automatically incorporate all movements in bank accounts operating outside the Treasury; (iii) eliminate the system of fund advances registered as an executed expense, or develop ad hoc processes; (iv) complete the integration link with SIGADE; (v) automatically incorporate information from external loan executing units (UEPEX); (vi) integrate information on accrued income from the Internal Revenue Department (DUI) and the General Customs Department (DGA); and (vii) automatically enter information from inventories of movable and immovable assets, along with their management and valuation.
- 1.45 **External Audits.** Under the Constitution and Law 10-04 of the Accounts Chamber (CC), external oversight of the use, management, and investment of public funds is the responsibility of the Chamber, which is a collegiate body with members appointed by the National Congress. This means that the CC acts as the Supreme Audit Institution (ISA), having the key function of performing external financial audits, management audits, studies and special investigations of organizations, entities, natural or legal persons, and other public or private bodies subject to Law 10-04. The CC is also competent to establish administrative and civil responsibilities, and identify evidence of criminal responsibility arising from civil service activity. In addition, the CC is serving as Supreme Administrative Tribunal until the law assigns this function to another agency, at which point it would become both prosecutor and judge.
- 1.46 Since 2004, the CC has been embarked on an extensive reform and strengthening process. This has included assigning a suitable building for it to fulfill its functions, increased staffing, additional human resource training, purchase of computer hardware, preparation of a strategic plan, and the development of audit standards and guidelines for applying the new audit methodologies and ethics code.
- 1.47 **Internal audit.** The new law on the CC (Law 10-04, article 7, paragraph 2) assigns responsibility for internal oversight to the Office of the Comptroller General (CG), even though it forms part of the system supervised by the CC. The CG is part of the Office of the President, and is now responsible only for the internal audit function. At the present time, there are internal audit units (UAI) in central government agencies, decentralized nonfinancial public bodies, and municipalities.
- 1.48 The CG fulfils its mandate through ex ante and ex post audits and reviews. Ex ante reviews (of all payments sent to the National Treasury) involve a process that is

gradually disappearing internationally, given the delays it causes and the fact that it tends to weaken subsequent audit functions. This ex ante review by the CG (through special audits of the accounting records of central government entities and organizations, municipios, town halls, decentralized and autonomous bodies, and any natural or legal person that manages public funds and assets) overlaps with the oversight functions performed by ONAPRES (expense by expense), generates additional procedures, and dilutes accountability.

- 1.49 Following approval of a new Internal Oversight Law (currently going through Congress) and the establishment of an internal oversight system in accordance with COSO (Treadway Commission) norms, the CG's structure and processes will need to be changed. The following will be necessary in this context: (i) establishment of technical standards for internal oversight applicable to the public sector as a whole; and (ii) strengthening of internal audit units (UAI).
- 1.50 **Government procurement.** Before the recently passed Law on Public Procurement of Goods, Works, Services and Concessions (Law 340-06), there were several different applicable laws and regulations and great uncertainty as to which would govern. The most salient aspect of that legal framework was the ample discretionality given to the executive branch to award contracts through the sole sourcing method known as "grado a grado." Since this was the norm for most procurements funded with national government resources, the current institutional environment reveals a low level of training among procurement staff, a lack of formal tools (manuals, guides, directives) and technologies, and a lack of internal controls and processes within institutions.
- 1.51 The new law establishes a single, uniform, modern legal framework for the entire public sector. Its purpose was to correct the shortcomings of the previous legal framework, incorporating best practices and bringing it into line with the international rules recently adopted by the country under DR-CAFTA, which includes a chapter on government procurement and contracting. Consequently, one of the main features of the new procurement system is the creation of an apex agency for the procurement system, the Procurement Rules and Policies Office, reporting to the Ministry of Finance. Its main functions are to implement and publicize the law and its implementing regulations, set policies for the procurement of goods and services, and assess their implementation within the framework of budgetary policy. Procurement units have also been set up to implement policy at all public-sector institutions.
- 1.52 The procurement system now faces the challenge of implementing and enforcing the new Law on Public Procurement of Goods, Works, Services and Concessions. In broad terms, this will involve the following actions: (i) establishment of the Procurement Rules and Policies Office as apex agency for the procurement system; (ii) establishment of procurement units at each public-sector institution covered by the law; (iii) formal job skills training for procurement staff; (iv) introduction of an

e-procurement system interconnected with the SIGEF integrated financial management system, the initial design of which was funded by PAFI I.

E. The Bank's country and sector strategy

- 1.53 The Bank's strategy with the Dominican Republic 2005-2008 (document GN-2379-1), approved in August 2005, has poverty reduction as its central aim. To achieve this, the Bank will support actions focused on three strategic pillars: (i) competitiveness—whose specific aim is to reduce critical barriers to sustainable growth; (ii) governance—the main objective of which is to improve the efficiency and transparency of public administration; and (iii) social—which aims to increase the efficiency of social spending.
- 1.54 This operation supports substantive actions in the framework of the governance pillar, by proposing initiatives aimed firstly at improving the efficiency and transparency of public administration; secondly, financing functional and information technology consolidation of SIGEF and its expansion to decentralized institutions; thirdly, implementing a procurement system that promotes access to information; and lastly supporting the production of an internal oversight structure capable of ensuring efficient governance. Within this context, this program (PAFI phase II) takes account of the fact that the administrative reforms proposed here need to be accompanied by approval of the new legal framework proposed by the government to Congress.
- 1.55 The Bank's country strategy (EBP-RD) proposes to support the legal and institutional consolidation of public financial management through this and other operations to strengthen the Internal Revenue Department (under preparation); the program to strengthen the national statistics system (approved 1676/OC-DR); the PRODEV initiative to strengthen STP planning and evaluation capacity; and a policy-based loan (PBL) for social sector management reform (loan DR-0150) that includes actions to enhance resource management in the social sectors. Taken together, these complementary operations provide real resources and incentives to achieve the intended result.
- 1.56 The PRODEV initiative,³ mentioned in the previous paragraph and also in preparation, is highly relevant in terms of its complementarity with the proposed operation, in that its objective is to support the government in its efforts to introduce management-for-results (MfR) in the Dominican Republic's public sector. This is closely tied to reforms of the planning, financial management, and human resources and materials management systems. Generally speaking, PRODEV support include: (a) conceptual and operational design of the MfR model; (b) strengthening of the lead agencies for MfR; (c) system for monitoring the impact of public management; (d) design of indicators and methods for project evaluation; and (e) introduction of MfR in the institutional setting.

³ Letter of agreement signed by the Governor of the Central Bank of the Dominican Republic and the President of the IDB at the Annual Meeting held in Okinawa, Japan, on 8 April 2005.

- 1.57 The Bank has played a key role in improving public administration in the Dominican Republic. Although the sector portfolio is very large, it has lacked a strategic focus on reforming an institutional structure that hinders the implementation of modern management methodologies, and has focused instead on implementing specific actions without an overview of the sector. Although this project has to operate in an institutional setting that is currently fragmented, it needs to be recognized that institutional/organizational reform of the sector is a basic condition to have a greater impact on sector development. The sequence of actions envisaged in the SBA requires the new legal and institutional framework to be fully operational in 2007.

F. The country's sector strategy

- 1.58 The country's strategy in the sector aims to consolidate macroeconomic stability and create conditions for sustainable growth in the medium term. The government's program seeks to restore fiscal discipline and financial stability, with an institutional strengthening component that addresses the priority issues of governance and transparency. The program's main elements are: (i) implementation of a macroeconomic policy that solidifies price stability and ensures sustained growth; (ii) a fiscal policy adjustment that improves the situation of public accounts, reduces public debt, and guarantees medium-term stability; (iii) a financing strategy that enables the public sector to maintain levels of liquidity that are consistent with a debt level that is sustainable in the medium-term; and (iv) institutional reform of public finances to improve fiscal policy design and execution.⁴
- 1.59 This program is set in the country's strategy since it focuses on the reform of public finance institutions, providing them with the conceptual and methodological framework and management tools needed to establish fiscal policies that are sustainable in the long-term.

G. Lessons learned

- 1.60 The Bank has accumulated vast experience in programs aimed at strengthening public resource management systems. An evaluation performed by Quasar Consultores (contracted by the Bank's Office of Evaluation and Oversight (OVE) (ATN/FG-8326-RG: *Evaluation of reform programs of financial administration*) reported the following findings: (i) the implementation of new information technology systems should be seen as a tool for achieving the final objectives of the project, and not as an end in itself; (ii) new computer systems do not in themselves resolve the problems of inefficient budgetary processes, and could even aggravate the most negative aspects of the system unless accompanied by other measures; and (iii) better results are achieved when implementing the basic system in central government than in its regional extensions; and the chances of

⁴ Dominican Republic - Memorandum of Economic and Financial Policies - Stand-by Arrangement with the IMF, January 2005.

success are greater when expansions to more decentralized domains are made using this basic central system as a benchmark.

- 1.61 The PAFI I program was conceived in a general way following these guidelines, although specific political-institutional aspects progressively distorted the project's strategy and action plan. The reform process thus moved ahead faster in the more technical aspects, while delays occurred in institutional restructuring: this resulted in significant progress in the development of computer systems (SIGEF), which were not matched by changes in organizational culture. In this context, the SEF and the Bank decided to restructure the project in mid-2002, to: (i) adjust the program to the country's legal and institutional reality; and (ii) make a conceptual analysis of the system which allowed for the systemization of processes, and had the capacity to incorporate methodological reforms based on best practices, despite the existing institutional and legal shortcomings. This process meant that some of the targets defined for PAFI I were not attained, while others, relating mainly to implementation of SIGEF, budget formulation and obtaining data on budgetary execution, were successfully achieved.
- 1.62 The aforementioned restructuring of PAFI I adopted a gradual strategy for implementing the SIGEF, consisting of: (i) defining the system's conceptual model; (ii) implementing firstly the basic financial management models, i.e. budget, public credit, treasury and accounting in central government; (iii) then extending SIGEF coverage and incorporating management through the implementation of connected systems and decentralized institutions; (iv) developing the legal framework based on practice; and (v) performing an analysis (in this case the CFA) to put the achievements and long-term view into perspective. The critical path defined thus involves completing the remaining modules, implementing related systems, and extending the system to the rest of the NFPS.
- 1.63 To judge by experience accumulated in PAFI I, changes (in both organizational and information technology aspects) are more likely to be successful when introduced at the start of the fiscal year; This avoids the coexistence of different systems and establishes a clearly defined cut-off.
- 1.64 A very important aspect—without doubt a lesson learned from PAFI I—concerns the role of awareness-raising tasks undertaken as part of the program, both at the senior staff level and among execution agents. As a result, institutional space has been generated for restructuring on two levels: in the case of senior staff, promoting the conviction that timely, consistent, and comprehensive information is a key input in the decision-making process. In the case of line staff linked to execution tasks, promoting the concept that the introduction of new working methodologies can result in more reliable processes, more transparent communications, and less bureaucracy.
- 1.65 In relation to the time frames for implementing the various aspects of the reform process, experience shows that significant progress can be achieved both in systems and in the management model, even if the process of approving new legal structures

has not been completed. In this regard, continuity in tasks is a sine qua non for obtaining results. The new regulation, meanwhile, ensures the sustainability of the changes implemented.

- 1.66 The achievements of PAFI I, and outstanding tasks, highlight the need to continue with the second stage to fulfill the development objectives. Changes in processes are essential in defining a system that can serve as a source of information to improve management capacity, the definition of targets, and impact measurement.

H. Coordination with other financing organizations and donors

- 1.67 The IMF and the Bank are coordinating closely on the development of the legal framework for financial management and tax reform; and the World Bank (WB) and IDB are collaborating on the national anticorruption strategy, preparation of the CFA, and financing for this operation.
- 1.68 The WB will fund a key component of the second phase of PAFI: namely asset management and the regulatory unit of procurement and contracting. The two banks are working together, have participated in joint missions, are using the same approval timetable, and will have the same executing unit for their operations.

II. THE PROGRAM

A. Objectives

- 2.1 The program's general objective is to improve the management of State resources, with the aim of using them more effectively and transparently and improving the effectiveness of governance.
- 2.2 The specific objectives are to: (i) strengthen the institutional capacity of the Ministry of Finance (SEF), to enable it to conduct fiscal policy and management, assume the new functions assigned to it in the legal reform process, and act as the governing authority of the financial management system; (ii) support SIGEF consolidation in central government, incorporating modules that have not yet been included, developing new processes that arise from the ongoing legal reform, and making SIGEF accessible through the Internet; (iii) support SIGEF expansion to the decentralized nonbusiness public sector, incorporating 30 decentralized or autonomous entities and four social security institutions; (iv) establish a government procurement system that ensures purchases are made on a timely basis, with economy, quality and transparency; and (v) implement an internal oversight system, and institutionally strengthen the CG to enable it to act as the governing authority of the system and effectively fulfill the other functions demanded of it by the new law.

B. Description

1. Component 1: Institutional strengthening of the Ministry of Finance:

- 2.3 This component aims to strengthen the institutional capacity of the Ministry of Finance (SEF) to enable it to conduct fiscal policy and management, assume the new functions assigned to it in the legal reform process, and act as governing authority of the financial management system. The Ministry of Finance recently issued Resolution 54-06, which approved the SEF Institutional Strengthening Program covering the activities and tasks to be undertaken within this component.
- 2.4 This component will finance the following activities: (a) restructuring of SEF central offices. The restructuring should take two factors into account: (i) proposals that have been prepared and are being implemented by the SEF as currently organized; and (ii) adjustments that will be necessary once the new organic Law of the Ministry of Finance is passed; (b) design and implementation of a fiscal statistics system; (c) organization and implementation of a fiscal policy analysis and design unit. This activity aims to strengthen SEF capacity to analyze the fiscal situation and formulate the respective policies; (d) institutional strengthening of governing authorities, including actions such as: (i) preparation of an institutional diagnostic; (ii) preparation of the internal regulation and organization manual; (iii) determination of its basic staffing and a job description manual; and (iv) reengineering of the SEF training center. As part of this activity, human resource training will be provided for personnel that participate in fiscal policy and management processes throughout the public sector.

2. Component 2: Consolidation of the reform of central government financial management

- 2.5 This component aims to support SIGEF consolidation in central government, incorporating modules that have not yet been included, developing new processes that arise from the ongoing legal reform, and implementing access to SIGEF over the Internet.
- 2.6 To underpin the institutional sustainability of the central SIGEF, this component will also support institutional strengthening in the governing authorities of the financial administration system. The following activities are planned for this purpose: (a) strengthening of the financial management departments (DAFs) of State ministries in all central government entities. Each DAF will coordinate its action with the SEF and with the governing authorities of the Integrated State Financial Management System; (b) development and implementation of the SIGEF interface with the human resources system; (c) development and implementation of the SIGEF interface with the public investment system; (d) information technology development and implementation of SIGEF in the UEPEXs; (e) adaptation of the budget module to the provisions of the new Budget Act; (f) adaptation of the public credit module to the provisions of Law 6-06 (which creates the Public Credit System); (g) adaptation of the treasury module to the provisions of the National Treasury Law (567-05); (h) SIGEF migration to the Internet. This activity aims to

make the Internet a SIGEF communication channel. This will allow for mass institutional access and a lower cost in respect of the frame relay service. This move to a Web system will require investments particularly in the security of the system, to ensure the integrity of the information contained in it; (i) adapting of the accounting module to the new legal framework.

3. Component 3. Development of the financial management system in decentralized and autonomous institutions

- 2.7 This component is central to the second phase of the reform program. Its purpose is to support the extension of SIGEF to the decentralized nonbusiness public sector, incorporating 30 decentralized or autonomous institutions and four social security institutions. The decentralized SIGEF will be developed on the basis of the functional and information technology structure of the central SIGEF. This means that processes relating to budgetary formulation, budgetary amendment, execution programming, budget execution, processing of payments, execution of the revenue budget, bank reconciliation and asset accounting, would serve as a basis for adapting to the needs of decentralized institutions. The same would happen with the related systems of purchasing and procurement, asset management, human resources and loan executing units.
- 2.8 The following activities will be funded: (a) development of the conceptual model of decentralized and autonomous institutions; (b) functional and information technology development of SIGEF for decentralized and autonomous institutions based on the central government SIGEF; (c) implementation of SIGEF in 30 decentralized and autonomous institutions and four public social security institutions; (d) provision of basic information technology infrastructure (hardware, software and connection services) and communications in decentralized institutions; and (e) training and skill development for staff in decentralized and autonomous institutions.

4. Component 4. Strengthening of procurement management

- 2.9 This component, developed in conjunction with the WB, aims to promote sustainable economy, efficiency, and transparency in government purchasing and procurement, through organizational strengthening and modernization of the operational instruments of the entities and institutions encompassed in the scope of the recently passed Law on Public Procurement of Goods, Works, Services and Concessions.
- 2.10 The World Bank will finance institutional strengthening and administrative development of the General Procurement Policies and Standards Department, which will serve as the governing authority for the procurement system for goods, services and concessions, pursuant to the aforementioned law.
- 2.11 Activities in this component involve: (a) development, implementation and extension of the procurement system, including modules for notifications, tenders and small procurements, and training in the use of the system; and (b) strengthening

of Institutional Procurement Offices (OCIs), including a diagnostic assessment and planning for restructuring of the institutional units in the system, a new structure to manage procurements in accordance with the needs of each institution, development of tools, manuals, and guides to internal procedures, along with procurement planning methodologies, and on-the-job training of staff at the institutions involved.

5. Component 5. Institutional strengthening of the Office of the Comptroller General and implementation of the internal oversight system

- 2.12 This component will implement an internal oversight system and provide institutional strengthening to the CG to enable it to act as the governing authority of the system, and to effectively fulfill its legal functions, to reasonably ensure that public resources are managed, used, and invested efficiently and transparently.
- 2.13 The following activities will be financed for this purpose: (a) Development of secondary or specific regulations based on the governing regulations and international auditing and oversight standards; (b) Definition and implementation of the organizational restructuring of the CG, to enable it to play its governing role in internal oversight; (c) Development of tools to evaluate the effectiveness of institutional internal oversight; (d) Implementation of internal oversight, internal audit, and the technical tools of internal auditing in pilot units; (e) dissemination and training of staff in the CG and other public bodies in the governing regulations and new procedures.

C. Cost and financing

- 2.14 The total cost of this program is US\$23.4 million, of which US\$21 million will be funded from the Bank's ordinary capital (OC), and US\$2.4 million in the form of local counterpart funding.
- 2.15 The country will use this counterpart funding to partly finance the Project Executing Unit. The Bank will finance international technical coordination, both conceptually and in terms of information technology. To supplement this funding, the World Bank will finance related activities up to US\$3 million, distributed between the purchasing and procurement component and the activity of identification and valuation of State assets, included in the central SIGEF strengthening component.

Table 2.1
Table of costs

Component and activity	Total	IDB	Local
<i>1. Institutional strengthening of the SEH</i>	1,997,400	1,492,200	505,200
Technical assistance	1,239,200	1,239,200	
Hardware and software	100,000	100,000	
Training	658,200	153,000	505,200
<i>2. Consolidation of central government financial management</i>	5,611,400	5,611,400	-
Technical assistance	4,752,400	4,752,400	
Hardware, communications	370,000	370,000	
Training	489,000	489,000	
<i>3. Decentralized SIGEF</i>	8,094,500	8,094,500	-
Technical assistance	4,993,600	4,993,600	
Hardware and software (licenses and communications)	2,368,900	2,368,900	
Training	732,000	732,000	
<i>4. Support for implementation of the national procurement system</i>	1,872,400	1,872,400	-
Technical assistance	962,400	962,400	
Hardware and software	300,000	300,000	
Training	610,000	610,000	
<i>5. Strengthening of the Office of the Comptroller General</i>	1,006,400	1,006,400	-
Technical assistance	716,400	716,400	
Training	290,000	290,000	
<i>7. Program coordination</i>	3,150,400	1,478,400	1,672,000
Technical assistance	2,750,400	1,478,400	1,272,000
Hardware	200,000		200,000
Training	200,000		200,000
<i>8. Monitoring and Evaluation (M & E)</i>	450,000	450,000	
Technical assistance	200,000	200,000	
Audit	150,000	150,000	
Evaluation (2)	100,000	100,000	
Subtotal	22,182,500	20,005,300	2,177,200
<i>8. Finance charges</i>	107,750	-	107,750
Credit fee	107,750		107,750
<i>9. Contingency</i>	1,109,750	994,700	115,050
Total	23,400,000	21,000,000	2,400,000

2.16 The amount given for consulting services with respect to the program total is in line with the experience of other sector operations with similar objectives in comparable contexts. This is valid specifically for financial management reform programs that finance integrated systems similar to SIGEF, fully designed, developed, and implemented by the governments. For example, the following programs that financed reforms and integrated financial management systems in our region had consulting services for technical assistance between 60% and 70% of the program

total: Honduras (IDB, HO-0208), Guatemala (World Bank, 23691-GU), Brazil (IDB, BR-0171 and BR-L1026) and Panama (IDB, PN-0147). About 50% of consulting services for technical assistance focus on implementation of the system at the beneficiary agencies and its expansion to the rest of the public sector. These implementation activities will place great emphasis on training in the workplace.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower in this program is the Dominican Republic. The executing agency will be the Ministry of Finance.

B. Program coordination and technical-administrative execution scheme

- 3.2 The program's executing agency will be the Ministry of Finance, acting through the Executing Unit (UE). The UE has been responsible for execution of PAFI I, through which it has gained six years' experience in reform of the management of public resources.
- 3.3 **Interagency Technical Committee:** The program will also have an Interagency Technical Committee (ITC) staffed by the Technical Secretary of the Office of the President, the Comptroller General and Minister of Finance, who will chair the committee. The ITC will also have a technical support committee comprising the apex agencies. The role of the ITC will be to monitor program activities in terms of predefined objectives. The UE will organize a meeting of the ITC every two months and will prepare a management report to be circulated to participants. The UE will prepare terms of reference for the ITC, specifically describing the committee's characteristics, its mode of operation, the structure of the reports to be submitted, the minutes to be signed, etc.
- 3.4 **Program Execution Unit:** The UE has a technical director (a high-level national consultant), with responsibility for ensuring the program's objectives are fulfilled and coordinating the project's administrative and technical aspects.
- 3.5 The director will be supported by two long-term international consultants. One of these will be responsible for the conceptual aspects of SIGEF expansion, while the other will be in charge of information technology aspects.
- 3.6 **Execution arrangements for Component 5: Institutional strengthening of the Office of the Comptroller General:** The Comptroller General of the Republic will be technically responsible for execution of this component. International experts and national consultants will be hired to support the CG in executing the technical aspects of this program. This team will be contracted by the UE, pursuant to Bank rules and in coordination with CG authorities.
- 3.7 The technical team will support the institution's professional staff in implementing the proposed improvements, and in strengthening internal audit units. The technical guidelines generated by this team will form the basis of UE contracting. The UE

will only provide technical assistance to the CG, and will not use resources from this operation to finance the running of the institution itself.

C. Program instruments and execution reports

- 3.8 **Operating Regulation.** The program's activities will be conducted under specific rules and procedures set out in its Operating Regulation. A condition precedent to the first disbursement requires the program's Operating Regulation to have been prepared and entered into effect on the terms previously agreed with the Bank.
- 3.9 **Program launch workshop.** Once the operation has been approved, a program launch workshop will be held, with participation from SEF and CG authorities, and IDB and World Bank staff, to ensure coordination of the first year's work program, by guaranteeing its coordination with the program funded by the World Bank, reviewing the logical framework, presenting and/or strengthening the Bank's procurement rules, and reviewing the Operating Regulation. The workshop will finalize the definition of a joint action plan; and its logical framework will be unified with the results matrix of the World Bank program, to provide a group of basic, intermediate, and final indicators for the entire fiscal management improvement program linked to the CFAA plan of action.
- 3.10 **Preparation and submission of program reports.** The UE will be responsible for preparing the following documents: Semiannual project progress reports; and annual work plans (AWPs).
- 3.11 At the end of the program, the Bank will produce a **Project Completion Report** (PCR) and hold a completion workshop, both of which will be organized and planned well in advance.
- 3.12 **Semiannual reports:** Following the signing of the loan contract, the UE will submit semiannual reports to the Bank, within 60 days following each calendar half-year, describing the status of activities in execution, according to the model and contents provided by the Bank in advance. The SEF and the Bank will agree upon a structure for the semiannual reports.
- 3.13 Within the month following the presentation of its reports, the UE will hold a meeting with the Bank to analyze them on the basis of the established indicators. If these meetings find that adjustments need to be made to the program, the UE will take appropriate steps to correct any shortcomings identified. For this purpose, within 60 days from the end of the meeting, it will present corrective measures to be implemented, and a timetable for implementation thereof, for the Bank's no objection. The Bank may refuse to authorize additional disbursements unless suitable adjustment measures are presented within the established period, or if these are not implemented as agreed.
- 3.14 Depending on the activity on which its report is based, the UE may send a copy to the various organizations participating in the program (ONAP, DAFs, ONAPLAN, ONAPRES, DGCP, TN, decentralized or autonomous participating institutions, State Reprovisioning Department, CG, etc.)

- 3.15 **Annual work plans (AWPs):** Project activities will be implemented according to an annual schedule set out in AWPs, containing details on each of the components. These will be agreed upon with the Bank in annual monitoring meetings. The first AWP will be presented as a condition precedent to the first disbursement, in accordance with the general rules of the loan contract. This AWP will be discussed and finessed in the program launch workshop.

D. Procurement mechanisms for works, goods, and services

- 3.16 **Contracting individual experts:** Steps will be taken to ensure that any consultants hired are specialists in issues pertaining to the post to be occupied or the service to be provided.
- 3.17 **General selection criteria for consulting firms and individual candidates.** Consultants or consulting firms will be contracted through a national or international competitive bidding system, pursuant to Bank rules. Consulting firms or individual consultants operating within the program will be selected by the UE pursuant to the terms of reference agreed upon with the Bank and based on the program's evaluation of the candidates.
- 3.18 **Procurement procedures:** Works and goods will be procured, and consultants selected and contracted, in accordance with Bank policies as set out in documents GN-2349-7 (Policies for the Procurement Of Works and Goods Financed by the IDB), and GN-2350-7 (Policies for Selection and Contracting of Consultants Financed by the IDB). International competitive bidding (ICB) will be mandatory for contracts with an estimated cost of US\$3 million or more for works and US\$250,000 or more for goods. International competitive bidding will be mandatory for consulting services over US\$200,000 equivalent. Local laws will govern the procurement of works, goods, and services of lesser value.
- 3.19 **The program Procurement Plan:** Works and goods will be procured, and consultants selected and contracted, in accordance with the program Procurement Plan prepared by the executing agency and approved by the Bank at the program launch workshop. Because the operation is a continuation of PAFI I, and individual consulting services have already been engaged to continue the work previously done by a consulted selected through a competitive process, direct contracting will be used for the consulting assignments listed in lines 31-41, 47-49, 52, 53, 58-62 of Table 4.1 of the program Procurement Plan, pursuant to the Bank's current policy on consulting services.

E. Execution period and disbursement timetable

- 3.20 This program's execution period will be 48 months, and the disbursement period will be 60 months, both running from the effective date of the loan contract. The table below shows the planned disbursement timetable, based on these periods.

Table 3.1 Disbursement timetable (in US\$ millions)						
Source of financing	Year 1	Year 2	Year 3	Year 4	Total	%
IDB	5.0	6.0	6.0	4.0	21.0	90
Local	0.4	0.8	0.8	0.4	2.4	10
TOTAL	5.4	6.8	6.8	4.4	23.4	100
%	23.0	29.1	29.1	18.8	100	

- 3.21 **Revolving fund.** The loan proceeds will be deposited in a separate SEF account at Banco de Reservas de la República Dominicana, opened specially and exclusively for program execution. In accordance with Bank policies, a revolving fund of up to 5% of the total loan amount is recommended. The executing agency will deliver semiannual status reports on the revolving fund within 60 days after the end of each semester.
- 3.22 **Audits.** During the program, the borrower will submit annual financial statements through the executing agency. External audits of the program will be performed by an independent audit firm acceptable to the Bank, in accordance with Bank policies using the guidelines established in the Terms of Reference for External Audits of IDB-Financed Projects (document AF-400). The firm will be selected and contracted using the procedures described in the Audit Bidding Document (document AF-200).
- 3.23 The external audit will cover financial and operational issues, and will require presentation of annual reports on the program's financial statements within 120 days following the end of each fiscal year. The final audited financial statements for the program will be submitted within 120 days after the last disbursement. Audit costs will be included in the program costs and financed with the Bank loan proceeds

F. Monitoring and evaluation

- 3.24 The SEF, acting through the UE, will submit semiannual reports to the Bank, beginning on the date the program is declared eligible for disbursements. The reports will cover progress in the AWP. The Bank and SEF will reach agreement on the structure for the semiannual reports. The program will be monitored by the Bank's Country Office in the Dominican Republic (COF/CDR), supported by RE2/SC2, on the basis of information contained in the AWP and the (semiannual) physical progress reports and annual financial reports received from the executing agency through the UE.
- 3.25 Starting in the first year of execution, annual monitoring meetings will be held between the Bank, the SEF, the CG, and the World Bank, to agree upon guidelines for interagency coordination in the following year and to review outcomes of the joint AWP for the year ended. These meetings will also review progress in terms of the results indicators set out and described in the program's results matrix, the

impact of actions undertaken, and the efficiency of the execution mechanism proposed here.

- 3.26 A midterm review and final evaluation of the program are also proposed, both funded with loan proceeds and agreed with the Government of the Dominican Republic. These will be based on the indicators and physical targets set out in the logical framework and agreed on at the program launch workshop. The SEF will keep the information up-to-date and will generate indicators regularly. The SEF, the IDB, and the World Bank will hold meetings to review the evaluations and agree on ways of implementing any recommendations that may come out of them.
- 3.27 The final program evaluation will: (i) verify the degree of compliance with program objectives and its components, to assess the overall progress of processes and systems achieved during the execution period; (ii) evaluate program design and execution, to identify lessons learned; and (iii) recommend actions to be taken, and design elements to be replicated or eliminated in other operations of this kind.

G. Recognition of expenditures

- 3.28 Because this project is a continuation of PAFI I, which completed execution in September 2005, the executing agency has requested that the Bank retroactively recognize a total of US\$1.8 million in expenditures on activities under the program prior to the start of execution on 1 January 2006.

H. Special contractual clauses

- 3.29 As a condition precedent to the first disbursement under the program, the Budget Act must have been enacted, and the program Operating Regulations must have entered into force. As a condition precedent to the internal oversight component, the new Law governing the Office of the Comptroller General of the Republic must have been enacted. The borrower will have up to one year to fulfill the conditions precedent, running from the date of loan approval by the Board of Executive Directors.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 The positive experience gained from PAFI (which is supported by IDB loan 1093/OC-DR) in both technical and political-institutional terms, underpins the feasibility of this program. The draft PCR for the PAFI stated that the operation had substantially fulfilled its objectives and targets, highlighting the capacity of the government and the executing unit to implement operations of this type. Although implementation of PAFI made faster progress in more technical aspects (while delays occurred in aspects of institutional restructuring), the capacity of the SEF to diagnose the necessary adjustments was verified as it redirected the program through the restructuring undertaken in 2002. This reflects the government's

determination to persevere with the reform process on a continuous and systematic basis.

- 4.2 The program's institutional feasibility is partly underpinned by the continuity of efforts made by the government in the reform process, and partly by changes introduced in the legislation. The approval and promulgation of legislation (whether completed or in process) guarantee the model's sustainability and legal certainty over time.
- 4.3 The decision to persevere with modernization of the management of public funds reflects one of the government's priority working guidelines, namely progressive reengineering of the SEF organizational model. In this context, the political authority has decided to promote the systemization, publicity, and transparency of processes, through an ambitious plan of institutional strengthening, technical upgrading, and implementation of management systems. DR-CAFTA, which has been in force since 1 July 2006, has acted as a trigger in this process.

B. Socioeconomic viability

- 4.4 By supporting processes that result in efficient and transparent management and administration of government programs—such as education and social investment—the program will promote democratic participation, efficiency and equity. Awareness-raising among civil servants participating in public fiscal management is a necessary condition to guarantee the institutionalization of a transparent public culture aimed at accountability, user satisfaction, and promotion of an efficient and open economy for business management. Consolidation of the process that has begun involves developing local capacity and raising awareness among civil society.
- 4.5 Implementation of a financial management system will raise levels of efficiency and transparency in the use of public resources and the funds available to the government. The development and implementation of programming and evaluation mechanisms, by preparing indicators, will make it possible to improve expenditure programming and measure its efficiency and coordination with medium and long-term objectives. In financial terms, the resources invested in better expenditure management and the elimination of unproductive expenses will create substantial savings; this will have a positive impact on public accounts and will also make it possible to produce more public goods.
- 4.6 Based on a review of the most recent execution records, it is clear that the budgetary execution process, while closely controlled by ONAPRES, does not necessarily follow its original plan, as shown by low expenditure in some ministries and substantially higher expenses in others. To give a specific example, the budgetary execution envisaged in education, health, public works, environment, and natural resources is reduced by an average of R\$8 billion during the fiscal year, while that of the STP increases by R\$10 billion. Variations in expenses show that what is planned at the central government level does not necessarily reflect what actually is spent. It is not reasonable to expect the budgetary analyst at the central

level to understand the daily operations of each executing ministry and each decentralized and autonomous body, with the level of detail needed to coordinate this with precision through the budgetary allocation process. Accordingly, the important operational decentralization process promoted by the program is bound to lead to more effective and efficient government management.

C. Financial viability

- 4.7 If the National Treasury implements a comprehensive system of payments through electronic bank transfers, as authorized by the new Treasury Law (approved on 13 December 2005), the government could reduce expenses currently incurred by the TN and the entities that make check payments, from between US\$1.25 and US\$5 per check to an average of US\$0.25 per payment. This would generate savings of up to US\$1 million per month or US\$12 million per year.
- 4.8 International experience suggests that a 15% saving could in average procurement costs be obtained through implementation of the procurement management strengthening component. Recently (August 2006) the Law on Public Procurement of Goods, Works, Services, and Concessions was passed, establishing a new regulatory framework for the organization of the system and, among other things, procedures for selection, evaluation, and bid awards for the various types contract it regulates.
- 4.9 Use of Banco de Reservas as financial agent to receive fiscal revenues and issue checks requires the TN to maintain 154 accounts with that bank. Moreover, the existence of over 5,000 bank accounts held by other government bodies requires a positive balance to be held in each one. This has an estimated annual cost of US\$3 million in terms of imputed interest, which can be reduced to zero when the government implements the Single Treasury Account system and improves procedures for planning and preparing cash-flow projections.

D. Benefits and beneficiaries

- 4.10 The main beneficiaries in the framework of PAFI II are the government (specifically SEF, TN, CC, CG and STP, which will have medium-term policy frameworks in place, together with expeditious administrative processes and reliable and timely information for decision-making); and civil society at large. Secondary beneficiaries include firms providing goods and services for the State, the financial system, and the Dominican Republic's trading partners.
- 4.11 The project's main long-term effects are expected to include: (i) less discretion in the allocation of public funds; (ii) more effective government action (measurable through the government effectiveness index, anticipated and realized budget, and relations between development goals and targets and public expenses incurred in accordance with the country's policy and the Bank's PRODEV development effectiveness program; (iii) transparency of processes, through an efficient internal oversight system and the publication of budget, financial, economic and debt

statements; (iv) increased fiscal discipline; and (v) greater accountability to the citizenry.

- 4.12 The program will consolidate and deepen the reform of fiscal management undertaken by the government in the first phase of the operation. With the legal and institutional reforms currently underway, the aim is to promote management effectiveness and efficiency and macroeconomic stability, enabling the country to resume a sustained growth path and implement the poverty reduction strategy.

E. Risks

- 4.13 The main risk for the program is a potential failure to pass the Budget Act, the Law on the Organization of the Ministry of Finance, the Law on the Office of the Comptroller General of the Republic, and the Law on the Integrated State Financial Management System, in that order of importance. To mitigate these risks, a set of draft laws on financial management have been prepared by PAFI with Bank support, drawing on experience gained from the modernization of financial management during a long consultation process. The SBA signed between the government and the IMF provides additional support for their approval. In addition, the approval of some of these laws is a precondition for funding disbursements in the affected components. The process of implementing these laws has begun with the promulgation of laws on public credit, treasury, government procurement and accounting, fiscal reform, and DR-CAFTA in December 2005.
- 4.14 Another potential risk stems from the fact that the institutional reforms being promoted both by PAFI and the legal framework could generate opposition from certain interest groups, particularly those who currently benefit from the discretion with which public finances have traditionally been managed in the country. To mitigate this risk, during the drafting of the laws a process has been set in motion to foster consensus for the reform among all the country's political, economic, and social sectors.

V. ENVIRONMENTAL IMPACT

- 5.1 No negative environmental or social impacts are expected from project execution.

**PROGRAM TO MODERNIZE PUBLIC RESOURCE MANAGEMENT
(DR-L1005)**

LOGICAL FRAMEWORK

Objectives	Verifiable indicators	Means of verification	Assumptions
Goal			
To help improve capacity and information for fiscal policy decision-making.	By the end of the project, the SEH to be conducting fiscal policy and determining budgetary policy annually, in the multi-year budget framework.	Government accountability report presented to the Congress of the Republic. Document setting out budgetary policy for 2010 and the multi-year budget.	Approval of all draft laws presented to Congress on financial planning and management. Political will to deepen and complete the fiscal management reform process.
Purpose			
To improve the management of State resources, with the aim of increasing the effectiveness and transparency with which they are used and make governance more effective.	By project end: The conduct of fiscal policy and management has been unified in the Ministry of Finance. 100% of central government income, expenditure and financing operations automatically captured by the SIGEF, with information on budgetary execution and financial and economic statements produced in real-time, fulfilling generally accepted accounting principles and standards (with fixed assets correctly valued). Baseline: 30% of central government transactions are captured by the SIGEF. 15% saving on central government purchases and procurement, processed through the new SIGEF purchasing, procurement and accounting modules.	Laws approved and published in the Official Gazette. Organization chart and operational manuals. SIGEF reports Annual government accountability report presented to the Congress of the Republic, in compliance with the articles 13 and 14 of Law 136-01 (Government Accounting). Semiannual evaluation reports of PAFI II Evaluation reports on the savings generated by the new system Publications on the SEH website	Permanent and sustained support for the financial management reform process by senior government managers and public finance management staff.

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>Baseline: No data available for quantification. The new system will make it possible to collect data.</p> <p>50% of the universe of institutions that manage public funds are audited annually, with reports available to the public. Baseline: 0%</p> <p>The provisions of Law 200-04, the General Law on Access to Public Information, are complied with, regarding publicity for public management and fiscal issues of public interest. Baseline: Currently, information is partial and not in real-time.</p>		
Components			
<p>1. Institutional strengthening of the Ministry of Finance.</p>	<p>By project end:</p> <p>New organizational structure and internal regulations have been introduced for 100% of planned management and technical jobs. 80% of personnel are in jobs consistent with their skills. The electronic document management system incorporates and tracks 90% of all documentation handled by SEF. Baseline: No study is available to quantify current conditions at SEF. No electronic document management system.</p>	<p>Quarterly statistics on income, expenditure and financing of the NFPS, available to analysts and social communications media, and published on the SEH website.</p> <p>Monthly reports analyzing the fiscal situation and policy proposals produced by the unit.</p> <p>Internal regulation and organizational manual of each agency.</p>	<p>The Congress of the Republic passes the Law on the Organization of the Ministry of Finance.</p> <p>The Ministry of Finance gives leadership and promotes the Ministry Institutional Strengthening Program (Resolution 54-06).</p>

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>The SEH periodically produces fiscal statistics on the nonfinancial public sector. Baseline: No area devoted to the preparation, update, and publication of fiscal statistics.</p> <p>The Fiscal Analysis and Policy Unit prepares monthly reports interpreting and evaluating accounting statements and fiscal statistics. Baseline: SEF has no technical unit specifically responsible for checking the consistency of data processed by the SIGEF system, for the purpose of fiscal analysis and corrective policy-making, or fiscal policy design. (0%)</p> <p>After two years:</p> <p>The central offices of the SEH have been restructured and provided with sufficient administrative capacity to fulfill their roles.</p> <p>The SEH produces and publishes central government fiscal statistics.</p> <p>The General Budget Department (DGP) has been brought under the jurisdiction of the Ministry of Finance.</p> <p>Training center operating and with capacity to implement the training required by the program.</p>	<p>Quarterly statistics on income, expenditure and financing of the central government, available to analysts and social communications media, and published on the SEH website.</p> <p>New organization chart</p> <p>Regulation and operating manuals of the training center.</p>	

Objectives	Verifiable indicators	Means of verification	Assumptions
2. Consolidation of the reform of central government financial management.	<p>By project end:</p> <p>100% of central government DAFs have been institutionally strengthened. Baseline: 0 DAFs strengthened.</p> <p>The SIGEF is stabilized and automatically processes 100% of central government income, expenditure and financing transactions, and produces accounting records and integrated financial statements (with fixed assets correctly valued). Baseline: No valuation of fixed assets; SIGEF automatically processes about 30% of the SPNF budget.</p> <p>After two years:</p> <p>The national budget includes at least 90% of income, expenditure and financing of each decentralized autonomous institution and social security institution, as well as the central government. Baseline: Only the central government is included.</p> <p>DAFs have been institutionally strengthened. in at least five ministries.</p> <p>All cash and bank operations automatically integrated into SIGEF, along with those pertaining to the central government procurement and contracting system.</p>	<p>Evaluation report of the institutional capacity of DAFs.</p> <p>Printing of web page corresponding to its publication, or copy of publications in graphical media.</p> <p>PAFI II report</p> <p>Annual Budget Law (Income Budget and Public Expenditure Law).</p> <p>Evaluation report on the institutional capacity of the five DAFs.</p> <p>Statements of budgetary execution and double entry records, as appropriate.</p> <p>Evaluation report on SIGEF integration and use by UEPEX.</p> <p>Statements of budgetary execution and double entry records, as appropriate.</p> <p>Evaluation report on integration of the public investment system with SIGEF.</p> <p>Report on movements and status of internal and external debt of the NFPS, available to analysts and social communications media, and published on the SEH website.</p> <p>PAFI II report certifying that the Treasury is not issuing checks for any type of payment.</p>	<p>Political will to deepen and expand the coverage of SIGEF within central government is maintained.</p> <p>Information on financial transactions is reliable.</p>

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>Installation of interfaces with human resource, investment and public debt systems completed and functioning efficiently.</p> <p>Report on movements and status of external and internal debt of the NFPS prepared and published on a quarterly basis.</p> <p>100% of payments made by the National Treasury are channeled through the Single Treasury Account via direct bank transfers to the payees (employee wages, suppliers, contractors, etc). Baseline: No Single Treasury Account, and an average of 750,000 checks are issued each month.</p> <p>All central government income, expenditure, and financing operations automatically generate their double entry record in asset accounts; and account books and comprehensive financial statements are also produced (albeit without valuation of physical assets).</p> <p>Training completed for all central government senior or technical staff involved in the reform of financial management or the SIGEF.</p>	<p>Reports of the central bank and Banco de Reservas on bank accounts held by central government bodies, and bank reconciliation statements prepared by the Treasury.</p> <p>Technical evaluation report on SIGEF integrity and its stabilization.</p> <p>Physical check of the day journal and control ledger.</p> <p>Monthly financial statements and of the latest year.</p> <p>CGR report</p> <p>Report of SEH Training Center</p>	

Objectives	Verifiable indicators	Means of verification	Assumptions
<p>3. Development of the financial management system in decentralized and autonomous institutions.</p>	<p>By project end:</p> <p>The SIGEF for IDAs is being applied in full (income, expenditure, and financing) and functioning effectively in 30 decentralized or autonomous institutions, and in four social security institutions; and automatically produces in real-time budgetary, financial and economic statements for each one. Baseline: 0%</p> <p>100% of management and line staff trained from Decentralized and autonomous institutions related to financial management. Baseline: 0 trained.</p> <p>After two years:</p> <p>Functional and information technology design has been completed for the decentralized and autonomous institutions.</p> <p>The detailed training plan has been designed for staff of decentralized and autonomous institutions.</p>	<p>Evaluation report on the results achieved.</p> <p>PAFI report</p> <p>Report of SEH Training Center</p> <p>Evaluation report on the functional and information technology design of SIGEF for IDAs.</p> <p>Report of SEH Training Center.</p>	<p>Top executives of the decentralized institutions reaffirm their decision to embark on institutional reforms in financial management.</p>
<p>4. Strengthening of purchasing and procurement management.</p>	<p>By project end:</p> <p>100% of central government purchases and procurement channeled through the electronic purchasing and procurement module developed in the framework of the new procurement law. Baseline: 0%</p>	<p>Evaluation reports on the application of the purchasing and procurement system within central government.</p> <p>Reports containing an evaluation of the administrative capacity of purchasing and procurement offices.</p>	<p>The government ratifies its decision to reform the management of purchasing and procurement, and promotes application of the law and its regulation.</p>

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>The necessary administrative capacity has been provided (human, physical, and technological resources) for all central government purchasing and procurement offices. Baseline: 0</p> <p>100% of staff with management or technical functions in central government purchasing and procurement offices have been trained. Baseline: 0</p> <p>After two years</p> <p>Purchasing and procurement module designed, for both functional and information technology procurements, adapted to the new Procurement Law, and implemented and operating for at least 50% of the respective transactions.</p> <p>Electronic purchasing system implemented and operating in five pilot central government institutions.</p> <p>50% of staff from central government purchasing and procurement offices trained to use the purchasing and procurement system.</p>	<p>Verification of websites.</p> <p>Report of SEF Training Center</p> <p>Evaluation report on the results achieved.</p> <p>Verification of websites.</p> <p>Report of SEF Training Center</p>	
<p>5. Institutional strengthening of the Office of the Comptroller General and implementation of the internal oversight system.</p>	<p>By project end:</p> <p>Secondary or specific regulations on internal oversight and audits issued in full and applied. Baseline: No regulations.</p>	<p>Administrative decisions approving the regulations and the evaluation report on their application.</p> <p>Internal audit reports produced.</p>	<p>The Congress of the Republic approves the draft Law on the Office of the Comptroller General of the Republic and internal oversight system.</p> <p>The Comptroller General gives</p>

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>Application of the internal oversight regulation in 100% of internal audits undertaken. Baseline: 0.</p> <p>All internal audit units of central government have been institutionally strengthened. Baseline: 0.</p> <p>Implementation of the internal oversight system, internal audits, and technological tools for internal audits in 10 ministries. Baseline: 0.</p> <p>After two years:</p> <p>Office of the Comptroller General of the Republic reorganized and institutionally strengthened to effectively fulfill its functions under the new law, in its capacity as governing authority of the internal oversight system.</p> <p>100% of staff trained to apply the new internal oversight regulations at the central level and in ministries (e.g. Internal Audit Units of the various ministries).</p>	<p>Report evaluating institutional capacity of UAIs.</p> <p>Report evaluating the effectiveness of institutional internal oversight.</p> <p>CGR internal regulation and organizational manual. Report evaluating the institutional capacity of the CG and staff in senior posts.</p> <p>Evaluation report from trainers on staff who attended the courses and/or training workshops.</p>	<p>leadership to the process of implementing the internal oversight system approved by the law.</p>
Activities			
1.1 Restructuring of the Ministry of Finance	<p>New administrative procedures designed and being applied.</p> <p>Organization manuals and regulations governing the administrative career in the Ministry prepared and being applied.</p>	<p>Procedural manual.</p> <p>Organizational manual and regulations of the administrative career</p>	

Objectives	Verifiable indicators	Means of verification	Assumptions
1.2 Design and implementation of the fiscal statistics module	Fiscal statistics unit operating at 80%, and statistics corresponding to the NFPS published on the SEF website.	Physical check Internet.	
1.3 Design and implementation of the Fiscal Analysis and Policy Unit	SEH Fiscal Analysis and Policy Unit created and at 80% administrative capacity, preparing monthly reports, interpreting and evaluating accounting statements and fiscal statistics, and where necessary giving guidance to corrective actions related to the area.	Reports of the Fiscal Analysis and Policies Unit	
1.4 Organization and strengthening of the SEF DAF	SEF DAF organized and functioning 100% as a pilot unit.	Physical check	
1.5 Creation of the SEF training center	Training center operating and academic programming developed. The training center has the necessary administrative capacity (80%, fully operating with curriculum approved and offering 20 training courses of at least 100 hours each). It has trained 120 central government employees and 150 from IDAs in the theory and practice of government financial management. Baseline: No (0%) program exists for the ongoing training and development of technical staff at SEF, the apex agencies, and agencies affected by the government financial management reform. No specialized training center has been established. (0%)	Physical check	

Objectives	Verifiable indicators	Means of verification	Assumptions
2.1 Asset management module	Central unit organized and operating regulations approved. Inventory of public sector assets (movable and immovable) performed and valued.	Physical check	
2.2 Strengthening of DAFs	Central government DAFs reorganized and trained for more effective management.	Physical check	
2.3 Human resource module	Financial monitoring of government staffing developed and operating.	Physical check	
2.4 SIGEF interface with the public investment module	Public investment module connected to SIGEF, facilitating policy coordination.	Physical check	
2.5 UEPEX module	External loan executing units on line with the central SIGEF, and able to fulfill their information obligations to the banks.	Physical check	
2.6 Budget module	Results-oriented budget prepared. ONAPRES reorganized, and regulatory framework of the system approved and being applied.	Budget	
2.7 Accounting module	DIGECOF submits central government financial statements following ISAB international accounting standards.	Financial statements	
2.8 Treasury module	TN reorganized in accordance with the new legal framework, and in a position to centralize public resources in the Single Treasury Account, perform financial programming, and manage public funds transparently and effectively.	Physical check	

Objectives	Verifiable indicators	Means of verification	Assumptions
2.9 Public Credit Module	The Public Credit Unit operates effectively for registration, programming and settlement of financial services in relation to public debt, negotiation and contracting of new loans, and the issuance and placement of securities.	Physical check	
2.10 ESIGEF and SEH portal	SIGEF migrated to the Internet, and the SEH portal periodically publishes fiscal statistics.	Web Publications	
3.1 Design of SIGEF model for decentralized institutions	Model for management and registration of operations for decentralized institutions designed.	Physical check	
3.2 Development of SIGEF model for decentralized institutions	SIGEF available in its version for decentralized institutions, having incorporated management of UEPEX, revenue, administration of assets and purchasing.	Physical check	
3.3 SIGEF implementation in decentralized institutions	40 institutions managing their budget with the SIGEF version for decentralized institutions.	Physical check	
3.4 Computer hardware	Hardware installed for SIGEF operation in decentralized institutions.	Physical check	
3.5 SIGEF software and services decentralized	Software, licenses, and connection points acquired or installed.	Physical check	
4.1 Strengthening of the governing authority	General Provisioning Department thoroughly fulfills its functions in the framework of the new law and corresponding regulation, managing the electronic procurement system and	Physical check	

Objectives	Verifiable indicators	Means of verification	Assumptions
	publishing the results of its activities in the central government procurement portal.		
4.2 Strengthening of the Procurement Offices	Procurement offices trained in the new procedures and applying rational and transparent criteria for the programming and execution of their activities.	Records of training courses	
5.1 Regulation of the new internal oversight law	Regulation prepared	Regulation	
5.2 Design and implementation of the new organization of the CGR	CGR reorganized to fulfill its role as the governing authority of central government internal oversight.	Physical check	
5.4 Strengthening of CGR regulatory and operational capacity	Office of the Comptroller General modernized and strengthened with administrative and regulatory capacities sufficient to comply with and enforce the new law.	Physical check Course records	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/06

Dominican Republic. Loan ___/OC-DR to the Dominican Republic
Program to Modernize Public Resource Management

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Dominican Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to modernize public resource management. Such financing will be for the amount of up to US\$21,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 200__)

LEG/OPR/RGII/IDBDOCS#812140
DR-L1005