

IMPLEMENTATION OF THE EXECUTIVE DIRECTORATE OF REVENUE (DEI)

(HO-0137)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Honduras

EXECUTING AGENCY: Ministry of Finance through the Dirección Ejecutiva de Ingresos (DEI) [Executive Directorate of Revenue]

AMOUNT AND SOURCE:

IDB (FSO):	US\$3,000,000
Local contribution:	US\$ 450,000
Total:	US\$3,450,000

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	40 years
Execution period:	36 months
Disbursement period:	40 months
Interest rate:	1% and 2%
Inspection and supervision:	1%
Credit fee:	0.5%

OBJECTIVES: The general objective consists in assisting the Government of Honduras to consolidate and continue the process of modernizing its tax administration. The intent is to also achieve the following specific objectives: (i) support the process of effective integration between the customs and domestic tax areas, with a new structure and the application of the DEI personnel rules; (ii) specifically strengthen the domestic taxation area; (iii) increase the professional and technical level of employees through permanent and specific training plans; (iv) promote an increase in collections equivalent to 2% of GDP; and (v) modernize the information technology equipment and applications and create the necessary communications infrastructure to optimize the use of the new technologies.

DESCRIPTION: The project will be executed in two phases. Upon completion of the first, the tax administration must be operating to the satisfaction of the authorities of the Finance Ministry and the Bank. The second will be conditional upon the results of the evaluation that will take place to determine satisfactory operations; specific indicators have been developed for this purpose (paragraph 3.3). The activities scheduled for the first phase cover all areas of administration: regulatory, organization,

training, management procedures, collections, audits, information technology and communications. It will have an estimated cost of US\$2.5 million.

The second phase, with a cost of US\$675,000 plus US\$229,000 for contingencies, proposes improving the taxation services, with particular emphasis on facilitating electronic access to tax and customs information.

**THE PROJECT'S ROLE
IN THE BANK'S
COUNTRY AND
SECTOR STRATEGY:** The Bank's latest country paper (GN-1876) specifies three primary areas of activity: 1) the development of human capital; 2) increased returns on investment (private and public); and 3) elimination of the financial restrictions on the State produced by the high fiscal deficit and high debt servicing costs. These areas continue to be valid and the proposed technical cooperation program falls fully within the third one insofar as it should contribute to reducing the fiscal deficit by improving tax collections.

**ENVIRONMENTAL AND
SOCIAL REVIEW:** The operation has no impact on the environment.

BENEFITS: The project will benefit both the government and the citizens, primarily in the following aspects: (i) effective integration of the management of domestic taxation and customs, which will allow improved use of human and material resources; (ii) consolidation of the achievements of the phases, including those preceding the reduction in the cost of fulfilling fiscal obligations by facilitating and providing incentives for voluntary compliance; and (iii) increase in the number of regular taxpayers.

RISKS: The greatest risk to the project's success would be for it to incur the same problems as the previous operation: deficiencies and delays in preparing the basic infrastructure needed for operation of the tax information system (TIS), insufficient transfer of knowledge to final users of the system and indecision on the part of the authorities in putting into practice the measures needed to promote the changes. As indicated in paragraph 1.9, the new authorities have resolved the infrastructure problems which delayed installation of the TIS, the DEI has participated actively in the design of this plan of operations, and it feels committed to it, and there is strong political support for the DEI and for this project. In order to reduce this risk as much as possible, the satisfactory application of the DEI personnel rules has been included as a condition precedent to the first disbursement; in addition, the

local contribution has been reduced and oriented toward more expedient project execution.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The first disbursement will be subject to fulfillment of the following conditions to the Bank's satisfaction: (i) appointment of the national cooperation coordinator; (ii) presentation of the draft agreement with the UNDP; and (iii) having satisfactorily initiated implementation of the DEI personnel rules (paragraph 3.19).

POVERTY-TARGETING: In accordance with documents GN-1916 and 1964-2, this operation is not poverty targeted.

**EXCEPTIONS TO
BANK POLICY:**

See the Procurement section below.

**PROCUREMENT OF
GOODS AND
SERVICES:**

Direct contracting from the United Nations Development Programme (UNDP) is recommended (paragraph 3.12), to undertake the engagement of consultants, procure equipment or engage in other required activities, for purposes of executing the program, in accordance with the Bank's procedures. Such contracting fulfills the stipulations set forth in chapter GS-403 of the Procurement Manual.

I. BACKGROUND INFORMATION

A. Tax administration

- 1.1 Tax administration in Honduras is the responsibility of the Executive Directorate of Revenue (DEI), which was created by Congressional Decree 159-94. The DEI is a decentralized agency of the Ministry of Finance with administrative, technical and financial autonomy for the administration of all government taxes. The DEI absorbed the previous General Tax and Customs Directorates, thereby initiating a reorganization of the tax administration as a whole. One of the basic objectives of the decree and an urgent requirement for proper operation of the DEI was that it be a "professionally staffed and technically organized revenue office."
- 1.2 However, the government has been slow to implement the measures contained in Decree 159-94. The shortfall in financial resources and the lack of coordination among the political authorities have prevented or impeded decision-making by the Ministry of Finance and the Executive Directorate of Revenue. Thus, for example, during the first two years the decree was in effect, only the DEI charter was approved, and a complete personnel evaluation was carried out, but decisions were not taken as to severance and dismissal of those who had not passed the tests. The new authorities have carried out those decisions, resulting in a 30% reduction in the number of DEI personnel (currently 1,500 employees). Annex II describes the DEI's situation in greater detail.

B. The tax system

- 1.3 The Honduran tax system consists of four main taxes, which apply to the income of individuals and companies, the sale of goods and certain services, foreign trade and the consumption of specific products. From 1992 to 1997 these taxes contributed an average of 94% of the government's tax revenue, as shown in the following table:

Percentage share of each tax						
	1992	1993	1994	1995	1996	1997
Income	28.64	27.09	24.72	30.30	27.51	29.03
Sales	16.57	18.84	18.72	19.50	22.49	25.59
Foreign trade	31.77	29.99	30.23	26.31	25.82	23.82
Specific consumption	17.61	16.92	19.57	18.33	18.48	15.78
Other	5.41	7.16	6.76	5.56	5.70	5.77
TOTAL	100	100	100	100	100	100

- 1.4 Although absolute collection amounts have grown since 1993, as illustrated in the following table, this nominal increase in collections did not keep pace with GDP growth. This performance would lead one to expect an increase in collections, without raising tax rates, by simply improving tax management. The government's macroeconomic policy has established a maximum tax burden equivalent to 18% of GDP that coincides with the target agreed upon with the International Monetary Fund.

Collections performance indicators (millions of lempiras)					
	1993	1994	1995	1996	1997
GDP	22689	28862	37532	47831	61445
Current revenues	3961	4709	6764	7989	10318
Tax burden	17.5%	16.3%	18.0%	16.7%	16.8%
Tax burden performance (1993=100)	100	93.5	110.5	92.7	100.5
Projection for 1998-2000			1998	1999	2000
Estimated GDP			73427	87745	104855
Revenues			12483	15355	18874
Tax burden			17.0%	17.5%	18.0%

C. Technical cooperation

- 1.5 Before the Executive Directorate of Revenue was established, the Tax Directorate, responsible for administering internal taxes, received support from the Bank through technical cooperation programs ATN/SF-3204-HO, ATN/JF-4172-HO and ATN/CI-4886-HO, for a total amount equivalent to US\$4 million. The most important output achieved through the support of the second and third technical cooperation projects was the design, development and partial implementation of a high-quality Tax Information System (TIS), with high yield potential in terms of broad control of compliance by taxpayers with their obligations, identification of fraud and wide support for tax administration management. The technical documentation for the operation contains an evaluation of the level of progress achieved on completion of the most recent cooperation project.
- 1.6 The Customs Directorate also received loan 899/SF-HO totaling US\$1.3 million which financed, among other activities, the development and adaptation of the information technology system for customs management, known by the acronym SIDUNEA. In May 1998, a new technical cooperation operation, ATN/SF-5969-HO, was approved to assist the government in modernizing customs.

D. Justification for the operation

- 1.7 During the programming mission held last June, the authorities reiterated their interest in the rapid processing of this operation, to which they have assigned high priority. At the same time, it was agreed that the content of the program profile would be expanded, with a view to including all the elements needed to place the tax administration under optimal conditions of fulfilling the objectives that have been assigned thereto. As a consequence the project team, along with the DEI authorities, designed a broad activity program with the requirements and strategy for its execution.
- 1.8 The new operation is justified for the following reasons: (i) the need to take advantage of the efforts and investment already made and to help the Government of Honduras to obtain the expected returns from the Tax Information System (TIS); (ii) the opportunity to support the government in obtaining the funding needed to finance its program and to reestablish budget equilibrium; (iii) the urgent need to assist an institution that is still too weak to address, on its own, all the activities that remained pending from the previous operation and to prevent the loss of the gains that have been made.
- 1.9 The government strongly supports this operation, which has helped in resolving of some difficulties that arose during the preceding technical cooperation operation. For example, the appointment of the executive director was not influenced by political criteria, infrastructure problems have been resolved which had delayed the installation of the TIS, the DEI has actively participated in preparing this plan of operations, to which it feels committed, and finally, there is strong political support for the DEI and this project.
- 1.10 The proposed operation will contribute to addressing the existing broadly-based social demand for improving tax administration as an option preferable to raising taxes. Along the same lines, on April 30, 1998 the National Congress adopted the law to promote production and competitiveness and to support human development. The law contains several tax-related measures directed toward increasing revenue and encouraging investments. For example, the sales tax was increased from the current 7% to 12%; the corporate income tax was reduced from 42% to 25%; during the 1998-1999 period, duties on raw materials will decline gradually from 5% to 1%; and the taxes on exports of certain products has been eliminated.
- 1.11 The program will be executed in two phases: the first will have as its primary objective the implementation of the new structure for the Executive Directorate of Revenue and its satisfactory startup; the second proposes the development of new systems for the receipt and disclosure of tax-related information through Internet and

Intranet networks and the introduction of new technologies in DEI operations.

E. The Bank's strategy

- 1.12 The Bank's most recent country paper (GN-1876) identifies three primary areas of activity: 1) the development of human capital; 2) increased return on investment (private and public); and 3) the elimination of the State's financial limitations produced by the high fiscal gap and the high cost of servicing the debt. These areas continue to be valid and the proposed technical cooperation program fits fully within the third group, insofar as it should contribute to reducing the tax deficit by improving tax collections.
- 1.13 The Bank is supporting strengthening and modernization processes relating to tax administration in 18 countries in the region. The results obtained vary from country to country, but in general, have involved decisive support for implementing the changes required by tax reform in the region and an increase in the efficiency required of services provided by the State.

II. OBJECTIVES

A. General objective

- 2.1 The general objective of the technical cooperation program consists in assisting the Government of Honduras to consolidate and continue the process of modernizing its tax administration.

B. Specific objectives

- 2.2 The specific objectives intended to be achieved through the proposed cooperation program are the following:
- a. Support a process of effective integration between the customs and domestic tax areas of the Executive Directorate of Revenue through implementation of the new organizational structure and application of the DEI's personnel rules;
 - b. Strengthen tax management as a whole but with particular emphasis on domestic taxes;
 - c. Raise the professional and technical level of tax administration personnel through permanent and specific training plans;
 - d. Promote increased tax collections equivalent to 18% of GDP;
 - e. Modernize the information technology equipment and applications for the processing of tax information to the benefit of taxpayers, and create the communications infrastructure needed to optimize use of the new technologies.

III. PROGRAM DESCRIPTION

A. Strategy

- 3.1 Execution of the most recent technical cooperation operation was subject to certain deficiencies which have limited its impact on the country's tax administration. Based on that experience, the program was divided into two staggered phases, so as to be able to assist the authorities in addressing situations that occurred during the previous operation. Upon completion of the first phase, the tax administration must be operating to the satisfaction of Finance Ministry authorities and the Bank. To this end, an evaluation would be carried out, the positive results of which would be a prerequisite for initiating the second phase. Following is a description of the contents of each phase, the activities, the necessary resources, the duration and the indicators to be taken into consideration in carrying out the evaluation.

1. Phase one (US\$2,526,000)

- 3.2 The first phase will have a duration of approximately 28 months and aims to achieve the specific objectives described in sections a), b), c), and d), relating to the efficient operation of the country's tax administration. The principal activities that will be carried out in this phase will be grouped in the following areas:
- a. Regulatory: preparing draft amendments to tax laws, and drafting the general administration, collections and compliance monitoring procedures and the corresponding manuals;
 - b. Organization: preparing the DEI strategic plan for 1998-2000, with the corresponding operating plans for the functional areas; clearly defining the organization, functions, and responsibilities of each administrative unit within the DEI; implementing the DEI personnel rules (compensation, hiring and ethics);
 - c. Training: expanding, improving and strengthening the training offered by the Tax Training School (ENCAT); a joint training program will be established with the National Autonomous University of Honduras (UNAH) and courses will be taught for the ongoing training of current and new employees; special programs will focus on trainer training.
 - d. Management: updating the migration of data pending validation, implementing the resolutions needed to obtain the information from third parties with regard to tax liabilities, and developing tax communications, awareness and education

campaigns directed to all of Honduran society and DEI employees;

- e. Collections: agreeing on and implementing a new accord with the banks for collecting taxes in such a way as to protect fiscal interests and to facilitate the management of tax administration; establishing the procedure for acting in the case of delinquent withholdings;
- f. Compliance monitoring: reorganizing the auditing departments, providing basic and specialized training to audit employees, training them in the intensive use of the TIS for both preparing and executing compliance monitoring plans;
- g. Information technology and communications: completing development of the applications pending in the TIS, optimizing its software, providing the equipment and implementing the system in the regional and local offices; establishing the necessary connections for optimal use of TIS and customs system (SIDUNEA) information using the private ADUANETT¹ network and improving the security of both.

3.3 Upon completion of the first phase, the following goals must have been achieved:

GOALS	MEANS OF VERIFICATION
The TIS has been fully developed and implemented in all tax offices	Visits to the offices by sampling
The general management, collections and compliance monitoring procedures and the corresponding user manuals shall have been prepared, approved and implemented	Publication in the Gazette
All DEI personnel have been trained in the essentials of basic tax skills and the management model.	Diplomas, evaluation by sampling and auditing of expenses
Late and delinquent taxpayers will be required to fulfill their obligations on a timely basis.	Review of communications sent and their results
Effective actions are taken to collect additional payments (parallel and "shadow")	Review of notifications and their results
A complete national compliance monitoring plan has been prepared and executed during the most recent fiscal year.	Presentation and evaluation of the plan and its results
Satisfactory results are obtained in evaluating the use of the TIS at the central and regional levels.	Sampling by offices
Collections have increased to 18% of GDP.	National accounts

¹ Honduras Customs Agents Federation Network.

2. Phase two (US\$675,000)

- 3.4 The second phase of the program, with an estimated duration of eight months, has two main purposes: (i) to consolidate and maintain the advances made during the first phase and improved tax services, with special emphasis on facilitating electronic access to tax and customs information as a means of increasing the level of voluntary compliance and reducing the taxpayers' cost of complying to which specific objective (e) refers; (ii) to promote the development and timely fulfillment of the targets established in phase one. The specific activities of the second stage will be defined in the final progress report of the first stage, and will be analyzed and approved during the evaluation of that first stage.

B. Execution

- 3.5 The Ministry of Finance will be responsible for executing the project through the Executive Directorate of Revenue (DEI). Given the latter's institutional weakness, the project team proposes hiring the services of the Office of Project Services of the United Nations Development Programme (UNDP/OSP) to assist the DEI in executing the project. The UNDP/OSP tasks will be established by agreement to be signed between the Executive Directorate of Revenue and the UNDP/OSP within 30 days after the contract goes into effect.
- 3.6 A steering committee will be created that will be comprised of the executive director, the deputy director, a representative of the Ministry of Finance, the tax and administration division heads, the national coordinator and a UNDP representative. The committee will meet every two months to address the monitoring and evaluation tasks, although the executive director has the authority to call other meetings.
- 3.7 The DEI will appoint a group of employees which, together with the consultants and under the direction of the (national) coordinator for the technical cooperation operation, will be responsible for establishing within the DEI the tax management model and the Tax Information System (TIS) developed with the assistance of the prior technical cooperation operations.
- 3.8 The Bank's Country Office will appoint a specialist to monitor execution of the project. Project monitoring is expected to require a total of four weeks per year from the specialist. In addition, three weeks of a tax specialist's time (INT/FIS) will be required to monitor and provide technical support to the operation.

C. Procurement of goods and services

- 3.9 For the procurement of goods and services and the contracting of consulting services Bank procedures will be followed; international competitive bidding will be required for procurements valued in

excess of US\$250,000 for goods, and US\$200,000 for consulting services.

- 3.10 Execution of the activities described in the above paragraphs will be supported by local and international consulting services. The engagement of three long-term and four short-term international consultants has been provided for pursuant to the terms of reference included in the technical file.
- 3.11 The DEI has requested the contracting, without competition, of the United Nations Development Programme (UNDP/OSP) in the capacity of purchasing agent, which shall be responsible for preparing and processing the procurement of goods and engaging the individual consultants identified by the project technical management. The compensation to be paid to the UNDP for the services will be approximately US\$85,000, charged to the local contribution.
- 3.12 The Bank's contracting policies allow the contracting of specialized agencies or consulting firms without competition when there is an institutional or technical comparative advantage. The project team supports the authorities' request, since the DEI has not yet achieved a sufficient level to carry out these activities on its own, and the UNDP has the following institutional advantages (document GS-403 of the procurement manual): (i) a good working relationship with the Government of Honduras, with which it signed an agreement in 1995 that includes, among other items, technical assistance in the execution of institutional support programs; (ii) the ability to effectively coordinate several individual specialists and prepare specialized consolidated reports; (iii) the ability to offer ongoing support after project execution, by virtue of the aforementioned agreement with the Government of Honduras; (iv) the ability to assist the borrower in administering and fulfilling the clauses agreed to in the loan contracts or technical cooperation agreements; (v) the ability to expedite project execution and funds disbursement; (vi) access to a list of qualified consultants, as well as an effective and efficient contracting mechanism; (vii) an efficient administrative support system to be able to ensure quality control during performance of the consulting services; and (viii) satisfactory evaluations of its previous work.
- 3.13 Computer equipment and software will be acquired with the loan proceeds, in order to: (i) install the TIS at all tax offices in the country (three regional and eight local); (ii) provide the necessary equipment to the employees and automate the technical and administrative management of the DEI; (iii) increase central computer capacity and install peripheral servers to ensure operation of the decentralized offices.

D. Social and environmental impact

- 3.14 The Committee on Environment and Social Impact (CESI) met on August 28, 1998. Project ATN/SF-5969-HO, aimed at the customs area of the Executive Directorate of Revenue Office incorporated CESI's recommendation that funding and terms of reference be provided for a consulting firm to review current regulations relating to the entry and exit of toxic products, hazardous materials, species threatened with extinction and archaeological artifacts.

E. Project reports and monitoring

- 3.15 The national coordinator will submit the following reports to the steering committee: (i) an initial report, within 30 days after engaging a tax administration expert, which will contain the work plan and schedule for the first six months of execution; (ii) semiannual progress reports 15 days after the end of each period, using the indicators that have to be attained by the end of the first phase, where applicable; (iii) a final report, within one month after the end of the execution period, which will summarize the activities carried out with project support, the impact and the results achieved with respect to the proposed objectives. The reports, once approved by the steering committee, will be submitted for the Bank's approval.
- 3.16 The executing agency will submit financial reports to the Bank for the annual periods in which expenses were incurred and charged against loan resources. Such reports will be presented within 120 days of the end of each year of execution, having been audited by an independent auditing firm acceptable to the Bank.

F. Program cost

- 3.17 The total project cost will be US\$3.45 million, of which the Bank will provide the equivalent of US\$3 million from the Fund for Special Operations (FSO). The remainder, the equivalent of US\$450,000, will be the local contribution.

CONSOLIDATED BUDGET (US\$)			
CATEGORIES	BANK CONTRIBUTION (FSO)	GOVERNMENT CONTRIBUTION	TOTAL
Consulting	1,038,000	62,000	1,100,000
Procurement agency		80,000	80,000
Training	150,000		150,000
Equipment	826,000	85,000	911,000
General Support		95,000	95,000
Publications	170,000		170,000
Total First Phase	2,204,000	322,000	2,526,000
Consulting	200,000		200,000
Equipment	400,000	75,000	475,000
Total Second Phase	600,000	75,000	675,000
Financial Costs	30,000	15,000	45,000
Contingencies	186,000	43,000	229,000
TOTAL	3,000,000	450,000	3,450,000

3.18 The source of the Bank's funds will be the Fund for Special Operations. The terms and conditions of this operation, according to current provisions, will be the following:

- a. Guarantee: general responsibility of the borrower.
- b. Credit fee: 0.50% per year on the undisbursed portion of the financing. This fee will begin to accrue 12 months after the date of the Board of Executive Directors' resolution and will be paid in U.S. dollars on the same dates as the interest.
- c. Amortization and grace period: The borrower will amortize the loan within a period of 40 years, including a 10-year grace period, counting from the date of the contract, in semiannual installments. The first of these installments will be paid 10 ½ years from the date of the loan contract.
- d. Interest: The interest rate will be 1% during the grace period and 2% thereafter.
- e. Disbursement: The period for disbursement of the financing resources will expire after 40 months, as of the date of entry into force of the contract. In this operation, disbursements will be made in the form of advances of up to 5% of the approved amount.

- 3.19 The first disbursement will be subject to the executing agency's fulfillment of the following conditions to the Bank's satisfaction:
- (i) having appointed a national coordinator;
 - (ii) having submitted, together with the UNDP, a draft contract acceptable to the Bank;
 - and (iii) having established the DEI personnel rules and initiated their implementation in a satisfactory fashion.

IV. BENEFITS AND RISKS

- 4.1 The project will benefit both the government and the citizens, primarily in the following aspects: (i) effective integration of the management of domestic taxation and customs, which will allow improved use of human and material resources; (ii) consolidation of the achievements of prior phases, including reduction in the cost of fulfilling fiscal obligations by facilitating and providing incentives for voluntary compliance; and (iii) increase in the number of regular taxpayers.
- 4.2 The greatest risk to the project's success is the occurrence of the same limitations as in the previous operation: deficiencies and delays in the preparation of the basic infrastructure needed for operating the TIS, insufficient transfer of knowledge to final users of the system, and indecision on the part of the authorities to implement the measures needed to promote change. As indicated in paragraph 1.9, the new authorities have resolved the infrastructure problems which delayed installation of the TIS, the DEI has actively participated in designing this plan of operations, to which it feels committed, and, in short, there is strong political support for the DEI and this project. In addition, in order to reduce such risks as could arise from a failure to motivate DEI employees, a condition precedent to the first disbursement has been included to the effect that the application of the DEI personnel rules will have been initiated satisfactorily. The local contribution has also been reduced and targeted with a view to more expedient project execution.

V. EVALUATION

- 5.1 The Bank, along with the executing agency, will carry out one midterm and one final evaluation; the main sources of information will be periodic reports approved by the steering committee and the Bank, in addition to field inspections, by sampling.
- 5.2 The evaluation carried out upon completion of the first phase of execution will include independent evaluators who will assess in particular fulfillment of the indicators established as a condition precedent to moving on to the second phase.
- 5.3 Within six months after the end of the execution, a final evaluation will be carried out, analyzing the impact of this operation and the preceding ones with a view to determining the level achieved by the tax and customs administration as a whole, and the quality of services they provide in the opinion of users and taxpayers.

**IMPLEMENTATION OF THE EXECUTIVE DIRECTORATE OF REVENUE (DEI)
LOGICAL FRAMEWORK MATRIX (HO-0137)**

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>GOAL</p> <p>Provide the government with a higher volume of resources to ensure fiscal equilibrium using tools already developed in previous cooperation projects.</p>	<p>Increase collections by two percentage points of GDP by the end of the first phase.</p> <p>Sustained results as of the end of the second phase.</p>	<p>National accounts.</p>	<p>Economic trends do not change the current customs and trade policy.</p>
<p>PURPOSE</p> <ol style="list-style-type: none"> 1) Integrate the tax and customs administrations into a single efficient entity (DEI) 2) Implement the new tax management model based on the Tax Information System (TIS) 3) Develop the National Tax Training School (ENCAT) and improve the DEI's technical level 	<p>Implementation of the DEI personnel rules;</p> <p>Publication of the new management procedures and effective repeal of the former ones;</p> <p>Training courses offered and number of employees trained.</p>	<p>Auditing of the contracting and career systems, budget execution;</p> <p>Selective evaluation of the procedures in a sampling of offices;</p> <p>Diplomas, evaluation by sampling and expense audit.</p>	<p>Continued government commitment to strengthen and support the Executive Revenue Office and to insulate it from political interference.</p>
<p>COMPONENTS</p> <ol style="list-style-type: none"> 1) New organization of the DEI. 2) Complete development and implementation of the TIS throughout the country. 3) Optimization and connection of information technology systems in integrated communications networks. 4) Professionalization of DEI personnel. 	<p>The DEI will have a more flexible structure that consolidates domestic taxes and customs at the central level.</p> <p>At all tax offices, activities will be carried out in accordance with the new model and using the TIS.</p> <p>There is no hiring for political reasons.</p>	<p>Review of the DEI structure.</p> <p>Evaluation and audit at selected tax offices.</p> <p>Selection methods effectively applied to DEI personnel (evaluations carried out).</p>	<p>The Government maintains its commitment to support the DEI and to prevent politicization of its personnel.</p>

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES	<u>Estimated cost of activities</u> (US\$):	Accounting evidence from the executing agency and procurement agency.	The executing agency and procurement agency (UNDP) process the procurement of goods and services charged to the loan resources in a timely fashion.
1) Hiring of consulting services;	1) 777,000		
2) 1998-2000 DEI strategic plan	2) 96,000		
3) Procurement of computer equipment;	3) 911,000		
4) Migrate to version 3.0 of SIDUNEA;	4) 165,000		
5) Strengthen and expand the current National Tax Training School (ENCAT);	5) 328,000		
6) Develop tax communications and training campaigns.	6) 170,000		
	7) Other 99,000		
	Second phase 675,000		
	Contingencies 229,000		
	<u>TOTAL</u> 3,450,000		

PROCUREMENT PLAN (HO-0137)

MAIN PROGRAM PROCUREMENTS	FINANCING %		METHOD <u>1</u> /	PREQUALIFICATION	ESTIMATED PUBLICA
	IDB	LOCAL			YE
Services:					
Long-term and four short-term international consultants for a total value of US\$474,000; only one of them will be for more than US\$100,000 and all the rest for less than US\$100,000.	100%		DC		1999
Domestic consultants will total US\$220,000.	78%	22%	DC		1999
Equipment and training:					
Equipment:					
Work servers (20 at US\$5,000 and 2 at US\$20,000) 140,000	100%		LOCP		1999
For the regions and Internet 56,000	100%		DC		2000
Printers (average US\$1,200) 175,000	100%		LOCP		1999
Computers (US\$1,500): 450,000	100%		IB		1999
(US\$3,000) 90,000		100%	DC		2000
Equipment:					
Audio equipment: 17,000	100%		DC		1999
Oracle license and developer) 300,000	100%		DC		2000

Contracting after three bids have been presented, LOCP: local open call for proposals; IB, international bidding.

PROPOSED RESOLUTION

HONDURAS. TECHNICAL COOPERATION LOAN TO THE REPUBLIC OF HONDURAS
(Establishment of the Executive Revenue Office)

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary with the Republic of Honduras and to adopt such measures as may be pertinent for the execution of the plan of operations with respect to a Technical Cooperation Loan for the Establishment of the Executive Revenue Office, referred to in Document AT-_____.
2. That up to the sum of US\$3,000,000, is authorized for the purposes of this resolution, chargeable to the resources of the Fund for Special Operations.
3. That the above-mentioned sum is to be provided on a reimbursable basis.