



# Board of Executive Directors

## Simplified Procedure

On or after 6 May 2015

PR-4277  
21 April 2015  
Original: Spanish  
Public  
**Simultaneous Disclosure**

**To:** The Executive Directors  
**From:** The Secretary  
**Subject:** Dominican Republic. Proposal for a loan for the project “Modernization of the Dominican Republic’s Budget and Financial Management”

**Basic Information:** Loan type .....Specific Investment Operation (ESP)  
Borrower ..... Dominican Republic  
Amount ..... up to US\$25,000,000  
Source ..... Ordinary Capital

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**Remarks:** Management has determined that this loan proposal meets the requirements for presentation by Simplified Procedure, in accordance with Part III, Section 2 (paragraph 3.29(b)) of the Regulations of the Board of Executive Directors and document GN-1838-1, paragraph 2.

**Reference:** GN-1838-1(7/94), DR-398-17(1/15), GN-2805(3/15), PR-3466(10/09), DE-164/09



**PUBLIC**  
**SIMULTANEOUS DISCLOSURE**

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK**

**DOMINICAN REPUBLIC**

**MODERNIZATION OF THE DOMINICAN REPUBLIC'S BUDGET AND  
FINANCIAL MANAGEMENT**

**(DR-L1070)**

**LOAN PROPOSAL**

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This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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ELECTRONIC LINKS
<p><b>REQUIRED</b></p> <ol style="list-style-type: none"> <li>1. Multiyear execution plan and annual work plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049427">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049427</a></li> <li>2. Procurement plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39583086">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39583086</a></li> <li>3. Monitoring and evaluation plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049431">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049431</a></li> </ol> <p><b>OPTIONAL</b></p> <ol style="list-style-type: none"> <li>1. Economic analysis <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049423">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049423</a></li> <li>2. Matrix of problems, solutions, and results <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049425">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049425</a></li> <li>3. Results of the workshop for all stakeholders on application of the risk analysis methodology <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049409">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049409</a></li> <li>4. Technological and effort assessment for updating the Dominican Republic's public finance management systems <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049703">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049703</a></li> <li>5. Study on an institutional structure to guarantee the continuity of SIAFE and SIGEF in the Ministry of Finance <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049655">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39049655</a></li> <li>6. Letter of request <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39338283">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39338283</a></li> <li>7. Safeguard Screening Form and Safeguard Policy Filter <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38781340">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38781340</a></li> </ol>

## ABBREVIATIONS

CGR	Contraloría General de la República Dominicana [Office of the Comptroller General of the Republic]
CUT	Cuenta Única del Tesoro [Treasury Single Account]
END	Estrategia Nacional de Desarrollo [National Development Strategy]
IRR	Internal rate of return
IT	Information technology
MSMEs	Micro, small, and medium-sized enterprises
MTFF	Medium-term fiscal framework
NPV	Net present value
OEL	Optional electronic link
PCU	Program coordination unit
PAFI	Integrated Financial Administration Program
PEFA	Public Expenditure and Financial Accountability
PMR	Progress monitoring report
POM	Program operations manual
REL	Required electronic link
RUTA	Sistema de Gestión del Plan Nacional Plurianual del Sector Público [public sector multiyear national plan management system]
SASP	Sistema de Administración de los Servidores Públicos [civil servant administration system]
SIAFE	Sistema Integrado de Administración Financiera del Estado [government integrated financial administration system]
SIGADE	Sistema de Gestión y Análisis de la Deuda [debt management and analysis system]
SIGEF	Sistema Integrado de Gestión Financiera [integrated financial management system]
SNIP	Sistema Nacional de Inversión Pública [national public investment system]
UEPEX	Módulo para las Unidades Ejecutoras de Proyectos con Financiamiento Externo [module for executing units of externally funded projects]

## PROJECT SUMMARY

### DOMINICAN REPUBLIC MODERNIZATION OF THE DOMINICAN REPUBLIC'S BUDGET AND FINANCIAL MANAGEMENT (DR-L1070)

Financial Terms and Conditions				
<b>Borrower:</b> Dominican Republic			<b>Flexible financing facility*</b>	
			<b>Amortization period:</b>	19.8 years
<b>Executing agency:</b> Ministry of Finance			<b>Original weighted average life (WAL):</b>	15.0 years
			<b>Disbursement period:</b>	5 years**
			<b>Grace period:</b>	5.25 years
<b>Source</b>	<b>Amount</b>	<b>%</b>	<b>Inspection and supervision fee:</b>	***
IDB (Ordinary Capital):	US\$25 million	83.3	<b>Interest rate:</b>	LIBOR
Local:	US\$5 million	16.7	<b>Credit fee:</b>	***
<b>Total:</b>	<b>US\$30 million</b>	<b>100</b>	<b>Currency:</b>	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance				
<b>Program objective.</b> The objective is to strengthen central government planning and management of public finances by: (i) improving the medium-term fiscal framework as a means of enhancing the public sector's budget planning, monitoring, and evaluation processes; (ii) modernizing procedures and systems that support public resource management; and (iii) institutionalizing the government's integrated financial administration system (paragraph 1.17).				
<b>Special condition precedent to the first disbursement.</b> Approval and entry into force of the program operations manual agreed upon in advance by the borrower and the Bank, which will include program activities and the timetable for the Ministry of Finance to assimilate the structure of the Program to Modernize Public Resource Management (paragraph 3.4).				
<b>Special contractual condition.</b> This financing may be included in the Automatic Redirection List of the Contingent Loan for Natural Disaster Emergencies (DR-X1003) (paragraph 2.1).				
<b>Exceptions to Bank policies:</b> None				
<b>Project qualifies as:</b>	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ] Headcount [ ]

\* Under the terms of the Flexible Financing Facility (FN-655-1), borrowers have the option of requesting changes in the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

\*\* The original WAL of the loan may be shorter, depending on the effective signature date of the loan contract.

\*\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems, and rationale

- 1.1 **Macroeconomic context.** The Dominican Republic's economy has performed strongly in the last four years (Table 1, line 1.1).<sup>1</sup> In 2013, real gross domestic product (GDP) grew by 4.1% and inflation continued to hold at the 2012 level of 3.9% (Table 1, line 1.3), which is below the target range set by the Dominican Republic's Central Bank (5% +/-1%). The medium-term growth outlook is favorable overall.
- 1.2 **Fiscal considerations.** Economic growth has been accompanied by a sustained imbalance in the fiscal accounts. The large increase in the fiscal deficit in 2012 was partly reversed in 2013 (Table 1, line 2.3), falling by nearly three percentage points of GDP on account of lower investment expenditures (Table 1, line 2.2.2), the results of the 2012 tax reform, and the negotiation of new payment terms with private companies. The public debt-GDP ratio at the end of 2013 was about 48%, compared with 38.9% in 2010 (Table 1, line 2.4). The government's fiscal targets for 2014 call for a further reduction of the consolidated public sector deficit to 4.2% of GDP, to be supported by measures to strengthen fiscal management,<sup>2</sup> in line with what is proposed in this operation.

Table 1. Macroeconomic and fiscal indicators

Description/year	2010	2011	2012	2013
<b>Macroeconomic</b>				
1.1 Real economic growth (% GDP)	7.8	4.5	3.9	4.1
1.2 Nominal GDP (US\$ billion)	51.6	55.6	59.0	60.8
1.3 Inflation (end of period)	6.2	7.8	3.9	3.9
1.4 Unemployment rate	5.0	5.8	6.5	7.0
<b>Fiscal (% GDP)</b>				
2.1 Total revenue (including grants)	13.6	13.5	14.0	14.7
2.2 Total expenditures	14.2	14.0	18.1	15.2
2.2.1 Interest on the debt	1.9	2.1	2.4	2.3
2.2.2 Public investment	3.7	4.1	5.1	3.3
2.3 Consolidated public sector deficit	-4.1	-4.5	-7.9	-5.0
2.4 Consolidated public debt	38.9	40.2	43.5	47.6

Source: IMF Article IV, 28 May 2014.

<sup>1</sup> Although it has been unable to resume the high growth levels recorded prior to the 2008 international financial crisis.

<sup>2</sup> The 2013-2016 multiyear execution plan proposes the following measures, among others: (i) improve and expand the coverage of public financial management systems to strengthen budget monitoring and control over all public resources; (ii) strengthen and modernize the government procurement system; and (iii) strengthen systems for public investment prioritization and planning to achieve greater efficiency and effectiveness in government programs and projects.



- 1.3 **Socioeconomic considerations.** The Dominican Republic is the largest economy in Central America and the Caribbean (nominal GDP of US\$60.8 billion), with a per capita GDP of about US\$5,662,<sup>3</sup> which puts it in 87th place out of the 182 countries in the world ranking. Its Human Development Index was 0.700 points in 2013,<sup>4</sup> 102nd out of the 176 countries in the world ranking. To improve these indicators, fiscal space must be created<sup>5</sup> to boost public investments, particularly in the social sectors.
- 1.4 **Modernization of fiscal management.** With Bank support,<sup>6</sup> the Dominican Republic launched a program at the start of the 2000s to modernize public financial management, by approving a new legal framework known as the Sistema Integrado de Administración Financiera del Estado [government integrated financial administration system] (SIAFE).<sup>7</sup> Subsequently, the Ministry of Finance Organization Law was approved, which brought all aspects related to public finance policy and management under the ministry's responsibility. On the basis of the new legal framework, implementation of the Sistema Integrado de Gestión Financiera<sup>8</sup> [integrated financial management system] (SIGEF) and the Cuenta Única del Tesoro [Treasury Single Account] (CUT) began in 2004. They comprise the technological infrastructure that has made it possible to automate the formulation, programming, and execution of the budgets of central government institutions.<sup>9</sup> Efforts have been made to bolster the planning system through the approval of a 2010-2030 national development strategy (END) and updated exercises in multiyear strategic and institutional planning. It should be noted that SIAFE is the institutional framework for the government's public finances, while SIGEF is the computerized system that supports SIAFE's operations.

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<sup>3</sup> Behind Costa Rica (US\$7,300), Panama (US\$10,100), Trinidad (US\$20,150), and The Bahamas (US\$24,200). According to the IMF's Article IV (2014), 11% of the population lives in extreme poverty.

<sup>4</sup> Behind Costa Rica (0.763), Panama (0.765), Jamaica (0.715), Trinidad (0.766), and The Bahamas (0.780).

<sup>5</sup> [IMF Policy Discussion Paper](#).

<sup>6</sup> Tax system reform (1902/OC-DR); financial administration (1093/OC-DR and 1809/OC-DR); human resource management (ATN/F-14511-DR); procurement and contracting (ATN/ME-13937-DR); macro fiscal framework (ATN/FG-11860-DR).

<sup>7</sup> The law establishes the set of principles, rules, systems, bodies, and processes for public funding and its use to attain the government's goals.

<sup>8</sup> With the support of loan 1809/OC-DR, SIGEF's coverage and functionality have been expanded, which has enabled it to carry out the functions of resource allocation and budget and financial execution of expenditures, in addition to public financial accounting. Other subsystems outside SIGEF were supported, such as payroll, debt, project management, and procurement.

<sup>9</sup> At the end of 2013, SIGEF was operating in 100% of the central administration's agencies (128) and 88% of the decentralized institutions (four in social security, and 40 autonomous agencies out of a total of 50), accounting for 72% of the central government's budget. The CUT was operating in 81% of central administration institutions (104 out of 128) and in 68% of the decentralized and social security institutions (34 out of 50).

- 1.5 Although significant progress has been made in modernizing fiscal management, the main problem—the Dominican government’s institutional weakness with respect to exercising adequate control and management of public finances—persists. The specific components of the main problem are described below.
- 1.6 **Fiscal management planning.** The weaknesses in this area prevent the government’s strategic priorities from being adequately reflected in budget formulation<sup>10</sup> mainly because of: (i) shortcomings in the institutional framework that supports fiscal management, which lacks the regulations, procedures, and tools necessary for implementing a medium-term fiscal framework (MTFF)<sup>11</sup> to support multiyear budgeting. Budgets currently have a one-year horizon,<sup>12</sup> making it impossible to take a more strategic approach to the identification, implementation, monitoring, and evaluation of public policies;<sup>13</sup> (ii) SIGEF does not have the functionality to support the preparation of a multiyear budget and provide information for strategic planning and public investment processes; and (iii) the budget formulation and execution process focuses on financial results and does not reflect the corresponding costs and the results.<sup>14</sup>
- 1.7 **Public sector budget, financial, and asset management.** The weaknesses in this area stem from the following circumstances: (i) financial programming focuses mainly on control of payments and contributes little as a tool for promoting the efficient management of public resources; 98% of the stages of commitment, liquidation, and payment are performed simultaneously, with the result that this information cannot be used for decision making or for financial programming;<sup>15</sup> (ii) SIGEF has limited functionalities for dealing with budgeting and financial processes because there is no module in place for requisitioning/procurement that makes it possible to record the process of selecting and contracting suppliers at the

<sup>10</sup> Public institutions prepare and update their strategic sector plans each year, but the plans are not effectively taken into account in budget formulation.

<sup>11</sup> The Dominican Republic has sufficient legal foundations to implement an MTFF. What remains is for the Ministry of Finance to develop and approve the respective regulations, so this does not constitute a risk of delay in program execution. The regulations will be the basic guide on how to implement the procedures and systems to support the MTFF, which is required for implementing multiyear budgeting as a decision-making tool.

<sup>12</sup> In 2012, the Dominican Republic scored a C+ in indicator D12 of the Public Expenditure and Financial Accountability (PEFA) assessment, which reflects the absence of a multiyear approach to budgeting and public planning and investment processes.

<sup>13</sup> In 2012, just 46.7% of the 460 lines of action contained in the National Development Strategy were linked to public policies that had been or were being implemented. *Informe Anual de Avance en la implementación de la Estrategia Nacional de Desarrollo 2030 y cumplimiento de los objetivos y metas del Plan Plurianual* [annual status report on implementation of the 2030 National Development Strategy and compliance with the objectives and targets of the multiyear plan], prepared by the Ministry of Economic Affairs, Planning, and Development (September 2013).

<sup>14</sup> It is not possible to determine the cost of delivering public services; it takes at least one month to calculate the cost of a specific service or indicators to support decision making.

<sup>15</sup> The regulatory framework is weak and does not contain tools to comply with the basic rules for recording budget execution.

time the event occurs,<sup>16</sup> accounting is not fully generated in real time,<sup>17</sup> and just two of the five main accounting reports<sup>18</sup> are generated automatically. Nor does the system provide support for managing the government's assets and liabilities. Furthermore, SIGEF is not interoperable with some of the subsystems that support budget execution;<sup>19</sup> (iii) despite progress in extending SIGEF to all central government agencies, a considerable number of them still do not use it or the CUT for their budget execution (see the footnote 7); (iv) procurement units lack experience with new management models, such as concessions of works and services; (v) there are weaknesses in the lead agency in terms of promoting greater participation by micro, small, and medium-sized enterprises (MSMEs) headed by women in the public sector's goods and services procurement processes;<sup>20</sup> and (vi) internal control is ineffective<sup>21</sup> because processes are not sufficiently automated,<sup>22</sup> which means that 72% of the procedures of the Office of the Comptroller General (CGR) focus on prior control of contracts and payments, which leads to delays in budget execution.

- 1.8 **Institutionalization of SIAFE.** Integration among the different institutional actors<sup>23</sup> and between the systems that interact in the management of public finances is limited. This is chiefly due to: (i) the absence of a formal body in charge of the coordination and sustainability of SIAFE.<sup>24</sup> The entity currently responsible for the integration and sustainability of technological systems and procedures is the program coordination unit (PCU) of the Program to Modernize Public Resource Management (1809/OC-DR), which has neither the authority nor the institutional mechanisms needed to carry out that mandate; (ii) the lack of staff with experience and training in the Ministry of Finance and in the

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<sup>16</sup> The average time for the National Treasury Department to learn about a procurement that has been made is approximately three months. Source: SIGEF.

<sup>17</sup> Public accounting is not closed monthly. This is an annual procedure, which makes it difficult to identify and correct inconsistencies in the bookkeeping process.

<sup>18</sup> The balance sheet and statement of activities are automated. The statements of changes in net assets/equity, cash flow, and the budgetary-accounting statement are generated manually. Nor is the management of nonfinancial assets (goods) and financial assets (Treasury Department investments and accounts receivable) and liabilities (accounts payable) automated.

<sup>19</sup> There is no automated integration with the following systems: civil servant administration (payroll); debt management and analysis; government procurement; executing units of projects with external financing; national public investment; and public sector multiyear national plan management. Optional electronic link 4 ([OEL4](#)) includes an annex containing diagrams of SIGEF interoperation with the systems mentioned.

<sup>20</sup> The procurement law contains a positive discrimination provision for MSMEs headed by women. The government suppliers' registry contains 44,000 suppliers, but just 6,200 are companies headed by women or in which women own a majority share, amounting to 15% of the registry.

<sup>21</sup> Just 10% of the CGR's targets were met in 2013.

<sup>22</sup> The average time for conducting an audit is 25 days, while best practices recommend two days.

<sup>23</sup> Lead agencies in budget, accounting, treasury, public credit, and internal control (see [OEL5](#)).

<sup>24</sup> The SIAFE law assigns this responsibility directly to the Ministry of Finance, but there is no institutional unit to support the ministry in carrying it out.

expenditure executing units to implement a new results-based public finance management model; and (iii) the excessive fragmentation of the information technology area in the Ministry of Finance<sup>25</sup> and the absence of an information technology strategy and of risk-mitigation tools to ensure the operating continuity of the systems that come under SIAFE.<sup>26</sup>

- 1.9 **Overall program rationale.** Although the Dominican economy has grown considerably in recent years, the fiscal and socioeconomic considerations described above (paragraphs 1.2 and 1.3) indicate the persistence of difficulties that need to be overcome in the medium term. The Dominican Republic has asked for the Bank's assistance in supporting the process of strengthening public expenditure management in order to surmount the weaknesses (paragraphs 1.5 to 1.8) that contribute to inefficient use of public resources.
- 1.10 One of the signs pointing to the problems described above is the result of the October 2012 PEFA assessment. The Dominican Republic's consolidated score was 2.6 out of a maximum of 4.0, placing it below the average (2.8) for a group of representative countries in the region, which indicates that there is still room for improvement in various aspects of fiscal management (see Table 2).

**Table 2. PEFA - Consolidation of its six evaluation dimensions and 25 indicators**

Indicator/Country*	Honduras	Jamaica	El Salvador	Peru	Dominican Republic	Average
1. Credibility of the budget	3.5	3.3	2.8	2.9	2.4	3.0
2. Budget comprehensiveness and transparency	1.8	2.7	3.4	3.9	2.4	2.8
3. Budget policy	3.3	2.8	2.5	3.5	3.0	3.0
4. Budget credibility and control	2.7	2.5	3.2	3.2	2.9	2.9
5. Payroll, procurement, and internal control	2.5	1.6	3.4	3.3	2.1	2.6
6. Accounting, recording, and accountability	3.0	1.9	3.5	2.8	2.9	2.8
<b>Media</b>	<b>2.8</b>	<b>2.5</b>	<b>3.1</b>	<b>3.3</b>	<b>2.6</b>	<b>2.8</b>

Source: PEFA reports.

(\*) The countries selected have socioeconomic similarities, are in the process of modernizing their integrated financial administration system, and have PEFA assessments for equivalent years. The external control and audit dimension has been omitted along with its six indicators since it is not included as a program intervention area.

<sup>25</sup> There are 10 data centers in the Ministry of Finance: CGR, Fiscal Policy and Management Training Center, Technology Resources Administration Office, Pensions, Government Procurement Bureau, Budget Bureau, Government Accounting Bureau, Treasury Office, and the PCU of loan 1809/OC-DR.

<sup>26</sup> A preliminary evaluation suggests that the level of risk of SIAFE's technological environment is at least 60% (on a scale of 0 to 100) since no contingency instrument is available in the event of a disaster.

- 1.11 The proposed operation seeks to build up the Ministry of Finance's institutional capacity by improving its fiscal management and planning tools so as to produce reliable, complete, and timely information to support the process of allocating and using public resources. The project team drew on the lessons learned described in the [Project Completion Report for loans 1550/SF-GY and 1551/SF-GY](#). The objective of that project was to strengthen public financial management by improving the processes and computerized support system. The outputs of the fiscal management strengthening component of loan 1550/SF-GY were targeted at the implementation and regulation of the fiscal framework, introduction of multiyear budgeting, and implementation of an integrated financial management system, in a similar manner to the one proposed here.
- 1.12 The main lessons learned from loan 1550/SF-GY and 1551/SF-GY are: (i) the quality of human resources is a key factor for attaining the desired modernization objective; (ii) automation with no improvement in processes does not produce the expected results; and (iii) modernization must be coupled with the generation of financial resources for the government. Based on the lessons learned in Guyana, this operation includes actions aimed at: (i) improving the quality of Ministry of Finance staff by implementing an infrastructure for ongoing training (Component III); (ii) improving the procedures as a requirement for automation (Component II); and (iii) consolidating the process of implementing the CUT, which will generate additional financial resources for the State, see Economic Analysis ([OEL#1](#)) (Component II).
- 1.13 Evidence shows that measures like those proposed in this project have been effective. With regard to the improvements in fiscal planning, a study evaluating a sample of countries that implemented an MTFE concluded that the average fiscal deficit fell from 3% of GDP observed in the preceding three years to 0.4% of GDP in the three years following its implementation, as a result of an improvement in revenues and/or a reduction in spending.<sup>27</sup> Extensive literature exists on the benefits of implementing integrated financial administration systems (SIAFs)<sup>28</sup> and CUTs.<sup>29</sup> A recent case in Nigeria shows that simply by closing the accounts of 93 out of the nearly 2,000 project executing units, the overdraft<sup>30</sup> in the [Treasury account fell from US\\$610 million to US\\$26 million](#). There is much evidence on the improvement of processes: (i) [UKaid - Overseas Development Institute evaluation](#) presents the evolution of Guyana's PEFA score from 9 points in 2001 to 11 points in 2007 (corresponds to the implementation period of the loan to Guyana); and (ii) [OVE's Evaluation of the IDB's Role in the Fiscal Sector](#)

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<sup>27</sup> [Beyond the Annual Budget](#) – World Bank.

<sup>28</sup> For a detailed discussion of SIAF benefits see: Khan and Pessoa (2010); Pimenta and Farías (2011); Dener, Watkins, and Dorotinsky (2012); Diamond and Khemani (2005); Makon, M. (2000); and Schik (1998).

<sup>29</sup> See, for example, [Treasury Single Account: An Essential Tool for Government Cash Management](#). International Monetary Fund.

<sup>30</sup> Account with a negative balance needing financing.

- presents the Bank's effectiveness in interventions in the field of public finances, particularly in integrated financial administration systems, in more than 50% of the borrowing member countries.
- 1.14 **Strategic alignment.** The program will contribute to the financing priority established in the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) (document AB-2764) of supporting the development of small and vulnerable countries by strengthening the institutional framework for the management of public finance. In the context of the sector priority of promoting institutions for growth and social welfare, the proposed program contributes to the regional output targets of upgraded public financial systems and support for subnational governments.
- 1.15 The areas of intervention prioritized by the program are aligned with the strategic objectives of consolidating financial administration systems and strengthening systems for public investment prioritization and planning included in the IDB's country strategy with the Dominican Republic 2013-2016 (document GN-2748). The operation is included in the 2015 Operational Program Report (document GN-2805)
- 1.16 The Bank has supported the entire process of strengthening public finance in the Dominican Republic. It has backed tax reforms and the strengthening of the tax administration (1902/OC-DR). It is providing technical assistance for strengthening related systems, such as human resources (ATN/FI-14511-DR) and procurement (ATN/ME-13937-DR). It has supported the strengthening of fiscal policy analysis, monitoring, and evaluation (ATN/FG-11860-DR). It has promoted legal and institutional changes and technological development in the financial administration area (1093/OC-DR and 1809/OC-DR). As a result of these last operations, the Dominican Republic was able to consolidate 80% of the accounts of public institutions in the Treasury account, improving the availability of funds and eliminating the need for short-term Treasury funding. The proposed operation will consolidate the progress made in financial administration and lay the groundwork for results-based management.

**B. Objective, components, and cost**

- 1.17 **Objective.** The objective of the program is to strengthen central government planning and management of public finances by: (i) improving the medium-term fiscal framework as a means of enhancing the public sector's budget planning, monitoring, and evaluation processes; (ii) modernizing procedures and systems that support public resource management; and (iii) institutionalizing SIAFE.
- 1.18 The program will benefit the Dominican Republic by promoting better public resource management, thereby allowing for broad implementation of public policies, which will benefit all Dominicans. The program will finance the following components:

- 1.19 **Component I. Strengthening of the medium-term fiscal framework (US\$1.9 million).** The objective is to allow for the inclusion of strategic and investment priorities in the general budget from a medium-term perspective. This component will finance: (i) conceptual design, development, and implementation of a medium-term fiscal framework (MTFF) and of the regulations needed for formulating a multiyear budget, in alignment with the government's strategic priorities; (ii) development and implementation of an information system integrated with SIGEF to support the formulation, monitoring, and evaluation of the multiyear budget in the financial and outcomes dimensions; and (iii) development and implementation of a methodology for managing the public costs<sup>31</sup> of services in prioritized sectors<sup>32</sup> under the responsibility of a unit attached to the Budget Bureau.
- 1.20 **Component II. Improvement in public sector budget, financial, and asset management (US\$5 million).** The objective is to generate timely information with broader institutional and transactional coverage of the public sector. The component will finance: (i) the review and update of the regulatory framework and procedures for the central government's budget formulation, execution, control, and accounting;<sup>33</sup> (ii) the review, update, development, and introduction of new SIGEF capabilities in all central government agencies, including its interoperability with other subsystems that make up the control and administrative-budget processes: civil servant administration system (SASP), debt management and analysis system (SIGADE), module for the executing units of externally funded projects (UEPEX), public sector multiyear national plan management system (RUTA), national public investment system (SNIP), and

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<sup>31</sup> In the public sector, cost methodologies make it possible to measure the value of a specific service financed with public funds and compare it to the costs of other similar public institutions, to the private sector, and to those of other countries (for example, the specific cost of educating a child through primary school or of a prisoner in jail). Understanding costs allows managers to make rapid and sound decisions on public investments and to identify problems of inefficiency and ineffectiveness in the use of public funds. See <http://www.contaduria.gov.co>, *Antecedentes*, page 13.

<sup>32</sup> The development of a methodology to determine the cost of the public production of services is proposed. Direct and indirect costs would be taken into account, identifying the cost centers and linking them to the programmatic categories used in the budget process. The expenditure, human resources, procurement, inventory, and goods management systems will be the main sources of information. A feasibility study should be conducted to evaluate institutional capacity to generate robust and reliable statistics and the proposal of a cost generation model and its implementation plan. [La estimación de costos en las entidades del sector público: Una propuesta metodológica](#) [Estimating costs in public sector institutions: A methodological proposal]. Raúl Calle and Marcos Makón. Study conducted for the Nicaraguan government as part of the Medium-term Action Plan for Development Effectiveness (PRODEV).

<sup>33</sup> This will include a complete review of existing procedures and their regulatory framework, complemented by recommendations for improvements and an implementation plan for those recommendations with a timetable (existing reports will be used for the review). The objective is to reinforce the compulsory use of SIGEF and the consolidation of the CUT.



government procurement system;<sup>34</sup> (iii) implementation of automated procedures for consolidating information from State-owned enterprises and subnational governments; (iv) technical assistance and training for institutional strengthening of the lead procurement agency in the area of concession regulation and management; (v) technical assistance for the lead agency in carrying out dissemination and training activities to promote greater participation by MSMEs headed by women in the public market; and (vi) implementation of automated procedures for ex ante control and training to expand the scope of ex post internal control.

- 1.21 **Component III. Consolidation of the SIAFE institutional framework (US\$18.1 million).** The objective is to support the sustainability of the procedures and systems of the different entities that make up SIAFE and more specialization of the human resources involved in managing public resources. This component will finance: (i) the development and implementation of a new structure and procedures for formalizing a unit in the Ministry of Finance responsible for promoting the coordination and consistency of the processes that govern the subsystems in SIAFE and the strengthening of its leadership in the management of information technology (IT); (ii) implementation of an IT master plan that includes consolidation of the Ministry of Finance's operating technology infrastructure and a business continuity and disaster mitigation system for SIAFE; and (iii) the design and implementation of an awareness-raising and communication strategy to create suitable conditions for cooperation among the participating institutions, and a training program in managing public finances<sup>35</sup> using an e-learning platform in areas such as: MTFF, multiyear budgeting, program-based budgeting, and the capacity to design a risk-based system of indicators, procurement, control, and auditing. The program will also include the design and implementation of a strategy to support the processes of selection, onboarding, and basic training of new Ministry of Finance employees.

### C. Key results indicators

- 1.22 **Expected outcomes.** The expected outcomes are shown in Table 3.
- 1.23 **Economic rationale.** The economic analysis of the program was performed on the basis of net present value (NPV) and internal rate of return (IRR) methods with and without the project. The discount rate applied to the net flows of benefits was 12%. Two expected outcomes from the project were selected for the analysis: (i) savings in interest payments on the public debt, generated through interest received from investments of resources available in the CUT, having eliminated

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<sup>34</sup> Based on the review of procedures, the new procedures required will be mapped with the current SIGEF functionalities, as well as with the other support subsystems, identifying the need for new functionalities, adjustments to existing ones, and the interfaces required for integration with the subsystems. For more details, see the preliminary interoperability diagrams ([OEL4](#)).

<sup>35</sup> The training program will include the design of mechanisms to create incentives to strengthen participation by staff involved in the reforms.



the commercial bank accounts that held the budget balances of public entities; and (ii) savings in the cost of maintaining the Ministry of Finance's IT infrastructure as a result of the centralization of 10 data centers in a single IT environment. By applying these methods, the economic analysis of the program produced an IRR of 31% and an NPV of US\$9.2 million in 10 years (2024), which justifies the total investment of US\$30 million. The sensitivity analysis demonstrated that, in the worst-case scenario, the project continues to have an IRR of 18%.

**Table 3. Expected program outcomes**

Description	Baseline (2013)	Target (2020)
<b>Impact</b>		
1. Increase in the PEFA assessment score *	2.6	2.8
<b>Outcomes Component I</b>		
1.1 Increase in the percentage of lines of action in the END incorporated into the budget (Lines of action implemented / Total lines of action in the END)	46.7 (2012)	60
1.2 Reduction in the time required to determine the cost of a specialized service (days)	30	1
<b>Outcomes Component II</b>		
2.1 Reduction in the time required to close and prepare annual reports on the government's public accounts (months)	12	3
2.2 Increase in the percentage of the central government's budget executed under the integrated public finance system (SIGEF) (budget executed under SIGEF/total budget)	72	100
2.3 Increase in the percentage of MSMEs headed by women that participate in calls for bids for goods and services for the public market (Number of MSMEs headed by women/total number of MSMEs)**	14	40
2.4 Reduction in the time required by the CGR to conduct an internal audit (days)	25	2
<b>Outcomes Component III</b>		
3.1 Reduction in the cost of maintaining the Ministry of Finance's data centers (US\$ million per year)	2.6	1.17
3.2 Reduction in the SIAFE's technology environment risk level (range 0-100)	60	20

\* It will be calculated on the basis of the average of the 25 indicators that evaluate six public finance management dimensions.

\*\* Total number of MSMEs participating in calls for bids in government procurement: 44,000; Number of MSMEs headed by women: 6,200.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Program cost.** The program's estimated total cost is US\$30 million, of which the Bank will finance the equivalent of US\$25 million from the Ordinary Capital's Flexible Financing Facility and US\$5 million will come from the borrower's counterpart funds. As a special contractual condition, this financing may be included in the Automatic Redirection List of the Contingent Loan for Natural

Disaster Emergencies (DR-X1003). Table 4 shows the program's financing structure. The itemized budget and project execution plan are included in required electronic link 1 ([REL1](#)) and the procurement plan is included in [REL2](#).

**Table 4. Program budget (in U.S. dollars)**

Category	IDB	Local	Total	%
<b>1. Direct costs</b>	<b>20,045,900</b>	<b>5,000,000</b>	<b>25,045,900</b>	<b>83.5</b>
1.1 Strengthening of the medium-term fiscal framework	1,896,400	0	1,896,400	6.3
1.2 Improvement of public sector budget, financial, and asset management	5,055,500	0	5,055,500	16.9
1.3 Consolidation of the institutional framework of SIAFE	13,094,000	5,000,000	18,094,000	60.3
<b>2. Administrative costs *</b>	<b>2,430,000</b>	<b>0</b>	<b>2,430,000</b>	<b>8.1</b>
2.1 Project administration	2,100,000	0	2,100,000	7.0
2.2 Monitoring and evaluation	230,000	0	230,000	0.8
2.3 Audit	100,000	0	100,000	0.3
<b>3. Contingencies</b>	<b>2,524,100</b>	<b>0</b>	<b>2,524,100</b>	<b>8.4</b>
<b>Total</b>	<b>25,000,000</b>	<b>5,000,000</b>	<b>30,000,000</b>	<b>100</b>
<b>%</b>	<b>83.33</b>	<b>16.67</b>	<b>100</b>	

\* Includes the PCU staff from loan 1809/OC-DR, who will gradually be absorbed into the Ministry of Finance's staff.

- 2.2 A specific investment program is proposed, based on a clear identification of the necessary actions and corresponding timeframes for attaining the expected outcomes. Disbursements will be made over a period of five years after the loan contract comes into force, in accordance with the schedule that appears in Table 5 below.

**Table 5. Disbursement schedule (US\$ millions)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
<b>IDB</b>	2,800,000	5,550,000	7,525,000	5,400,000	3,725,000	25,000,000	<b>83.33</b>
<b>Local</b>	560,000	1,110,000	1,505,000	1,080,000	745,000	5,000,000	<b>16.67</b>
<b>Total</b>	<b>3,360,000</b>	<b>6,660,000</b>	<b>9,030,000</b>	<b>6,480,000</b>	<b>4,470,000</b>	<b>30,000,000</b>	<b>100</b>
<b>%</b>	<b>11.20</b>	<b>22.20</b>	<b>30.10</b>	<b>21.60</b>	<b>14.90</b>	<b>100</b>	

## **B. Environmental and social risks**

- 2.3 According to the Bank's Environment and Safeguards Compliance Policy (B.13, OP-703), the program does not require an environmental classification since it involves institutional modernization of the Ministry of Finance and no risks of negative environmental impacts are anticipated (see Annex IV).

## C. Other risks

2.4 The risk analysis was applied by the project team at a workshop attended by representatives of all the entities involved in program execution.<sup>36</sup> It concluded that the operation poses medium risk. The following medium level risks were identified:<sup>37</sup>

- a. **Governance.** The risk is that (i) delays may occur in starting up the operation, owing to holdups in legislative or executive branch approval during the program approval process. This risk will be mitigated by the borrower's appointment of a technical committee to monitor the approval process and present the objectives, benefits, scope, and expected results of the project to the legislature. One of the committee's members will be responsible for monitoring the internal executive approval process. The risk is that (ii) problems may arise in coordination for program execution, owing to participation by various lead agencies (treasury, budget, public credit, and the CGR). This risk will be mitigated through signature of a protocol by the lead agencies participating in program execution that establishes their roles and responsibilities. The protocol will ensure compliance in implementing the reforms or outputs in the institutions involved, in accordance with an agreed plan, principally in institutions not directly subordinate to the Ministry of Finance, such as the CGR.
- b. **Development.** The risk is that difficulties may arise in implementing the program's outputs owing to resistance by the staff in the areas affected by the changes. This risk will be mitigated through implementation of a change management strategy to support the entire process of introducing the program's new procedures and tools.

2.5 **Fiduciary context.** The Dominican Republic has a solid and transparent regulatory and institutional regime with robust country fiduciary systems that allow for good management of administrative, financial, control, and procurement processes based on the principles of transparency, economy, and efficiency. Annex III reflects the financial management and procurement guidelines to be applied for program execution. The PCU will use the UEPEX/SIGEF model, which is the official country system, to produce accounting records and financial reports on the operation.

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<sup>36</sup> Participants: the lead agencies in the areas of budgeting, accounting, treasury, public credit, procurement, the CGR, and the Office of the Administrative Manager of the Ministry of Finance, in representation of the expenditure executing units.

<sup>37</sup> The risks identified and classified as "low" are mentioned in the report on the workshop for application of the risk analysis methodology attended by all stakeholders ([OEL3](#)).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of institutional implementation arrangements

- 3.1 The borrower will be the Dominican Republic and the executing agency will be the Ministry of Finance, the lead agency in the public finance system. The operation will be executed by the Ministry of Finance's existing PCU for loan 1809/OC-DR, which will be responsible for overall program coordination and execution and for reporting on attainment of the operation's objectives.
- 3.2 The PCU will have the following responsibilities: (i) acting as liaison with the Bank; (ii) submitting disbursement requests to the Bank, duly supported by the pertinent documentation; (iii) planning and executing procurement and contracts for works, goods, and services, in accordance with the procurement plan and the Bank's procurement policies; (iv) appropriately maintaining the program's financial accounting system in accordance with Bank guidelines; (v) submitting physical and financial reports on program execution; (vi) formulating, updating, and submitting the following to the Bank for consideration: the project execution plan, the annual work plan, the procurement plan, the progress monitoring report, the results matrix, and the mitigation plan; (vii) preparing and arranging for payments and keeping the respective invoices, contracts, and payment orders to be made available to the Bank and the program auditors when requested; (viii) arranging for the budget allocations required for smooth program execution; and (ix) ensuring that the services contracted and the goods procured with program funds are maintained in accordance with generally-accepted technical standards.
- 3.3 For effective program coordination and operation of the systems and interfaces to be developed, a standing interagency committee on financial administration modernization will be established, whose members will be drawn from the lead agencies in the public finance system. The committee, which will be chaired by the Ministry of Finance,<sup>38</sup> will be responsible for reviewing and approving the work plans and reform proposals and for monitoring and evaluating program progress. One official from each lead agency will be appointed to the committee, who will be responsible for presenting and prioritizing requirements, advising on the preparation of terms of reference, analyzing proposals, and monitoring and supervising activities under their purview in the context of the program. The committee will also be responsible for overseeing and ensuring compliance with all aspects of the protocol signed by the entities involved in the project.
- 3.4 **Program operations manual (POM).** The POM will contain the rules, criteria, and procedures that will govern execution of the operation. **Entry into effect of**

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<sup>38</sup> Under 1809/OC-DR, the Ministry of Finance set up an informal coordination mechanism equivalent to the proposed interagency committee, to discuss and agree on plans and projects being implemented to modernize the financial administration systems, which produced good results and has therefore been incorporated into the proposal to create the new structure ([OEL5](#)).

**the POM agreed upon in advance by the borrower and the Bank will be a condition precedent to the first disbursement under the program. The manual will include the program's activities and the timetable for assimilating the structure of the Program to Modernize Public Resource Management into the Ministry of Finance.**

- 3.5 **Procurement.** Program procurement will be carried out in accordance with the Policy for the procurement of works and goods financed by the IDB (document GN-2349-9), the Policy for the selection and contracting of consultants financed by the IDB (document GN-2350-9), and the provisions of the procurement plan.
- 3.6 **Direct contracting.** In accordance with paragraph 3.6 (c) of document GN-2349-9, the Bank may authorize the direct contracting of Oracle for the procurement of database licenses. This is justified because the technological environment of the Ministry of Finance's database is based on the Oracle platform, which has been performing effectively and has been reliable. In addition, the Ministry of Finance's IT technical team has lengthy experience with the Oracle tools, so changing the platform is not recommended.<sup>39</sup>
- 3.7 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance up to US\$5 million (20% of the loan) from the loan proceeds and recognize up to US\$2.5 million from the local counterpart (50% of the counterpart)<sup>40</sup> as eligible expenditures incurred by the borrower prior to the date on which the loan is approved, provided requirements substantially similar to those established in the loan contract have been complied with. Such expenditures must have been incurred after the project profile approval date (8 August 2014) but in no case will include expenditures incurred more than 18 months prior to loan approval, in accordance with the terms of the Bank policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1/operational policy OP-507). The costs of the financial audit will be financed from the loan proceeds.
- 3.8 **Disbursements and cash flow.** Disbursements will take the form of advances of funds, based on a cash flow of duly acquired commitments for the following six months. The funds will be managed through bank accounts in the program's name in the Central Bank of the Dominican Republic (in U.S. dollars) and in the Banco de Reservas (in Dominican pesos), through the National Treasury Department.
- 3.9 **Audited financial reports.** The borrower will submit: (i) the program's annual audited financial reports within 120 days following the close of the executing agency's fiscal year during the original disbursement period (60 months) and any agreed extension, duly audited by a firm of independent auditors acceptable to the Bank. The final financial report will be submitted within 120 days from the date

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<sup>39</sup> The estimated value of the contract is about US\$3.3 million.

<sup>40</sup> The retroactive expenditures refer to consulting contracts and computer hardware worth a maximum of US\$5 million.

stipulated for the final disbursement of the program; and (ii) during the original disbursement period, interim financial reports within 60 days after June 30, for the period from 1 January to 30 June, audited by the same firm that audits these reports at the close of each fiscal year. The interim reports are part of the annual external audit contract and therefore do not require additional financing.

- 3.10 At the close of the program, and within 90 days after the date on which 95% of the loan proceeds were disbursed, the PCU will prepare and remit to the Bank a final evaluation that will serve as input for the project completion report.

**B. Summary of results monitoring and evaluation agreements**

- 3.11 **Monitoring.** The objective is to detect the factors that facilitate or prevent an output from achieving its results, based on the activities described in the program of activities, targets, and indicators established in the results matrix. The Bank and the Ministry of Finance have agreed that program monitoring will be based on the results matrix, the program of activities, the breakdown of physical and financial execution of the outputs that appear in the semiannual status reports, the procedures in the methodology to support program preparation and supervision, and the descriptions of procurement included in the procurement plan. The borrower will submit semiannual status reports ([see REL2](#)).
- 3.12 **Independent evaluation.** The program will be evaluated using three methodologies: (i) reflexive evaluation—at the end of the program based on the goals and the respective annual output and outcome indicators in the program's results matrix; (ii) economic evaluation—at the end of the program to verify the financial returns for those outcomes that can be estimated, following a methodology comparable to the one used ex ante during program preparation, to compare the program's returns upon completion with the estimates made during preparation;<sup>41</sup> and (iii) impact evaluation—at the end of the program, following the principle of differences to measure the difference between the results for the group of countries strengthened by the project and a control group not subject to the same treatment.

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<sup>41</sup> The objective is to verify whether the benefits estimated to justify the Bank loan materialized and whether other economic benefits that were not quantified in advance were identified, which could further improve the initial results of the financial evaluation.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to small and vulnerable countries.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	Public Financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues).		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2748	Consolidation of financial management systems.	
Country Program Results Matrix	GN-2805	The project is included in the 2015 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.5		10
3. Evidence-based Assessment & Solution	8.4	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	2.4		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.1	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	4.6		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation			
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	i) Budget; ii) Treasury; and iii) Accounting and Reporting.	
Non-Fiduciary	Yes	Strategic Planning National System.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank will provide training in project management, monitoring and evaluation and procurement process using Bank policies to the executing unit and all actors involved in the project.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The document has vertical logic, considers the specificities of the country and contextualizes the intervention therein. It identifies the main problems to be addressed, the program beneficiaries and the causal factors based on empirical evidence.

The document provides internal evidence for some specific solutions.

The impact indicator of the project should measure the effects of its long-term expected results, based on the ultimate goal pursued. In this case, the improvement in the PEFA scoring is not an end in itself, but rather pursues to improve the efficiency in the use of public resources by the country's central government.

The project has SMART outcome indicators for all the proposed solutions, and specifies the periodicity of measurement and the means of verification.

The project has a financial analysis based on reasonable assumptions and presents a sensitivity analysis. The project, based on the assumptions and calculations, shows a positive NPV in all scenarios.

To measure its impact, the project will ensure a before-after analysis and an ex post financial analysis.

## RESULTS MATRIX

**Objective.** The objective is to strengthen central government planning and management of public finances by: (i) improving the medium-term fiscal framework as a means of enhancing the public sector's budget planning, monitoring, and evaluation processes; (ii) modernizing procedures and systems that support public resource management; and (iii) institutionalizing the government's integrated financial administration system.

Indicator	Unit	Baseline		Targets					Source/means of verification	Comments
		Value	Year	Year 1	Year 2	Year 3	Year 4	Year 5		
1.1 Increase in the Public Expenditure and Financial Accountability (PEFA) assessment score										
Average of the 25 PEFA indicators	Score	2.6	2012			2.7		2.8	PEFA assessment 2019	Range (0-4). 25. Indicators that assess six public finance management dimensions. <sup>1</sup> See monitoring and evaluation plan

Indicator	Unit	Baseline		Targets					Source/means of verification	Comments
		Value	Year	Year 1	Year 2	Year 3	Year 4	Year 5		
COMPONENT I: Strengthening of the medium-term fiscal framework										
1.1 Increase in the percentage of lines of action in the National Development Strategy incorporated into the budget										
Lines of action in the National Development Strategy/total lines of action	%	46.7	2012		50			60	Annual report by the Ministry of Economic Affairs, Planning, and Development on progress in implementing the 2030 National Development Strategy	A total of 215 of the 460 lines of action have been included in the 2030 National Development Strategy (Law 1-12)
1.2 Reduction in the time required to determine the cost of a specialized service										
Time to determine the cost of a service	Days	30	2013					1	Report by the Ministry of Finance on the public cost system, including processing time to calculate costs	

<sup>1</sup> Dimensions: (i) credibility of the budget; (ii) budget comprehensiveness and transparency; (iii) budget policy; (iv) budget credibility and control; (v) payroll, procurement, and internal control; and (vi) accounting, recording, and accountability. The external control and audit dimension was excluded.



Indicator	Unit	Baseline		Targets					Source/means of verification	Comments
		Value	Year	Year 1	Year 2	Year 3	Year 4	Year 5		
COMPONENT II: Improvement in public sector budget, financial, and asset management										
2.1 Reduction in the time required to close and prepare annual reports on the government's public accounts										
Time required to close and prepare the annual reports	Months	12	2013			6		3	Final report on public accounts with the date of its publication in the Official Gazette	
2.2 Increase in the percentage of the central government's budget executed under the integrated public finance system (SIGEF)										
Budget executed under SIGEF/total budget	%	72	2013		80	90		100	SIGEF report by the National Treasury Department involving 100% of the central government's budget	Central government budget executed in 2013: RD\$530.8 billion Executed under SIGEF: RD\$378.6 billion
2.3 Increase in the percentage of MSMEs headed by women that participate in calls for bids for goods and services for the public market										
Number of MSMEs headed by women/total number of MSMEs	%	14	2013			40		40	Report by the Government Procurement Bureau	Total number of MSMEs participating in calls for bids in government procurement:44,000 Number of MSMEs headed by women: 6,200
2.4 Reduction in the time required by the CGR to conduct an internal audit										
Time required for audits	Days	25	2013			10		2	CGR's annual report	The measurement only includes time in the CGR
COMPONENT III: Consolidation of the SIAFE institutional framework										
3.1 Reduction in the cost of maintaining the Ministry of Finance's data centers										
Maintenance costs	US\$ million	2.6	2013					1.17	Report by the Ministry of Finance's Information Systems Division	See economic evaluation (five-year average)
3.2 Reduction in the SIAFE's technology risk level										
Technological environment risk	Level	60	2013				20	20	Assessment report by the Ministry of Finance's Information Systems Division	Range: 0%–100% Risk methodology applied to the technology sector

OUTPUTS									
Indicator	Unit	Value <sup>2</sup>	Main stages					Target 2018	Source/means of verification
			Year 1	Year 2	Year 3	Year 4	Year 5		
COMPONENT I: Strengthening of the medium-term fiscal framework									
1.1 Annual budget based on a medium-term fiscal framework	Fiscal framework	0	Conceptual design	Regulations for multiyear budgeting	Pilot project to identify strategic priorities	Full implementation		1	Report by the Ministry of Finance’s Macroeconomic Policy Analysis Unit certifying implementation of the new fiscal framework
1.2 Central government agencies producing automated multiyear budgets	Agencies	0		Implemented in two pilot agencies (Ministry of Finance and Ministry of Education)	Implemented in 42 agencies	Implemented in 42 agencies	Implemented in 42 agencies	128	Report by the Budget Bureau certifying implementation of the support system for multi-year budget formulation <sup>3</sup>
1.3 Central government agencies estimating their public costs using a specialized methodology	Agencies	0	Feasibility study	Proposed model	Implemented in 2 pilot agencies	Implemented in 22 agencies	Implemented in 40 agencies	64	Report by the Budget Bureau certifying implementation of the public cost methodology
COMPONENT II – Improvement in public sector budget, financial, and asset management									
2.1 Formulation, execution, control, and accounting procedures, with an updated regulatory framework	Regulatory framework	0	Review of current procedures and their regulatory framework	Recommendations for improvements and implementation timetable	Implementation and dissemination			1	New regulatory framework published in the Official Gazette

<sup>2</sup> Baseline year 2013.

<sup>3</sup> Integrated with SIGEF.

OUTPUTS									
Indicator	Unit	Value <sup>2</sup>	Main stages					Target 2018	Source/means of verification
			Year 1	Year 2	Year 3	Year 4	Year 5		
2.2 SIGEF interoperational with all fiscal management support subsystems	Interfaces with SIGEF	0		2	2	1	1	6	External consultant's report evaluating the interoperability of SIGEF <sup>4</sup>
2.3 SIGEF updated and operating in all central government agencies	Central government agencies producing automated information	0 <sup>5</sup>				178		178	External consultant's report evaluating the implementation of SIGEF in all central government agencies
2.4 Staff of the lead procurement agency certified to manage concession contracts	Staff	0		Strengthening plan prepared	Strengthening implemented	5		5	Accreditation agency certification of the program to strengthen concession management
2.5 MSMEs headed by women certified in government procurement processes	MSMEs headed by women	0		Certification model developed	100	100	100	300	Report by the Government Procurement Division on the certification of MSMEs headed by women
2.6 Internal control operating on the basis of automated ex ante procedures	System	0		Diagnostic of the current situation and modernization proposal produced		Ex ante procedures automated 1		1	Report by the CGR certifying the implementation of improvements

<sup>4</sup> (1) civil servant administration system (SASP); (2) debt management and analysis system (SIGADE), (3) government procurement system; (4) module for the executing units of externally funded projects (UEPEX); (5) national public investment system (SNIP); and (6) public sector multiyear national plan management system(RUTA).

<sup>5</sup> 128 central government agencies, four social security agencies, and 46 decentralized autonomous entities.

OUTPUTS									
Indicator	Unit	Value <sup>2</sup>	Main stages					Target 2018	Source/means of verification
			Year 1	Year 2	Year 3	Year 4	Year 5		
COMPONENT III: Consolidation of the institutional framework of SIAFE									
3.1 Unit in charge of promoting the coordination and consistency of public finance management systems established	Unit in charge	0	Development and implementation of a new structure and procedures for formalizing a unit in the Ministry of Finance	Establishment of the unit				1	Publication reporting on the incorporation of the unit into the structure of the Ministry of Finance published in the Official Gazette
3.2 Ministry of Finance’s data centers consolidated	Data centers	0		Information system master plan prepared	Introduction of the environment for the central data center (1)	4	5	10	Report by the Ministry of Finance’s Information Systems Division certifying the implementation of the new technology environment <sup>6</sup>
3.3 Central government agencies trained and sensitized to facilitate changes stemming from the modernization of public finance	Agencies	0	Dissemination and training plan designed			128	50	178	Report by the Ministry of Finance’s Fiscal Policy and Management Training Center (CAPGEFI) certifying the results of the plan

<sup>6</sup> Data center and a system for continuity of business and crash mitigation for SIAFE.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country:</b>	Dominican Republic
<b>Project number:</b>	DR-L1070
<b>Name:</b>	Modernization of the Dominican Republic's budget and financial management
<b>Executing agency:</b>	Ministry of Finance
<b>Fiduciary team:</b>	Christian Contín and Willy Bendix (FMP/CDR)

### **I. EXECUTIVE SUMMARY**

- 1.1 As an input for preparation of this document, the February 2014 study on an institutional structure to guarantee the continuity of the State's integrated financial administration system (SIAFE) and of the integrated financial management system (SIGEF) in the Ministry of Finance is of particular importance. It analyzes the legal framework for institutional development of the Ministry of Finance, and the evolution and current status of the program executing unit of the Program to Modernize Public Resource Management (1809/OC-DR), which, along with other entities in the government's financial administration system and the Bank, has been working since 1998 on SIAFE modernization and institutional reform. The Bank has financed two loan operations with the Ministry of Finance for that purpose.<sup>1</sup> Their execution has given rise to an operating arrangement based on a specific program coordination unit, hereinafter referred to generically known as PAFI. Given that unit's experience in working on operations with the Bank, no major risks associated with the management and execution of this new program are anticipated.

### **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 2.1 The first of the operations with the Ministry of Finance began in 2000 and was intended to reform and modernize the Dominican Republic's financial administration. For that purpose, a program technical unit (PTU) was established to take charge of direct execution of the program. The program technical unit was headed by a technical director in the Office of the Deputy Minister of the Treasury. The technical director was directly responsible for technical

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<sup>1</sup> Program to Modernize Public Resource Management (1809/OC-DR) and Integrated Financial Management Program (PAFI) (1093/OC/DR).

management and administration of the resources of the first program, with support from a group of consultants. The second loan operation had the overall objective of improving the management of State resources in order to increase the efficiency and transparency with which they are used and make government management more effective. The Ministry of Finance was designated as the executing agency of that loan as well, through a PCU (equivalent to the PTU of the first operation) that currently has six years of experience in the process of reforming the administration of public resources. This unit consists of a Program Administration and a Technical Coordination Office. According to the study on an institutional structure that would guarantee the continuity of SIAFE and SIGEF in the Ministry of Finance, the PCU has become a lynchpin in financial administration reform and consolidation of SIAFE. The final phase of this second loan operation began in 2014 and is expected to be completed in December 2014. To date, the program has established a special operating structure to comply with the outputs and results associated with the loan operation. For the purposes of the organizational structure, the PAFI is currently composed of five areas, three of which are substantive (business area, information systems development, and information systems and infrastructure security) and two support areas (operations area and financial area). The operations area's functions include general coordination of support services for the program, execution of bidding processes, and procurement plan updates, while the financial area is responsible for coordinating, standardizing, and undertaking the program's financial and accounting management. The current technical director of the PAFI is head of the Ministry of Finance's Technological Resources and Communication Division, which has allowed for closer coordination between the two units with a markedly technological orientation. As is apparent, the above structure has been designed and has sufficient experience to satisfactorily comply with the technical and fiduciary commitments stemming from loan 1809/OC-DR, given the results and outputs related to each of the components established in the design of this operation.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 The above-mentioned study on an institutional infrastructure to guarantee the continuity of SIAFE and SIGEF in the Ministry of Finance indicates that the PAFI PCU has still not achieved formal integration into the ministry's structure. This poses risks to sustainability in terms of the capacity and fiduciary experience acquired by the unit in executing the earlier loan operations. Failure to define responsibilities and functions for the PAFI in the context of a coordinated process of implementing SIAFE has caused the unit to have an excessively rigid and limited structure governing its contributions to the ministry. Its structure is heavily marked by the execution times for the outputs established in loan contract 1809/OC-DR; as mentioned earlier, the latter will soon be ending and, with it, an attendant risk that the existing unit will be disbanded. As a mitigation measure, it is proposed that the contracts of the program's consultants be extended and that

those contracts be included among the expenditures eligible for recognition under this new operation.

#### IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS

- 4.1 To expedite contract negotiations by the project team and, primarily, the Legal Department, the agreements and requirements to be included in the special considerations are described below.
- a. **Special contractual condition precedent to the first disbursement:** It is recommended that the special conditions precedent to the first disbursement establish that the program operations manual (POM) be updated to reflect the present operation's activities, including a timetable for assimilating the PAFI structure into the Ministry of Finance and its entry into effect, with the Bank's prior and respective no objection.
  - b. **Special contractual obligations for execution:** (i) any changes to or updates of the POM will require the Bank's no objection; and (ii) financial auditing services to cover the entire program execution period will be contracted no later than six months after loan eligibility.
  - c. **Exchange rate agreed on with the executing agency for accounting purposes:** The exchange rate to be used will be the effective U.S. dollar/local currency rate at the time that the resources disbursed by the Bank are converted (Article 4.09 (a) (1)).
  - d. **Audited financial reports:** (i) Submission of the program's audited annual financial reports within 120 days following the close of each fiscal year of the executing agency during the original disbursement period (60 months) or any agreed extension, duly audited by a firm of independent auditors acceptable to the Bank. The final financial report will be submitted within 120 days from the date stipulated for the final disbursement of the program; and (ii) during the operation's disbursement period, submission of semiannual interim financial reports within 60 days after 30 June of each year, by the same firm that will audit these reports at the close of each fiscal year. The interim reports are part of the annual external audit contract and therefore do not require additional financing.

#### V. PROCUREMENT EXECUTION AGREEMENTS AND REQUIREMENTS

- 5.1 The fiduciary agreements and requirements relating to procurement establish the provisions applicable to all program procurement.
- a. **Procurement execution.** The operations area of the PAFI will be in charge of program procurement selection, tendering, contracting, supervision, and receiving processes.
  - b. **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services arising under the project and subject to international competitive bidding (ICB) will be executed using the standard

bidding documents (SBDs) issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using the project's bidding documents. The sector specialist/project team leader will be responsible for reviewing the technical specifications for procurement during the preparation of selection processes.

- c. **Selection and hiring of consultants.** Contracts for consulting services arising under the project will be implemented using standard requests for proposals issued by or agreed upon with the Bank. The sector specialist/team leader will be responsible for reviewing the terms of reference for procuring consulting services. Selection of individual consultants: At the discretion of the executing agency, international or national announcements of bidding processes to hire individual consultants may be issued to draw up a shortlist of qualified individuals.
- d. **Direct contracting.** In accordance with paragraph 3.6 (c) of document GN-2349-9, the Bank may authorize the direct contracting of Oracle to provide database licensing. This is justified because the technological environment of the Ministry of Finance's database is mainly based on the Oracle platform, which has been performing effectively and has been reliable. Moreover, the Ministry's technical body in charge of information systems has lengthy experience with the Oracle tools and therefore it is not recommendable to change the platform. The estimated value of the contract is approximately US\$3.3 million.
- e. **Recurring expenditures.** These refer to operating and maintenance costs incurred to implement the project, which will be financed by the project under the procurement plan and executed in accordance with procedures agreed upon with the Bank. Recurring expenditures also include the costs of consultants hired to assist the project during the execution period. Operating costs do not include salaries of civil servants or other regular operating expenses of the Ministry of Finance, which are to be accorded priority in the entity's institutional budget during program execution.
- f. **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance up to US\$5 million (20% of the loan) from the loan proceeds and recognize up to US\$2.5 million from the local counterpart (50% of the counterpart),<sup>2</sup> as eligible expenditures incurred by the borrower prior to the date on which the loan is approved, provided requirements substantially similar to those established in the loan contract were complied with. The expenditures must have been made after the date of approval of the project profile (8 August 2014) but may in no event include expenditures made more than 18 months prior to the date of approval of the loan, in accordance with the terms of the Bank policy on recognition of expenditures, retroactive financing, and advance

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<sup>2</sup> The retroactive expenditures refer to consulting contracts and computer equipment worth a maximum of US\$5 million.



procurement (document GN-2259-1/operational policy OP-507). The financial auditing costs will be financed from the loan proceeds.

- g. **Major procurement processes.** The major procurement processes planned for this program are described below.

**Table 1. Major procurement processes**

Activity	Type of bidding	Estimated date	Estimated amount (US\$)
<b>Goods</b>			
Expansion of the Ministry of Finance's technology infrastructure	ICB	2016	5,000,000
Oracle licenses	DC	2016	3,344,000
Additional hardware, VBLOCK expansion, and work stations	ICB	2016	1,760,000
<b>Consulting services</b>			
Individual consulting services to develop the interoperability model	IICQ	2016	1,050,000
Individual local consulting services to update and develop the new SIGEF features	IICQ	2015	780,000
Consulting services to develop and implement the conceptual design of the multiyear budgeting application	IICQ	2016	758,000
Consulting services to implement the single SIG-ON	IICQ	2015	700,000
Consulting services to adapt procedures to the requirements of the Software Audit Command Language	NICQ	2015	240,000

\* To consult the procurement plan for the first 18 months.

DC: Direct contracting; ICB: International competitive bidding; NCB: National competitive bidding; IICQ: International individual consultant selection based on qualifications; NICQ: National individual consultant selection based on qualifications.

- h. **Thresholds.** The thresholds for the use of international competitive bidding and the makeup of the shortlist of international consultants will be made available to the executing agency at the Bank's [procurement page](#). Beneath those thresholds, the selection method will be determined of the basis of the complexity and characteristics of the procurement or contract, which will be reflected in the procurement plan approved by the Bank.
- i. **Procurement supervision.** Given the fiduciary risk identified for the project, the supervision method will be that established in the procurement plan and subsequent updates. Reviews will be performed every six months on an ex post basis, in accordance with the project supervision plan. The ex post review reports will include at least one physical inspection of the procurement processes subject to such reviews. The thresholds for ex post reviews of procurement processes will be those established in the program procurement plan.

- j. **Records and files.** The PCU will have responsibility for maintaining the files and documentation supporting procurement processes and all receipts issued for payments made with project resources, using established procedures.

## VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** The annual budget is prepared by the Ministry of Finance through the Budget Bureau, in coordination with the Ministry of Economic Affairs, Planning, and Development, and other government entities. The PCU will have responsibility for ensuring that the budget allocations of external and counterpart funds are available for implementation of the activities included in the Bank's planning tools (annual work plan, project execution plan, and procurement plan) and for submitting requests to the Bank for budget modifications (transfers) when the component amounts are insufficient to carry out the planned activities.
- 6.2 **Accounting and information systems.** Cash-basis accounting will be used by the program. For accounting records and financial reports, the PCU will use the module for executing agencies of externally funded projects (UEPEX) and SIGEF, which is the official country system and is in general use by coordinating units that receive financial resources from international agencies. This module facilitates online verification of the availability of program resources, budget control, contract control, and the automatic generation of disbursement requests and ancillary forms for presentation to the Bank. It should be pointed out that in 2013, responsibility for the UEPEX/SIGEF module was transferred to the Government Accounting Bureau (DIGECOG), which is currently in the process of adopting International Public Sector Accounting Standards. In the medium term, this will enable the nonfinancial public sector to use accrual basis accounting.
- 6.3 **Disbursements and cash flow.** The funds to be administered by the executing agency as advances may be: (i) deposited in a special bank account in the project's name opened by the borrower in the Central Bank (in U.S. dollars) and in the Banco de Reservas (in Dominican currency) through the National Treasury Department; and (ii) reported in the borrower's general account (in the event that, before the program becomes eligible for disbursement, the Treasury Single Account, which is currently in the initial implementation phase, comes on stream), and then in a separate subaccount in the project's name, in which all deposits of funds and payments made under the operation financed by the Bank will be recorded (provided the mechanism is satisfactory to the Bank). For each fiscal period, the PCU will make sure that it has the necessary budget appropriations for smooth program execution and that they are included in the national budget act. The PCU will also be responsible for justifying program expenditures and their eligibility and for channeling requests for the Bank's no objection. The loan proceeds will be used by the borrower and the executing agency exclusively for eligible expenses. An adequate financial management system and controls will be in place for execution, following the procedures

established in the loan contract and reflected in the POM and in accordance with the financing plan agreed upon periodically with the Bank. The Bank may retroactively finance up to 20% of the amount of the loan from the loan proceeds and recognize up to US\$2.5 million (50% of the counterpart) as eligible expenditures incurred by the borrower prior to the date the loan is approved, provided requirements substantially similar to those established in the loan contract were complied with. The expenditures must have been made after the date of approval of the project profile but may in no event include expenditures made more than 18 months prior to the date on which the loan is approved, in accordance with the Bank policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1/operational policy OP-507). The financial auditing costs will be financed from the loan proceeds.

- 6.4 **Internal control and internal audit.** The Office of the Comptroller General of the Republic (CGR) is the executive branch agency responsible for the design, effectiveness, updating, and supervision of the country public sector internal control system, which includes the operation of internal audit units. It is worth highlighting the efforts in recent years that resulted in the basic internal control standards (NOBACI) being issued, which consist of a set of guidelines that define the control environment, risk management, control activities, communication, monitoring, and accountability of public entities. However, application of those compulsory standards has not taken place as anticipated and the CGR does not actually perform the internal audit function for control processes. Instead, it continues to focus on reviewing payments. This situation may affect the time required to pay for project goods and services and, consequently, execution. As a result, the PCU must maintain close communications with the internal control unit and begin a gradual process of adopting the NOBACI.
- 6.5 **External control and reports.** The Auditor General's Office is the senior external body for fiscal control of public resources, administrative processes, and State assets. However, its institutional weaknesses make it ineligible to perform the program's external audits. The function will therefore be performed by a firm of independent auditors acceptable to the Bank. The external audit reports and terms of reference must comply with the requirements and guidelines established in the Guidelines on financial reports and external auditing of Bank-financed operations.
- 6.6 **Financial supervision plan.** Since the PCU already has good experience in working with the Bank, financial supervision, training, support, and monitoring will be adjusted to this situation to ensure the success of program financial execution. Accordingly, a moderate program of visits will be required during the program, which provides for the necessary strengthening activities. As a measure to mitigate possible execution risks, efforts will be made to have the external auditor and the performance auditors take part in the review of internal controls and meetings will be held between the executing agency and the Bank to review the findings of the preliminary audit reports prior to the end of the fiscal period

each year. The sustainability risk of the PCU will be continuously monitored by the project team, particularly during the final stages of the operation.

- 6.7 **Execution arrangement.** The borrower will be the Government of the Dominican Republic and the executing agency will be the Ministry of Finance, the lead agency in the public finance system. The project will be executed through the PCU of the Ministry of Finance's PAFI, which will be responsible for general project coordination and execution and for reporting on attainment of the operation's objectives.
- 6.8 **Other agreements and financial management requirements.** None.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/15

Dominican Republic. Loan \_\_\_/OC-DR to the Dominican Republic  
Modernization of Budget and Financial Management  
of the Dominican Republic

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Dominican Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to modernize budget and financial management in Dominican Republic. Such financing will be for the amount of up to US\$25,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2015)