Dominican Republic
Public Financial Management Performance Report

Final report

Client: the European Commission

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MONETARY CONVERSIONS
Monetary unit = Dominican Peso (DR $)
US $ 1 = DR $ 32,159 (11th of May 2007)
€ 1 = DR $ 43,509 (11th of May 2007)

GOVERNMENT FISCAL YEAR
1st of January – 31st of December

WEIGHT AND MEASURE
Metric system

Main abbreviations and acronyms

AIO	Access to Information Office
CBDR	Central Bank of the Dominican Republic
CFAA	Country Financial Accountability Assessment
COFOG	Classification of Functions of Government
CPAR	Country Procurement Assessment Report
DID	Department for International Development
DML	Dominican Municipal League
EC	European Commission
GDB	General Directorate for the Budget
GDC	General Directorate for Customs
GDIT	General Directorate for Internal Taxes
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFAP	Integrated Financial Administration Programme
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MDG	Millennium Development Goals
NAPO	National Administration and Personnel Office
NBO	National Budget Office
NCSR	National Council for State Reform
NDC	National Development Council
NOEDF	National Office for European Development Funds
NPO	National Planning Office
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDMAS	Public Debt Management and Analysis System
PEFA	Public Expenditure and Financial Accountability
PFA	Public Financial Administration
PFM	Public Finance Management
PDAS	Public Servants Administration System
RAI	Responsible Access to Information
RBDR	Reserve Bank of the Dominican Republic
ROSC	Review of Observance of Standards and Codes
SSEPD	State Secretariat for the Economy, Planning and Development
SSF	State Secretariat for Finance
SST	State Secretariat for the Treasury
TSP	Technical Secretariat of the Presidency
TTIG	Tax on Transfers of Industrial Goods

UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

Executive summary

An effective public financial management system (PFM) helps government to meet and to balance the three interrelated objectives of budget management:

- Aggregate fiscal discipline;
- Efficient assignation of resources in line with public policy priorities;
- Operational efficiency in the management of finances and in the provision of services.

This report presents an assessment of the PFM performance of the Dominican Republic based on an international reference framework (*Public Expenditure and Financial Accountability* - PEFA). This framework identifies six critical dimensions of public financial management based on 28 indicators. The dimensions are:

i. Credibility of the budget;
ii. Comprehensiveness and transparency;
iii. Policy-based budgeting;
iv. Predictability and control in budget execution;
v. Accounting, recording and reporting;
vi. External scrutiny and audit.

The practices of donors which affect the government's PFM are also subject to analysis (3 indicators).

The main objectives of the PEFA exercise are: (i) to establish an integrated framework which will help the Dominican government (and other interested parties) to monitor the country's PFM performance through time; (ii) to contribute to the modernisation process of PFM, determining the measure in which on-going activities generate results; and (iii) to facilitate the harmonisation of the dialogue between the government and donors based on a common measurement and monitoring framework.

In accordance with the PEFA methodology, this report does not provide recommendations. However, it is hoped that discussion on its findings will contribute towards the drafting of a plan for priority activities by the government. This effort will be regularly supplemented with future updates to assess the effectiveness of those activities based on PFM performance.

In recent years the public financial management system in the Dominican Republic has undergone significant changes. It is worth bearing in mind that the majority of the organisational, institutional and legal reforms mentioned in this report are too recent to be able to contrast their sustained effects in the system.

1) Integrated assessment of PFM performance

Budget credibility

Before the year 2006 the budget of the Dominican Republic was not a realistic document given that budgeted revenue and expenditure differed considerably from the real values, with even wider disparities in expenditure disaggregated by institutions. These imbalances took place under a regulation (now abolished) which allowed the President to create new budget allocations in the course of the year amounting to three-quarters of surplus revenue. There was an incentive to underestimate the forecasted revenue and expenditure because this generated a margin for manoeuvre which allowed more flexibility in planning the expenditure, thus avoiding the rigidness of the budget. On another front, until the year 2005 central government institutions accumulated large payment arrears in their expenditure, thus distorting the effective application of the approved budget. The implementation of tax reforms and the positive performance of the economy from the 2005 administration onwards produced positive effects and enabled the budgets to be prepared based on realistic foundations, thus improving their credibility.

Comprehensiveness and transparency

The comprehensiveness of the budget has improved although several deficiencies still remain. The planning, execution and reporting of the central government's budget are presented in a format that reflects the most relevant dimensions of the expenditure, in line with international standards. Considerable efforts have been made in recent years to include all the revenue and expenditure of the different public institutions in the revenue budget and the law on central government expenditure. There still remain a number of central government institutions which receive own funds independent of the State's budgetary year, but the amount of these funds is decreasing and do not appear to be very high. The fiscal information relative to loans is quite comprehensive although it is not always possible to obtain financial reports that enable to justify the reception and the use given to donations. On another front, central government still does not supervise the aggregate fiscal risk associated with the non-financial public sector. The public financial system has substantially improved its level of transparency in the last few years as a result of new regulatory provisions which guarantee public access to key fiscal and budget information and of a 'revolutionary' change in the method of organising financial information (introduction of the IFMS). Nevertheless, the budget documentation available to the legislative branch at the time of examining the budget project continues to be insufficient. On another front, although the municipal councils know in advance the percentage of funds which central government will transfer to them (and are thus able to calculate the amount), there are a number of transfers for specific ends that diminish the transparency of intergovernmental relations. The municipal councils issue their quarterly reports and monthly budget execution reports to the Office of the Comptroller General which reviews their income and expenditure accounts.

Policy-based budgeting

Currently, the Dominican Republic does not have a National Development Plan but a Government Plan, and neither is there an abundance of sectoral plans. The budget planning process is organised in a series of stages, the majority of which without deadlines or with frequent delays. Because the institutions do not give much credibility to the budget, they do not demand full participation in the budget process (they basically centre their interest on its execution). In theory, the budget process is a cross between 'top-down' and 'bottom-up' planning. In the Dominican Republic the 'top-down' axis is weakly connected to macro-economic policies, despite the respect for the agreements with the International Monetary Fund (IMF). There are no macro-economic equilibrium models, multi-annual budgeting instruments or the necessary mechanisms to verify the appropriateness of sectoral budget allocations in relation to public policies and strategies, which does not mean that certain policy approaches are not prioritised in the annual planning of the budgets (such as, for example, the attention given to social sectors). In general, budget proposals are elaborated 'bottom-up' without a prior framework of sectoral ceilings. The arbitration is exercised late and in a centralised manner through purely political negotiations. The budget project is sent to Congress on the brink of time and even off-schedule, which reduces the possibility of an in-depth analysis by the legislative branch. The last two years began without the approval of the new budget, which led to budget execution delays. However, a new legal framework came into force in 2006 which introduces major changes in the areas of planning and budgeting, paving the way for multi-annual management based on results.

Predictability and control in budget execution

Predictability and control in budget execution demonstrates transparency in the obligations and liabilities of the taxpayer. The taxpayer has excellent access to information on his responsibilities and administrative procedures on tax issues. There is a taxpayers' register cross-linked to different databases and tax collection effectiveness is highly satisfactory (although the oversight activity only covers a very small sample of the taxpayer population). The current tax default rate is less than 1%. In general, the current system provides a good estimate of the taxable base and the collections to be made in the course of the fiscal year.

Public debt recording and reporting are of high quality although the information relative to external debt is more complete than the one on internal debt. For contracting loans and furnishing guarantees the guidelines of the new law on public credit are already being implemented.

In general, internal controls of the public financial management are verifications in compliance with the legal and administrative regulations in force. The internal audit function is still not of a systemic type, which restricts its use in making management decisions to improve the effectiveness of the entity's operation. Nevertheless, the new law on internal control aims to achieve a more systemic internal audit.

Similarly, ex-ante control of procurement and contracting is mainly restricted to compliance with the regulations, although the Office of the Comptroller also exercises certain control over relevant aspects. These regulations are basically founded on a Decree, because the new law on procurement and contracting and its amendments (which reflects international regulations) have still not been issued. Although there is a system in place for centralising information on adjudications and contracting, a systemised register is still not in operation. In practice, it is difficult to judge whether the methods used respect the conditions of open competition. Neither the Challenge Committee nor the Claims Committee are operating as originally planned.

Accounting, recording and reporting

The accounting, recording and reporting of the budget execution are aimed at monitoring compliance with the established objectives, facilitating management tools for the decision- making process. The significant progress made in the last few years is recognised and the multiple processes that are being implemented simultaneously are taken into consideration. However, to date, the breadth, the content and the method of presenting the financial information highlight serious limitations. Among other deficiencies, it is worth highlighting the lack of consolidated information at non-financial public sector level and the absence of an assets and liabilities balance sheet in the financial statements. These weaknesses in the presentation of the information on the execution of the budget in the course of the fiscal year restrict the use of the information in the government's management decision-making process, in the legislative mission of Congress and in the public's oversight in general.

External scrutiny and audit

Since 2003, the Audit Commission has been the subject of an institutional reinforcement and modernisation process. The Commission holds wide powers and has strengthened its autonomy as supreme oversight institution. The recent adjustments to the role of the Office of the Comptroller General, an institution which now mainly exercises *ex-ante* control, have given rise to the *ex-post* control lying even more with the Audit Commission. The Audit Commission informs Congress (and the public in general) facilitating its role of government overseer. The current weakness in the oversight exercised by Congress is not just due to internal factors (limited capacity), but to the fact that it is aggravated by the limited content of the compliance audits published by the Audit Commission. To be able to perform its role of overseer, Congress must be able to verify the veracity of the revenue collection and realised expenditure figures, the institutional efficiency to fulfil the assigned tasks and the effectiveness of public investment ('value for money'). The lack of accountability, both in the financial and the provision of services fronts, generates a void in the public financial management system in the Dominican Republic.

Donor practices that affect PFM

Official Development Assistance (ODA) is of a small scale in the Dominican Republic and it is generally aimed at specific purposes (project focussed). Development investments contemplated in the country's budget are mainly financed with national resources or multilateral external debt. An increasing proportion of these credits are channelled directly through the national government systems. The application of the PEFA performance indicators on donor practices show that budget support (2004-2006) has been practically exclusively restricted to international financing institutions. These credits are contracted by the government, and thus predictable, although the government not always manages to meet the disbursement requirements within the established timeframes. In general, there is a lack of uniformity in donor practices in relation to the financial information supplied to the Dominican government. Although information on the assignation of co-operation funds for projects and programmes is supplied, there is less information available on the disbursements made. With the exception of 'budget support' credits, the established rhythms of disbursements do not coincide with the government's budget cycle.

2) Assessment of impact of Public Financial Management failures

Current PFM performance contributes to the global fiscal discipline in a limited way. In the last fiscal years the macroeconomic stability objectives have indeed been taken into consideration (with macroeconomic indicators agreed with the International Monetary Fund within the framework of the stand-by loan) but, apart from an instructive letter, this macro framework has failed to translate to a real multi-annual fiscal framework. In two of the last three fiscal years fiscal expenditure has exceeded the projected figure. However, in practice, this hardly had an effect on fiscal stability because it was compensated by higher tax revenue.

Because of the lack of national development policies (apart from the Government Plan and the document 'Investing in Development', 2005) and the scarce existence of sectoral plans it is difficult to argue that the assignation of funds is, above all, policy-based. Current planning lacks the necessary instruments for the purpose, such as a medium-term expenditure framework. No doubt, public investment reflects certain policy approaches, such as social investment, but the assignation of budget funds is carried out in a far from orderly manner and without explicit priority-establishing criteria.

The control system, both internal and external, is geared towards controlling compliance with the regulations and sheds little light on operational efficiency. Payroll, non-salary expenditure and procurement and contracting control are of an administrative instead of a managerial nature. Similarly, the external audit is restricted to controlling compliance with the regulations. Bearing in mind the usefulness of this control for legal purposes and for establishing responsibility in public office, its content does not shed light on whether the public financial management leans towards improved operational efficiency in the provision of services. A financial statement is not published at the end of the fiscal year. The executive branch (the General Directorate of Government Accounting) prepares a Statement of the Revenue Collection and Investment which represents part of the financial statement. This document –although not of a public nature- is subject to the analysis (not the opinion) of the Audit Commission, which sends it to Congress for information purposes. These deficiencies are a constraining factor for the legislative branch to adequately exercise its role of overseer of the executive branch's daily tasks. Congress does not have the instruments to be able to judge the execution of the budget in relation to the established public investment objectives (approved in the budget) and, in general, to the expected results at the end of the fiscal year. Therefore, Congress plays a limited role in the definition and materialisation (through the budget) of national policies.

However, it is worth emphasising that the public financial management system is in the midst of an adjustment process towards a more transparent and modern system. Several laws with an impact on the financial management system were approved at the end of 2006 and came into force at the start of this year[1].

3) Planning perspectives and implementation of reforms

The reforms introduced in the last two years involve a metamorphosis of the public financial management system. The reform process is taking place in a political

[1] See II.3 and IV.

environment that facilitates its introduction and, so far, the process has been widely supported by donors and international financing institutions, both in financial and technical terms. The perspectives and implementation of the reforms will largely depend on three factors:

The time needed for the changes introduced in last two years to mature. That is, to achieve that the government institutions more affected by the reform fully internalise the advantages associated with the new financial management model;

The space granted to Congress for performing its guidance and overseer role. The approach followed has been fundamentally of a technical nature. The reform process is strongly supported by foreign experts paid by technical aid and a general framework of reforms guided and supported by Congress is needed;

The extent to which decentralised levels and sub-national governments are incorporated.

The financial sustainability of the reform seems to be guaranteed in the medium term given that the main donors which have been supporting the reform are refuelling their contributions. In December 2006 the PFM reform co-ordination table was created under the presidency of the State Secretariat of the Treasury. All the institutions and donors involved in the financial administration reform are members of the table.

PFM in the Dominican Republic performance indicators

	A. PFM RESULTS: Credibility of the budget	Scoring
ID-1	Aggregate expenditure out-turn compared with original approved budget	**D**
ID-2	Differences in budgeted expenditure compared with original approved budget	**C**
ID-3	Differences in total income compared with original approved budget	**A**
ID-4	***Balance and monitoring of expenditure payment arrears***	**B+**
	B. KEY CHARACTERISTICS OF ALL THE STAGES: Comprehensiveness and Transparency	
ID-5	Classification of the budget	**B**
ID-6	Comprehensiveness of information included in budget documentation	**C**
ID-7	Extent of government operations included in budgetary reports	**C+**
ID-8	Transparency of inter-governmental fiscal relations	**A**
ID-9	Oversight of aggregate fiscal risk from other public sector entities	**D+**
ID-10	Public access to key fiscal information	**B**
	C. BUDGET CYCLE	
C i) Policy-based budgeting		
ID-11	Orderliness and participation in the annual budget process	**D+**
ID-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D**
C ii) Predictability and control in budget execution		
ID-13	Transparency of taypayer obligations and liabilities	**B**
ID-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**
ID-15	Effectiveness in collection of tax payments	**A**
ID-16	Predictability in the availability of funds for commitment of expenditure	**D+**
ID-17	Recording and management of cash balances, debt and guarantees	**B**
ID-18	Effectiveness of payroll controls	**D+**
ID-19	Competition, value for money and controls in procurement	**D+**
ID-20	Effectiveness of internal controls for non-salary expenditure	**D+**
ID-21	Effectiveness of internal audit.	**D**
C iii) Accounting, recording and reporting		
ID-22	Timeliness and regularity of accounts reconciliation	**B**
ID-23	Availability of information on resources received by service delivery units	**B**
ID-24	Quality and timeliness of in-year budget reports	**D+**
ID-25	Quality and timeliness of annual financial statements	**D**
C iv) External scrutiny and audit		
ID-26	Scope, nature and follow-up of external audit	**D+**
ID-27	Legislative scrutiny of the annual budget law	**D+**
ID-28	Legislative scrutiny of external audit reports	**D**
	D. DONOR PRACTICES	
D-1	Predictability of direct budget support	**B**
D-2	Financial information provided by donors for budgeting and presenting reports on aid for projects and programmes	**D+**
D-3	Proportion of aid administered through the use of national procedures	**D**

1 Introduction

Background and objectives

For the purpose of updating the information on the PFM, the Dominican government agreed with the European Commission (EC), the IDB and the WB to implement the PFM Performance Measurement Reference Framework. This framework, developed under the Public Expenditure and Financial Accountability programme (PEFA)[2], examines the performance measurement framework based on 31 indicators, presented in this report.

Within the framework of the assistance strategies of the World Bank (WB) and the Inter-American Development Bank (IDB), and for the purpose of supporting the Government of the Dominican Republic in the implementation of its growth and poverty reduction strategy through effective public financial administration systems, an *Assessment of the Fiduciary System* was carried out in 2005 in five volumes[3]. The second volume presented an analysis of the country's PFM system (CFAA)[4] and a series of recommendations for the period 2004-2005 (short-term), the period 2006-2010 (medium-term) and the period 2011+ (long term)[5].

The main objectives pursued in the implementation of the PEFA framework are:

1. Establish an integrated framework which will help the government and other interested parties to monitor the performance of the country's PFM systems, processes and institutions through time;
2. Contribute to the PFM modernisation process, determining the measure in which the activities are generating better results and identifying successful reforms to extracts lessons from them;
3. Facilitate the harmonisation of the dialogue between the government and donors based on a common measurement and monitoring framework. This report is intended to serve as input for the work of the government and international co-operation within the framework of budget support.

Process

Under the co-ordination of the National Office for European Development Funds (NOEDF), the Delegation of the European Commission has financed the implementation of the PEFA framework by contracting a team of international consultants[6].

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2 Programme co-sponsored by the WB, the IMF, the EC, the United Kingdom's Department for International Development (DFID), the French Ministry of Foreign Affairs, the Norwegian Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs and the Strategic Partnership with Africa (SPA). To obtain more information on the reference framework (PEFA, 2005) please visit the PEFA web site (www.pefa.org).

3 The World Bank, the Inter-American Development Bank and the Government of the Dominican Republic (2005).

4 Assessment of Financial Administration in the Public Sector (CFAA), volume II.

5 *Idem,* pages 38-47.

6 The team was made up by Giovanni Caprio (team leader), Willem Cornelissen and Esther Palacio of ECORYS-NEI in Rotterdam, The Netherlands (with EC funding).

Prior to the start of the mission in Santo Domingo, two members of the team and a representative of the consulting company ECORYS gathered with the European Commission's head of PEFA activities in Brussels[7] for a briefing. The team received recent information and documentation.

At the start of the mission in the Dominican Republic the team gathered with the Delegation of the European Commission[8] to co-ordinate the methods and the logistic aspects of the study. This was followed by an introduction to the NOEDF, the Department of Economic Studies of the State Secretariat for the Treasury and the Undersecretariat for International Co-operation of the State Secretariat for the Economy, Planning and Development. The Department of Economic Studies and the Undersecretariat for International Co-operation arranged the majority of the meetings with the different Government Departments and accompanied the team on various occasions. The mission had the support and the active participation of different undersecretariats, departments, directorates and specific professionals.

During the mission, the EC Delegation arranged meetings with the resident representative of the International Monetary Fund in Santo Domingo, representatives of the Inter-American Development Bank and the World Bank. In a video-conference arranged in the office of the World Bank, the context of public finance in the Dominican Republic was discussed with the PEFA Secretariat and the Financial Management Office for Latin American and the Caribbean in Washing[9].

The taskforce visited the Dominican Republic in the period between 26th of January and 28th of February 2007. The debriefing session took place on the 28th of February in the premises of the NOEDF[10].

Methodology

The data gathering method consisted of the following:

- Document gathering;
- Arrangement of an information/participation workshop with the main players of the country's PFM. Fifty civil servants and a number of international co-operation and civil society representatives participated in the workshop;
- Gathering of statistical data for the budgetary years 2004, 2005 and 2006 and application of consistency checks in Excel crossing data from different sources;
- Interviews with public servants of secretariat, undersecretariat and directorate level and, subsequently, technical level. At the end of the mission a number of 'control interviews' we conducted for the purpose of sounding out the solidity of the information gathered;
- Presentation of the draft report to representatives of the government and international co-operation on 28th of February 2007.

No field visits were made to municipalities or autonomous entities.

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7 Giovanni Caprio, Willem Cornelissen and Douwe Wielenga met with Jean-Marc Ruiz.

8 Giovanni Caprio and Esther Palacio met Ben Nupnau, Head of the Economic Section, and Rodolfo Lazarich, expert from the same section.

9 The content of the report is the sole responsibility of the team of consultants and does not imply the approval of the European Commission, NOEDF, other Dominican agencies, the PEFA Secretariat or the World Bank.

10 Willem Cornelissen and Esther Palacio represented the team of consultants in the debriefing session, which was also attended by Jean-Marc Ruiz.

Scope of the assessment

The PEFA framework is mainly implemented at Central Government level, which represents 74% of the non-financial public sector. It is worth highlighting that in the Dominican Republic municipalities do not have the right to levy taxes (although they are entitled to charge fees and tariffs for a series of services) and they largely financially rely on the transfers received from Central Government. Therefore, in practice, the scope has been nearly the same for the government as a whole, representing 78% of the non-financial public sector expenditure (see table 1).

Table 1 Composition of the non-financial public sector and distribution of aggregate expenditure

Institutions	**No. of Entitiesº**	**Part in public expenditure**
Central Government	23	74%
Decrentralised or autonomous public institutions & social security institutions	45	4%
Local governments (Municipalities)	317	4%
Local government decrentralised institutions	1	4%
Non-financial public companies	19	14%

Source: Audit Commission (2006). Annual Report to Congress 2005.

Structure of the Report

Chapter II briefly describes the context of the country, the structure of the public sector and of the public budgets, as well as the legal and institutional framework and the PFM reform. Chapter III presents the assessment of the PFM systems and processes based on the 31 fundamental indicators of the reference framework. Finally, Chapter IV describes the recently introduced reforms.

Next steps

In accordance with the methodology of the reference framework, this report does not provide recommendations. However, it is hoped that, once the results of the report have been discussed, the government, with the support of international co-operation, will define the priorities that are still not covered by the current reforms, for the purpose of contributing to improve PFM performance. This effort will be supplemented with regular future applications of the PEFA framework to measure the progress achieved in each of the areas covered by the performance indicators.

2 Country background information

2.1 Description of the economic situation

Context of the country

The Dominican Republic has a population of 9.2 million and an estimated Gross Domestic Product (GDP) *per capita* of US $ 3.458 (2006). In the decade of the 1990, the country experienced significant economic growth with a positive impact on the quality of life of most of the population. The Dominican Republic stood out as one of the fastest growing economies in the region. Between 1990 and 1998 the social indicators improved and poverty fell substantially[11]. The government estimates that the country will be able to meet the majority (or all) of the Millennium Development Goals (MDG).

As of the year 2000, the country's rate of growth began to decelerate and came to a head in 2003 and 2004 with an acute economic and financial crisis. The collapse of one of the country's major banks caused a confidence crisis and, as result, a capital drain, giving rise to a 100% devaluation of the Dominican peso. Furthermore, it gave way to a dramatic fall in the country's actual revenue and a sharp increase in the poverty rate (a duplication of the number of persons living in extreme poverty in the country)[12].

Within the framework of a new stand-by agreement with the IMF, the government which took office in August 2004 drew up a strategy in an attempt to recover the country's macro-economic growth, to reinforce governance and to increase social and territorial protection and equality[13]. There are clear signs that the country is returning to economic growth (9.3% GDP increase in 2005 and 10.7% in 2006; revaluation of the peso and 5% inflation fall, 2.5% fall in unemployment and a clear debt reduction tendency as a percentage of the GDP)[14]. The sectors spearheading this growth are those associated with tourism, communications, transport and national manufacture.

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[11] The poverty rate fell from 33.9% to 28.6% in 1999, whilst extreme poverty fell from 7% to 5% (Source: Report on Poverty in the Dominican Republic, the World Bank, Inter-American Development Bank, Washington 2006, page 2). According to the report Evolution of Poverty and Inequality in the Dominican Republic", published by SSEPD, the fall in the poverty rate has been more significant in recent years: 483 thousand Dominicans managed to come out of moderate poverty between 2005 and 2006.

[12] In 2004, nearly 42% of the Dominican population lived in poverty, of which 16% lived in extreme poverty (Source: *Idem,* page i).

[13] Stand-by agreement of the 31st of January 2005 with the IMF for US $ 653.3 million. Six dibursements were made of a total of US $ 423 million. (Source: Press Release, 17th of February, 2007 *IMF Fifth and Sixth Reviews Stand-by loan Agreement).*

[14] FMI *press release*. February, 17th, 2007.

However, the inequality in income distribution continues to be a scourge and has remained constant for the last seven years, with a Gini coefficient of 0.52, the average in Latin America and the Caribbean[15].

The challenge for the future is to combat poverty and inequality, reinforce governance and improve the quality of the basic services, such as the electricity supply, education and health. Reducing social exclusion is fundamental[16].

National Development Plan

The Dominican Republic does not have a National Development Plan approved by the executive and the legislative branches. The Poverty Reduction Strategy which was drawn up in 2003[17] is currently not valid. Another more articulated platform was created in 2004 to draw up the general outlines for development and external financing, which served as a base for preparing the current Government Plan[18]. In 2005, the Government presented the document 'Investing in Development', a document aimed at achieving the Millennium Development Goals, however, there is no knowledge on the current status of that document. In practice, the only relevant document which draws up the general lines of policy is the Government Plan (covers 4 years).

The Government Plan works on the assumption of maintaining economic growth through prudent macro-economic policies, focussing on three fundamental areas: a) promoting economic opportunities for poor social strata; b) strengthening the provision of the social services and strategic investments aimed at the poor and c) improving fiscal equality and renewing the social protection systems. The priority policy guidelines cover such areas as education and health, micro, small and medium companies, labour legislation reforms and the orientation of social welfare. For example, in the social area[19] an initial reorganisation of the social welfare system has been introduced through the elimination and restructuring of a number of small programmes, creating the *Solidarity Programme*, which includes the *Incentives for School Attendance* programme (ILAE) and the *Eating comes First* programme. At the end of 2005 social expenditure reached 7.0% of the GDP (38.5% of government spending in 2005), which was the highest in 10 years. Finally, in the 2006 budget, 7.9% of the GDP was allocated to social expenditure (44.2% of government spending in 2006), the highest percentage in the country's last 25 years. Whist adhering to the budget austerity mandate for the year 2007,in the 2007 Expenditure Budget attempts were made to protect fund assignations aimed at important programmes such as, among others, the Democratic Security Plan, the New Penitentiary Model, the Agricultural and Livestock Products Pledge Programme and the Financial Administration Reform[20].

Global public sector reform programme and basis of the PFM reforms in relation to the previous one

See chapter IV.

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15 The richest quintile (20%) of the population holds 56% of the national income. Source: Poverty in the Dominican Republic Report, the World Bank, the Inter-American Development Bank, Washington 2006, pages i, 3 and 4.

16 For example, nearly 30% of poor Dominicans do not hold an official identity document, which prevents them from gaining access to the basic public services, such as schooling and healthcare (Source: *Idem*).

17 Strategy to Reduce Poverty in the Dominican Republic, Presidency of the Republic, NPO, 2003.

18 NPO, 2004 (EC communication).

19 Based on Decree no. 1554-04.

20 Communication from the Social and Economic Analysis Guidance Unit of the SSEPD.

2.2 Description of budget results

Fiscal performance

In the social crisis years (2002 - 2004) financing through external debt (for example, IDB loans) was inevitable. However, either due to a deliberate underestimation of fiscal revenue, the introduction of tax reforms or a climate of better economic performance, the excess in public expenditure not always justified the need to finance it through debt (2005). In the last fiscal year (2006) the government has managed to maintain fiscal discipline. Table 2 summarises the Table of Government Operations (GFO), presenting only the operations of Central Government. It is worth noting that for the non-financial public sector there is a surplus transfer from public companies to Central Government, reducing the need for external financing. Apart from the possibility offered by external financing, there is a limited margin through adjustments at tax levels[21].

Table 2 Central Government Operations (in percentage of GDP)

	2004	2005	2006
Total revenue	**11,9**	**15,2**	**16,6**
Own revenue	**11,8**	**15,0**	**16,4**
Grants	**0,1**	**0,3**	**0,3**
Total expenditure	**10,6**	**15,8**	**16,6**
Non-interest expenditure	**8,9**	**13,6**	**15,1**
Interest expenditure	**1,6**	**2,2**	**1,5**
Aggregate deficit (including grants)	**1,3**	**-0,6**	**0,0**
Primary deficit	**2,9**	**1,6**	**1,5**
Net financing	**-1,3**	**0,6**	**0,0**
External	**-0,8**	**1,6**	**1,0**
- Disbursements	**1,4**	**4,1**	**3,5**
- Amortisation	**2,1**	**2,5**	**2,5**
Domestic	**-0,5**	**-1,0**	**-1,0**
- Disbursements	**0,0**	**1,1**	**0,4**
- Amortisation	**0,5**	**2,1**	**1,3**

Source: Income budgets and Central Government Expenditure Laws 2004, 2005 and 2006. Therefore, it excludes financing through the surplus of (semi) public companies and does not reflect those payments.

Assignation of funds

Due to the lack of a multi-annual budget based on priorities, a comparison of the budget assignations over the last three fiscal years does not reveal clear tendencies. An exception to this is the growing tendency to increase public expenditure in education. However, relative expenditure on education continues to be below the region average. Tables 3 and 4 present the budget execution according to function, sector and economic classification.

[21] Source: IMF: Stand-by Agreement of 31st of January 2005; IMF. Dominican Republic: Letter of Intent. Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding. January 31, 2007.

Table 3 Execution of General Budget by Function and Sector (As a percentage of total expenditure)

	2004	2005	2006
General services	**18,2%**	**19,4%**	**16,5%**
General government administration	10,6%	7,0%	8,2%
Defense, public order and justice	6,3%	7,5%	7,2%
Other general services	1,3%	4,9%	1,1%
Social services	**40,8%**	**37,9%**	**41,9%**
Education	8,3%	9,1%	9,9%
Sport and recreation, cultural and religious services	1,2%	1,8%	1,4%
Health	6,8%	7,3%	7,3%
Welfare	9,2%	7,3%	8,1%
Housing and urban planning	1,3%	1,1%	2,6%
Potable water and sewage	5,7%	2,1%	2,0%
Municipal services	4,6%	4,9%	6,0%
Social security	3,8%	4,4%	4,6%
Economic services	**16,0%**	**24,9%**	**19,7%**
Public debt interest and expenditure	**9,7%**	**5,3%**	**6,3%**
Environment protection	**0,6%**	**0,6%**	**0,4%**
Others	**14,7%**	**11,9%**	**15,2%**

Sources: Budget execution reports (2004 and 2005) and data on budget execution supplied by SST (2004-2006).

Table 4 Execution of General Budget by economic classification categories (as a percentage of total expenditure)

	2004	2005	2006
Current expenditure	**68,6%**	**73,9%**	**78,3%**
Wages and salaries	21,5%	22,9%	22,7%
Goods and services	8,9%	11,2%	13,9%
Interest payments	10,2%	6,6%	8,4%
Transfers	27,9%	33,2%	33,4%
Capital expenditure	**31,4%**	**26,1%**	**21,7%**
Direct real investment	8,8%	12,8%	12,2%
Capital transfers	22,6%	13,2%	9,4%

Source: Budget execution reports (2004 and 2005) and date on budget execution supplied by SST (2004-2006).

2.3 Description of the legal and institutional framework for PFM

Legal framework for PFM

The *Constitution of the Dominican Republic* covers aspects of public financial management. It particularly establishes general legislative control principles. Congress: (i) votes the Revenue Budget and Law on Public Expenditure (Art. 37.12), (ii) approves or disapproves, upon revision of the Audit Commission, the Annual Statement of Revenue Collection and Investment (Art. 37.2) and (iii) authorises borrowing (Art.

37.13). Title VII of the Constitution, which has four articles (78-81), covers the Audit Commission, its structure and attributions, whilst Title VIII (Art. 82-85) covers issues relative to the National District and Municipalities.
The following list presents the main laws in force on public financial administration. With the exception of the *Law on Government Accounting* (126-01) all these laws have been adopted in the last two years. The government has thought it appropriate to introduce the new legal framework gradually, aware of the fact that change processes always encounter certain resistance. We make special reference to the laws on the National Treasury (567-05), Public Credit (6-06) and the Budget (423-06) because of their implications on adapting public finances to international standards. Some of these laws are still pending regulation.

Main public financial administration laws

Constitution of the Dominican Republic (Proclaimed on 25th of June 2002)

- Law on Government Accounting (126-01);
- Law on the Participation of Municipal Councils in State Revenue (166-03);
- Law on the Audit Commission of the Dominican Republic (10-04);
- Resolution 06/04 Containing the Application Guidelines of Law 10-04;
- Law on the National Treasury (567-05);
- Organic Law on the Public Sector Budget (423-06);
- Law on the Creation of the State Secretariat for the Treasury (494-06);
- Law on the Creation of the State Secretariat for the Economy, Planning and Development (496-06);
- Law on the Financial Administration System of the State (5-07);
- Law on Public Credit (6-06);
- Law on Planning and Public Investment (498-06);
- Law on Government Procurement and Contracting (340-06);
- Amendment to the Law on Government Procurement and Contracting (449-06);
- Tax Code (11-92);
- Law on the granting of autonomy to the GDC (226-06);
- Law on the granting of autonomy to the GDIT (226-07);
- Law on the establishment of the Internal Control System (10-07).

The Law that establishes the Internal Control System (10-07) considers internal control as a process under the governance and monitoring of the Office of the Republic's Comptroller General. The Internal Audit is an integral part of internal control (Art. 25).

The importance of the new legal framework is that it has managed to create a positive legal environment for modern and transparent public financial systems.

Institutional framework for PFM

Several entities play a fundamental role in the public financial management process of the Dominican Republic. It is worth stressing that the roles played by some of these entities in the budget cycle have changed significantly since January 2007. These entities are:

a) The Technical Secretariat of the Presidency;
b) The National Development Council (or extended: the Government Council);
c) The State Secretariat for the Treasury (formerly Finance);

d) The State Secretariat for the Economy, Development and Planning (formerly the central nucleus of the Technical Secretariat of the Presidency);
e) The line State Secretariats, autonomous entities and sub-national governments;
f) The Office of the Comptroller General of the Republic;
g) The Audit Commission
h) Congress

The planning process begins with designing a fiscal strategy. Until 2006, this process was managed by the Technical Secretariat of the Presidency (TSP). Since 2006, this task is performed by the new State Secretariat for the Economy, Planning and Development (SSEPD) in co-ordination with the State Secretariat for the Treasury (SST). For 'top-down planning, the SST supplies the projections of revenue collected by the Treasury, the General Directorate for Customs and the General Directorate for Internal Taxes, whilst the Central Bank contributes with macro-economic forecasts and information on external debt. This strategy should provide the fiscal framework for a budget plan which contemplates the main policies and programmes and establishes budget limits. For 'bottom-up' planning the State Secretariats (line ministries) should present their schedule of funds (theoretically within the established timeframe)[22].

Until the end of 2006, the National Budget Office (NBO), the National Planning Office (NPO) and the National Administration and Personnel Office (NAPO) reported to the TSP, where the budget was prepared. As of 2007, the NBO was institutionally relocated to the new State Secretariat for the Treasury, whilst the NPO and the NAPO are now part of the SSEPD. Currently, the General Directorate for the Budget is the governing body responsible for planning and preparing the revenue budget and the law on expenditure as well as for scheduling and administrating the assignations of the funds contained therein. The capital expenditure (investment budget) and personal expenditure estimates come from the SSEPD. The General Directorate for the Budget is responsible for consolidating the budget.

The preliminary draft annual budget is subjected to debate in the National Development Council (generally extended to the Government Council) and, upon approval, it is sent as 'revenue budget project and law on expenditure' to Congress for approval.

Once approved, the expenditure units (line ministries, autonomous entities, sub-national governments) are responsible for its implementation[23], but the expenditure commitments require the global authorisation of the General Directorate for the Budget (commitment quotas)[24].

"The Office of the Comptroller General of the Republic is the agency responsible for the design, validity, up-date and supervision of the internal control system of the public sector, which includes the operation of the Internal Audit Units"[25]. Each Central Government institution has its own Comptroller's Office representative. If the internal comptroller does not intervene with corrections or comments, the implementing entity can go ahead with the forecasted activity. Once concluded, the Office of the Comptroller

22 As described in ID-11, the budget process followed until now differs from this theoretical model.

23 The General Directorate for Government Accounting is responsible for the regulations, procedures and recording the Government's income and expenditure.

24 Until the coming into force of the new organic law on the budget at the start of 2007, every expenditure item needing to be incurred required the specific authorisation of the NBO.

25 Law that establishes the Internal Control System (10-07), Art. 3

General verifies compliance and authorises the expenditure (accrued)[26]. In this manner, and until the new law that establishes the internal control system (Law 10-07) is regulated, the payment application for the Treasury is issued by the Comptroller's Office.
The National Treasury is responsible for the custody of public funds and securities as well as for scheduling and defining State expenditure. Thus, the Treasury draws up the annual cash schedule –in co-ordination with the General Directorate for the Budget (GDB) - and monitors and assesses it. Based on the availability of funds, on the commitments schedule and on the expenditure effectively accrued, it established the regular payment quotas of central government (a task performed in conjunction with the GDB and the SSEPD). It also executes payments derived from obligations taken on by central government, provided that they have been ordered by the competent authority. The Treasury makes use of the Reserve Bank (with branches all over the country) as financial agent to issue payment authorisations.
At the end of the fiscal year it is the General Directorate for Government Accounting's job to draw up the year-end Financial Statement (in practice, the Report on the Revenue Collection and Investment Statement). It is the State Secretariat of the Treasury's job to send the report to the Audit Commission[27]. The Audit Commission analyses the report and presents the information –as part of its Annual Report- to the Congress of the Republic.

[26] With the introduction of the new law on the Comptroller's office, it is expected that these authorisations will be decentralised at representative of the Comptroller's Office level in each of the line ministries.
[27] Source: Law 126-01, Art. 9, number 6.

Table 5: Institutional framework for PFM in the Dominican Republic (Situation 2007)

Entities	Fiscal framework, Approval of policies, public debt	Formulation and review of policies and strategies	Formulation of budget and approval	Budget implementation, authorisation and internal control	External Control
1. Congress	Information				Information
2. National Development Council					
3. Technical Secretariat of the Presidency					
4. State Secretariat for the Treasury (SST)					
5. State Secretariat for the Economy, Planning and Development (SSEPD)					
6. Line State Secretariats, autonomous entities and sub-national governments					
7. Office of the Comptroller General of the Republic					Information
8. Audit Commission					

3 Assessment of PFM systems, processes and institutions

The objective of this chapter is to provide an assessment of the fundamental elements of the PFM system, as reflected by the corresponding performance indicators, and to render an account of the main associated initiatives. Included here are the ratings of the indicators which are presented in detail in Annex 1.[28]

3.1 Credibility of the budget

To assess whether the budget is sufficiently realistic and is implemented as forecasted, this section focuses on four indicators: (a) deviations in aggregate expenditure, (b) deviations in expenditure composition, (c) deviation in total revenue and (d) balance of expenditure payment arrears.

ID-1 Results of aggregate expenditure in comparison with the original approved budget
In two of the last three years, the actual primary expenditure, excluding external financing, deviated from the original budget by more than 20% (see chart 1). Despite the fact that this ratio has evolved positively, these results highlight a deficient expenditure budget forecast. In 2004 and 2005, the original revenue budget was underestimated[29], which caused actual revenue surpluses and enabled the executive branch to incur relatively large new budget appropriations which were decided in the course of the year without requiring an appropriation law debated by the legislative branch.[30] This management method changed in 2006 as a result of the new articles of the revenue budget and expenditure law, which was prior to the organic law on the budget (Law 423-06) that came into force in early 2007. This gave way to a drastic reduction in the surplus of actual primary expenditure, adjusting it in accordance with the budgeted expenditure and placing it in barely 1%. Nowadays, any increase in aggregate expenditure over the budgeted total requires the approval of Congress through an appropriation law.

28 The scoring corresponds to a four-point ordinal scale, from A (best performance) to D, with the possibility of intermediate ratings identified with the symbol +. The Reference Framework (PEFA, 2005) contains detailed information on the calibration and methodology of the scoring.

29 See ID-3. Furthermore, in October 2004 a tax reform was approved (Law 288-04) and in 2005 there was an economic boom that exceeded the originally forecasted growth expectations.

30 Organic law on the budget (Law 531-69), Art.50. See also ID-2. According to the comments of the SST "the budget surpluses were regulated by decree 1524 dated 2nd of December 2004, which established thatin the event of surpluses, these would be exclusively destined to paying off debt and social expenditure".

Chart 1: Deviations in budget execution of global expenditure and in its composition as a percentage of the originally budgeted expenditure

	Fiscal year		
	2004	2005	2006
Global deviation in primary expenditure, net of external financing (a)	**25%**	**21%**	**1%**
Variance in the composition of primary expenditure, net of external financing (b)	34%	23%	8%
Degree in which the variance in the composition exceeds the global expenditure deviation (b)-(a)	**9%**	**2%**	**6%**

Source: Own calculations based on data from the SST and budget laws (Annex 3).

ID-2 Deviations in budgeted expenditure compared with the originally approved budget

When expenditure deviations are analysed broken down by administrations, we can assess to what extent those entities manage to execute the funds originally forecasted[31]. In the last few years, fund redistributions between main budget items have been made which have contributed to altering the composition of the expenditure beyond the variance generated by the deviation in global expenditure. In particular, in the period 2004 to 2006, the entities that make up central government suffered changes in the execution of their expenditure in relation to what was originally assigned which exceeded by 9. 2 and 6 percentage points the changes in the expenditure level in aggregate terms (see chart 1).

In accordance with the organic law on the budget (Law 531-69) implemented until 2006, no agency can commit funds prior to the approval of the respective expenditure assignations[32] and the transfer of funds from one budget item to another can only be done through a law[33]. This did not present any problem until 2006, given that revenue was underestimated and a surplus was generated throughout the year which could be freely assigned at Presidency level, allowing new expenditure entries to be assigned to areas considered most in need[34]. In the year 2006 things began to function differently, in anticipation of what would subsequently be approved under the new organic law on the budget (Law 423-06)[35]. In this manner, there was less leeway to adapt the composition of expenditure in the course of the year. In any event, the practice followed up until now consists of regulating the transfers from one item or programme to another through a law on transfers which is subjected to the approval of Congress in the second half of the year[36].

31 The variance in the composition of the primary expenditure (net of external financing) is calculated as the absolute weighted average of the deviation between the executed budget and the original budget, as a percentage of the latter based on the administrative classification (20 budgetary entities).

32 Law 531-69, Art. 42.

33 Law 531-69, Art. 43.

34 These were funds with a specific assignation (account 1979). The budget surpluses were regulated by decree 1524 dated 2nd of December 2004, which established that in the event of a surplus, it should be exclusively destined to paying off debt and social expenses (Communication of the State Secretariat for the Treasury).

35 Law 423-06, Art. 32.

36 This explains why the variance in the composition of the expenditure, analysed as the comparison of the appropriations in force (once adjusted) and those executed, is identical to the variance of the global expenditure in each of the three years analysed.

ID-3 Deviations in total revenue compared with the original approved budget

A comparison between the budgeted and the executed revenue provides a general indication of the quality of the revenue forecasts. This is vital for making realistic expenditure assignations and to achieve a credible budget. The analysis of the deviations between received and estimated revenue is based on the domestic fiscal revenue, calculated as the total sum of current and capital revenue excluding donations from abroad. The data relative to the budgeted revenue come from the revenue budgets and laws on expenditure for each of the budgetary years analysed. In relation to the data on the revenue received, the source of information has been the revenue economic classification overview at the end of the fiscal year supplied by the IFMS[37].

As can be seen in chart 2, the actual domestic fiscal revenue collection of the last three years has been higher or very similar to the estimated value, which has enabled the necessary funds to be mobilised to finance the budgeted expenditure. In 2004, the fiscal revenue received was much higher than the amount budgeted, however the level of precision in revenue projections has improved considerably in recent years. This performance is mainly[38] attributed to the introduction of new practices on the finances of the Presidency[39].

Chart 2: Aggregate execution of domestic fiscal revenue as a percentage of the amount originally budgeted

	Fiscal year		
	2004	2005	2006
Current and capital domestic revenue	**116%**	**103,2%**	**99%**
> Tax and non-tax revenue	116%	103%	99%
- Tax revenue	115%	105%	98%
* Tax on income	104%	105%	105%
* Tax on wealth	140%	164%	87%
* Tax on merchandise & services	176%	115%	96%
* Tax on foreign trade	53%	87%	101%
* Other taxes	8%	41%	112%
- Non-tax revenue	129%	73%	109%

Source: Own calculations based on data from the SST and on revenue budgets (Annex 5).

The origin of the deviations in domestic fiscal revenue is mainly explained by the tax revenue which represents approximately 93% of the domestic fiscal revenue. The taxes

37 The source of information for the received revenue could not be based on budget execution reports because of the lack of a complete series (the last available report is on the year 2004). On another front, the team did not have access to the annual revenue collection and investment statements prepared in 2004 and 2005. This does not pose a problem given that, in principle, the data from the IFMS can be used to prepare the end-of-year accounts of the public sector. The variances that may arise should be minor and would arise at the specific moment in which a credit has been considered received: notice of the deposit, registration, etc.

38 It is also worth mentioning the fiscal reform introduced in October 2004 and the positive performance of the economy in 2005. The fiscal reform of 2006 was only introduced at the end of the year.

39 Until the year 2005, there was a perverse incentive generated by article 50 of the Organic Law on the Budget (Law 531-69) through which 75% of the revenue surplus above the monthly estimate was accumulated in a special fund at the disposition of the executive branch, which could use it to satisfy the public needs it judged appropriate. The revenue budget and law on expenditure of the year 2006, despite having been drawn up based on this law, establishes that the President will have a budget appropriation of free allocation available to him of an amount equivalent to 5% of the estimated current revenue of central government. The new Organic Law on the Budget (Law 423-06) formalises this issue in article 32.

that present greater volatility are the taxes on wealth, merchandise and services and foreign trade, as well as other taxes. The deviations observed in non-tax revenue are even higher but they contribute less to explaining the global deviation in the fiscal revenue[40].

ID-4 Balance and monitoring of expenditure payment arrears.

The identification and control of expenditure payment arrears is a highly important issue, given that late payments can constitute a form of non-transparent financing which could affect the credibility of the budget information (also generating disruptions in the provision of public services and increasing costs). The regulations in force under law 567-05 on the national treasury and law 6-06 on public credit do not specify the moment in which an unpaid claim becomes in arrears[41]. Neither do these laws establish a maximum limit for floating debt.

i. At the end of the most recent fiscal year (2006) central government expenditure pending payment which was incurred during the budget period was of a minor value (0.72% of the actual total expenditure). Furthermore, that balance in itself did not generate payment arrears given that it was fully settled in the first month of the current year[42]. Despite the recent introduction of a strong discipline to avoid generating new arrears, thus fulfilling the commitments assumed with the IMF, payment arrears accumulated in the past are still being settled. At the end of the 2005 fiscal year, this historical floating debt represented approximately 3.2% of the actual expenditure of the fiscal year[43] and is now being gradually honoured through two bond issues[44] as well as by making current budget funds available. In the 2006 fiscal year more than 30% was settled, reducing the amount to 1.9% of the total accrued expenditure of the previous year (Annex 6);

ii. The aggregate data analysed in dimension (i) are obtained from the economic classification end-of-year balance sheets supplied by the SST[45]. Because the public procurement module still has not been installed, the institutions must keep registers of the expenses pending payment irrespective of the IFMS. These auxiliary registers are optional and not all central government institutions keep them. No age profiles are used to prioritise pending payments and, in practice, these decisions fall on the discretional power of the national treasurer[46]. On another front, the Stand-by agreement established with the IMF has been a

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40 The weight of non-tax revenue on fiscal revenue is only around 7%.

41 In practice, it is considered that the payment obligation of central government is automatically generated once the payment order is issued, mainly when it involves salaries and debt interest. In relation to supplier invoices, the payment period granted depends on the terms of the contract.

42 Data from the SST show, at the end of January 2007, a total number of payment orders from the previous period identical to the amount of the unpaid accrued balance at the end of 2006.

43 It is recapitulated in the financial applications section of the balance sheet, in the account 2332 reduction of accounts pending payment (current appropriation: 5.259 million DR $).

44 Congress approved these bond issuances in 2005 through laws 119/05 and 120/05, globalising approx. 4.456 million DR $ equivalent to 85% of the total debt due.

45 It is worth noting that the total accrued and unpaid expenditure balance at the end of the fiscal year includes several invoices pending maturity (accrued expenditure whose payment is still not due) which do not constitute payment arrears. However, this figure has been taken because they represent an insignificant and difficult to calculate amount. On another front, the transfers and subsidies from central government to other public-sector entities are simultaneously registered as accrued and paid which hypothetically could conceal some payment delays, an unlikely factor which has also been considered as insignificant in the calculation.

46 The National Treasury makes payments according to a disbursement schedule which prioritises payroll expenses, fixed charges, investment expenses, debt amortisation and other kinds of expenses.

determining factor in finalising a payment arrears inventory going back in time. This inventory reflects the stock of internal public debt recognised as payment arrears but does not classify the debt by age: the data are presented for 2004, 2003 and previous years.

The main reasons that explain the low balance of expenditure pending payment –accrued and registered in the previous fiscal year- are the following:

- The prevention system contributes to budgeting contracts appropriately (prior to entering the commitment phase, the contracts must be registered in the comptroller's office);
- Quarterly commitment quotas are established and every quarter central government monthly payment quotas are established based on the availability of funds, the schedule of commitments and the expenditure effectively accrued;[47]
- The General Directorate for the Budget has been exercising an ex-ante control the moment of the commitment;
- The IFMS provides wide information and streamlines the public expenditure chain;
- Currently, expenditure payment arrears are absorbed in each institution's following fiscal year's budget, reducing the liquidity of the quota assigned for the quarterly payments.

However, it is important to stress that the calculation of this indicator does not contemplate the possible existence of expenditure actually accrued but not adequately registered in the system because of a failure to get the authorisation of the competent authority (non-formalised floating debt). The expenditure by expenditure *ex-ante* control system exercised until now in the commitment stage by the former budget office (NBO) has proved inefficient in preventing central government institutions from effectively committing funds without prior authorisation and even exceeding their budget assignations[48]. This is commonly accepted practice and it is estimated that it constitutes an important source of financing[49], significantly increasing the cost of public goods and services.

Furthermore, non-financial public companies, particularly from the electricity sector, accumulate floating debt arrears from payments which are crossed with different utility entities of an amount three times higher than central government's accumulated historical debt. Indirectly, this could pose a threat to the government's level of indebtedness although a number of important measures have been taken: (a) the debt is being audited and (b) a monitoring committee from the electricity sector has been appointed to determine its absorption and to avoid incurring new arrears.

Currently, the general directorate for public credit monitors the expenditure payment arrears generated in the current fiscal year by autonomous and decentralised entities, sub-national governments and non-financial public companies. These balances constitute a limited financial risk for the government[50].

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47 In compliance with the new laws and regulations relative to the treasury and the budget, these quotas are jointly established by the national treasury, the general directorate for the budget and the undersecretariat for planning. See also ID-16.

48 Art. 42 of Law 531-69 as regards the budget establishes that no entity can commit funds unless allocated in the budgets.

49 No concrete data have been obtained. The Comptroller's office makes occasional controls but the reports are exclusively for internal use.

50 Below 6.000 million DR $. (Communication of the General Directorate for Public Credit).

I. Credibility of the budget	Rating	D (i)	D (ii)
1. Results of aggregate expenditure compared with the original approved budget	**D**	D	--
2. Deviations in budget expenditure compared with the original approved budget	**C**	C	--
3. Deviations in total revenue compared with the original approved budget	**A**	A	--
4. Balance and monitoring of expenditure payment arrears	**B+**	A	B

Conclusion

Until 2006, the budget of the Dominican Republic has not been a realistic document, given that budgeted income and expenditure differed considerably from the real values, with even greater disparities at expenditure broken down by institutions level. These imbalances took place under regulations (now abolished) which allowed the President to create new budget assignations in the course of the year for a value of three-quarters of the surplus in received revenue. There was thus an incentive to underestimate projected income and expenditure given that, in this manner, a margin of manoeuvre was generated which allowed more flexibility in planning expenditure, thus avoiding the rigidity of the budget. On another front, until 2005 central government institutions accumulated large expenditure payment arrears, thus distorting the effective application of the budget. Both the implementation of tax reforms and the positive performance of the economy from the 2005 fiscal year onwards enabled budgets to be drawn up based on realistic foundations, improving its credibility.

3.2 Comprehensiveness and Transparency

This section covers the comprehensiveness of the budget and of the supervision of aggregate fiscal risk as well as public access to fiscal and budget information.

ID-5 Classification of the budget

To track public expenditure effectively a robust classification system which generates uniform and coherent information is needed. The Dominican Republic holds a manual of budget classifiers since 2002 which is applicable to all the public sector. These classifiers are currently used by all but municipal councils, for whom a number of changes need to be made to adapt them to their needs.

The formulation, execution and reporting of the budget of central government are presented in a format that reflects the most relevant dimensions of the expenditure. To do this, economic, institutional (administrative) and functional (sub-functional) classifications are used by purpose of the expenditure and source of financing. Furthermore, the budget is also formulated according to programme and geographical classifications[51].

The economic and functional classifications were formulated jointly and approved by the UN and the IMF. In this manner, the classification system adopted by the Dominican

[51] The geographic classification is only used for investment expenses.

Republic can generate information similar to that of international standards (the functions and sub-functions used cover all the functional groups recognised in the GFS/COFOG manual[52]).

ID-6 Comprehensiveness of information included in budget documentation

The revenue budget project and law on expenditure presented to the legislative branch for scrutiny and approval should be accompanied by comprehensive budget documentation for the purpose of guaranteeing a full vision of the fiscal forecasts, budget projects and deviations of previous years. The recently approved organic law on the public sector budget (Law 423-06) establishes that the budget project should be sent to Congress with an explanatory report containing a minimum number of elements[53]. However, this law came into force in early 2007. The budget project for the 2006 fiscal year was sent to the legislative branch within the framework of law 531-69, which did not establish any guideline in this respect.

However, the revenue budget project and law on expenditure for the fiscal year 2007 was submitted to Congress for consideration with an official letter from the Head of Government explaining the basic aspects of the proposal, such as:

- The macro-economic assumptions which the estimates used in the revenue budget were based on (including data on aggregate growth, inflation and exchange rate);
- The calculation of the fiscal surplus and of the forecasted composition for its financial use;
- The priority public policies (although without presenting detailed estimates on their impact on the budget).

Despite not forming part of the budget information, the budget execution reports published monthly were able to be consulted by the legislative branch[54].

However, the budget documentation accessible to the legislative branch is insufficient to enable an adequate analysis of the budget project. The following points are worth mentioning:

- The above-mentioned monthly budget execution reports do not include summarised and consolidated data corresponding to the current fiscal year or the previous one;
- The budget results of the previous period were not available (budget execution report) or were for internal use only (revenue collection and income investment statement);

[52] For the purpose of this report, the international standard for classification systems is the Government Finance Statistics Manual (GFS) issued by the IMF, which includes the Classification of Functions of Government (COFOG) endorsed by the UN. See equivalents in Annex 7.

[53] Article 36 of the law established the following, among other indispensable elements:
(i) Explanatory summary of the macro-economic assumptions used and of the budget policy approved, including an analysis of the impact of the financing required on the total amount of public debt and its sustainability in the short, medium and long term;
(ii) Main policies and plans considered;
(iii) Analysis of the savings-investment-financing account;
(iv) Analysis of the main components of the revenue, expenditure and financing;
(v) the multi-annual budget for information purposes.

[54] In compliance with Law 101 dated 27th of December 1979, these reports are published in the local press within thirty days from the end of the month. They offer summarised data on revenue received during the month as well as more detailed information on capital expenditure made by some functions, the current expenditure and the expenditure funded with external financing, only referring to the month in question. These reports do not aim to provide an adequate follow-up of the budget execution and, therefore, they cannot be used to do so. (see ID-24).

- The reviewed budget of the current fiscal year (with the actual results of the first nine months and estimated results of the fourth quarter) is only prepared as an internal source of information for the executive branch;[55]
- The information on public debt exists and is available to the public[56]. However, it is not included in the budget documentation;
- Currently, there is no detailed public information on the financial assets, not even at the start of the current fiscal year.[57]

ID-7 Extent of unreported government operations

To get a global view of the revenue, expenditure and financing of central government all the operations that it makes – whether budgetary or extra-budgetary- should be reflected in budget execution reports, year-end financial statements and other fiscal reports for the public. This indicator is not easy to assess because it focuses on the part which escapes budget information, both in terms of internal and external financing sources.

i. In the last few years considerable efforts have been made to include all the revenue received and expenditure made by the different public institutions in the revenue budget and law on central government expenditure[58]. Article 23 of the new organic law on the budget (Law 423-06) generally prohibits, except in very specific cases, the assignation of the product of any revenue item to cover the payment of a specific expense. Currently, a number of central government institutions still receive own funds independently of the State's budgetary year, but these constitute a small number and an insignificant amount of funds[59]. It is important to bear in mind that Customs holds its own autonomous system, thereby remaining excluded from this analysis[60]. On another front, secret funds, for example to guarantee the security of the State, funds assigned to the President or funds to meet natural disasters, appear in the budget of central government under the item destined to the Presidency and their execution should appear in budget and fiscal reports (although broken down in less detail).

   Although the law prohibits committing expenditure above the assigned quotas and the budget appropriations in force, a number of public entities make use of this practice as a short-term financing mechanism, thereby incurring a non-formalised floating debt. Despite the commitments assumed with the IMF, these operations continue to generate a volume of extra-budgetary expenditure of a

55 Paragraph II of article 61 of the new Organic Law on the Budget (Law 423-06) forces the government to present to Congress a report on the first six month's statement of execution of the revenue, expenditure and financing of the current year's budget, no later than the 31st of July of each year.

56 PI-17 (i)

57 The web page of the SST only publishes the stock of external public debt. The General Directorate for Public Credit is finalising for the first time a report on the balance and the composition of the public debt, which will be annual. On its part, the General Directorate for Government Accounting is preparing a net wealth report to provide an overview of all the financial assets and liabilities.

58 Provisions of the Comptroller's Office, 2002. In a period of two to three years own funds held by institutions of a value of 1.850 million DR $ were identified and included in the revenue budget, through the general fund.

59 Less than 1% of the total annual revenue received according to estimates provided by the SSEPD. These own funds have varying importance in the budgets of the different central government institutions.

60 Law no. 226-06 which confers legal status and functional, budgetary, administrative, technical and own wealth autonomy to the General Directorate of Customs (GDC).

temporary nature which is regularised in the following fiscal year (see indicator ID-4)[61];

ii. In accordance with Law 423-06, all public sector agencies and institutions responsible for the execution of projects financed with external funds from public credit operations or donations should register and communicate the revenue received in cash or in kind and the use made of it[62]. The fiscal information relative to loans is complete and centralised at the SST[63]. However, in terms of non-refundable financing, there is still no centralised information system in place[64]. It is worth mentioning that, since the creation of the SSEPD early this year, efforts are being made to centralise the information on signed agreements, without this implying financial reports. Out of all the donations budgeted at the beginning of the last two years, there is only record of the reception and use of 21% of their value. Although there are no exact consolidated data on the part of the information that is missing, it is of minor relevance because the total number of donations only represents 1.7% of the total budgeted expenditure in the fiscal year 2006.

ID-8 Transparency of inter-governmental fiscal relations

Although this report focuses on assessing the public financial administration of central government, the latter is necessary affected by three crucial aspects associated with the responsibilities of sub-national governments (municipalities) on public expenditure: the transparency in the regulations on the assignation of funds from central government, the appropriate supply of information to local governments for their planning processes, and the compilation of budget data which enable consolidated fiscal data from central government to be produced. As explained above, the performance of the Dominican Republic's system in these three areas shows several weaknesses.

i. The horizontal assignation of funds to sub-national governments (municipal councils) is done through the Dominican Municipal League (DML)[65]. According to the *Law on Participation of municipal councils in the Total Amount of State Revenue*: "*In the year 2004, participation of municipal councils in the total amount of the Revenue of the Dominican State, regulated in the Law on the Public Revenue and Expenditure Budget, will be 8% and as of the year 2005, will rise to 10%, including additional revenue and surcharges.*" [66] In 2005 and 2006

61 These transactions are not taken into account in the calculation of the first dimension of the indicator mainly because, once they regularised, they are systematically included in the financial and fiscal reports of the following year. Furthermore, because they are informal transactions, the amount they represent in relation to the total expenditure of the fiscal year is unknown.

62 This register is kept by the IFMS. Furthermore, all the revenue received by external sources is also registered in the Central Bank.

63 All external debt loans are registered in the public debt database (PDMAS) classified by nature, agency, multilateral, bilateral, etc.

64 The State Secretariat for the Economy, Planning and Development has recently been created and initiated efforts to centralise the information on signed agreements. The practice has led donors to deal with the execution agencies directly. In accordance with the legal regulations and procedures in force, the responsibility to register in the IFMS the use of funds derived from non-repayable co-operation falls on each execution unit.

65 The DML is attached to Central Government and was created for the purpose of providing technical and financial advice to the municipalities. However, in the last decades the main function of the DML has been the distribution of the funds assigned to the municipalities.

66 Law 166-03, Art. 3.

municipal councils received 8.4% of the total State revenue.[67]

In accordance with Law 166-03, the transfers reach the municipal councils through the Treasury, the Office of the Comptroller General and the DML[68]. The amounts are assigned (monthly) according to the size of the population of each municipality[69]. The DML publishes a monthly list of distributed funds. As well as these assignations established by law, there appears to be transfers for specific ends (generally made by the Presidency of the Republic) which do not clearly appear in the official budget data[70]. This makes the exact calculation of the fiscal transfers to the municipal councils difficult and significantly reduces transparency in inter-governmental relations. However, it is estimated that the discretional transfers made by the Presidency are much less relevant than those officially channelled through the DML;[71]

ii. The municipal councils can estimate the transfers that they will receive in advance as they are guaranteed by Law 166-03. Only the amount of the discretional transfers is unknown to them and therefore cannot be taken into account in the budget processes;

iii. In compliance with that established in Art. 11 of Law 166-03 and Art. 15 of Law 3894, the municipal councils not only issue quarterly reports but also monthly budget execution reports to the Office of the Comptroller General, which are used by the Municipal Council Division of this entity to review their income and expenditure accounts[72]. Furthermore, the new *Organic Law on the Public Sector Budget* (Law no. 423 of 2006) forces the municipal councils to send to the General Directorate for the Budget, the Technical Secretariat of the Presidency, the General Directorate for Government Accounting, the Office of the Comptroller General and the Audit Commission the information relative to their budget execution.[73]

ID-9 Oversight of aggregate fiscal risk from other public sector entities.

It is the role of central government to monitor and take the opportune action with respect to fiscal risk with national implications arising from the activities of sub-national governments, autonomous governmental agencies and non-financial public companies.

i. The previous law on the budget (Law 531-69) required decentralised institutions, autonomous entities, social security public institutions and non-financial public companies to present their executed budget to the former NBO[74]. For sub-national governments, the provisions mentioned in ID-8 were applicable. Because not all the entities have complied with this requirement, the aggregate fiscal

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67 Communication of the Municipal League.

68 Law 166-03, Art. 9. Technically, the transfers to municipal councils and to the DML are found in the Budget of the State Secretariat for the Interior and the Police (accounts 434 for ordinary transfers and 524 for capital transfers).

69 Law 166-03, Art. 4.

70 World Bank (2004): Dominican Republic: Report on Public Expenditure- Reforming Institutions for an Improved Administration of Public Expenditure, pp. 120-121, Washington DC.

71 Communication of the Dominican Municipal League.

72 Communication of the Republic's Office of the Comptroller General.

73 Law 423-06, Art.73.

74 Law 531-69, Art.74.

oversight could not be carried in practice. However, the government has exercised an intensive follow-up and control in a number of public companies (for example, in the electricity sector)[75]. On its part, the Audit Commission audits approximately one quarter of the autonomous entities and public companies on an annual basis. The new legislation (Law 423-06) makes more explicit the budget execution information requirements[76]. These requirements are still pending implementation due to the recentness of the law;[77]

ii. In the Dominican Republic municipalities depend financially on the transfers from Central Government. Their own revenue (tariffs for the provision of services) is limited. Until 2006, they were able to incur debt. However, municipal councils now need explicit authorisation to be able to take out financing. Central government monitors in a smaller measure the resulting liabilities from dents with suppliers.

ID-10 Public access to key fiscal information

The budget, financial and fiscal information generated in the exercise of public service should be easily available to the public, or at least to the relevant interest group, for the purpose of guaranteeing transparency in the public financial management system. In recent years large progress has been made in this area in the Dominican Republic but there continues to be certain crucial information that is not easily available to the public.

Since 2004, the general law on free access to public information (Law 200-04) recognises the right to information and free access to administrative records and minutes. On the one hand, the law upholds the general right of all citizens to request and receive comprehensive, faithful, adequate and timely information on the public sector and, on the other, the law makes the publication of all formal public administration information obligatory and makes the public administration responsible for fulfilling this task. In this manner, the administration should establish a service which, if possible, should be free of charge[78], to provide permanent and updated information on public order issues[79]. For the purpose of guaranteeing direct public access to State information, the law also establishes the computerisation and the incorporation of all the public entities into the Internet communication system. This law has already been passed. Since its introduction, thirty public access to information offices (AIO) have been created, each of which holds an official responsible for public access to information (AIOF). The first appeals and sanctions, which can be of an administrative or criminal nature, are currently being

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75 See ID-4.

76 Law 423-06, Title III, Chapter VII, Articles 68, 69 and 73. The regularity of this information will be mentioned in the regulations of the present law which are still pending formulation.

77 Communication of the Directorate for the Budget, Undersecretary for the Budget, Resources and Accounting, State Secretariat for the Treasury.

78 Article 14 of Law 200-04 affirms that public access to information is free provided that the reproduction of such information is not required and, in any event, the tariffs applied by the institutions should be reasonable and reflect the necessary cost of providing it.

79 Article 3 of Law 200-04 explains this duty by making reference to the following information: (i) budgets and estimates of approved resources and expenditure, their evolution and state of execution, (ii) programmes and projects, their budgets, timeframes, execution and supervision, (iii) call for bids, tenders, purchases, expenditure and results, (iv) list of public servants, legislators, judges, employees, categories, functions and remunerations (including, on occasions, a sworn declaration on wealth), (v) list of beneficiaries of welfare programmes, (vi) account statement of public debt, maturity periods and payments, etc.

processed, and a governing body is in the process of being introduced to reinforce compliance with this law.
In practice, the following information is easily available to the public (of acceptable quality, by appropriate means and timely):

- Documentation on the annual budget project sent to Congress;[80]
- Monthly budget execution reports (published in at least one national newspaper within thirty days);[81]
- External audit reports on public sector consolidated transactions;[82]
- Resources made available to primary service units during the year.[83]

The following are a number of imperfections found in public access to key fiscal information:

- The year-end financial statements are not easily available to the public (the public must request them and, at the moment, they hold the status of documents for internal use) and they are not audited by the Audit Commission (no report is issued);
- Although Law 200-04 requires the publication of calls for bids and adjudications of public sector contracts and Law 340-06 on procurement and contracting establishes the ways in which this publication should be carried out, in practice, the respective public institutions do not always fulfil these obligations[84].

II. Comprehensiveness & Transparency	Rating	D (i)	D (ii)	D (iii)	D (iv)
5. Classification of the budget	**B**	B	--	--	--
6. Comprehensiveness of information included in budget documentation	**C**	C	--	--	--
7. Extent of unreported government operations	**C+**	A	C	--	--
8. Transparency in inter-governmental fiscal relations	**A**	B	A	A	--
9. Oversight of aggregate fiscal risk from other public sector entities	**D+**	C	D	--	--
10. Public access to key fiscal information	**B**	B	--	--	--

Conclusion

The comprehensiveness of the budget has improved but there still are a number of deficiencies. The formulation, execution and reporting of the central government budget are presented in a format that reflects the most important dimensions of the expenditure, in accordance with international standards. Considerable efforts have been made in recent years to include all the revenue received and expenditure made by the different public institutions in the revenue budget and the law on the expenditure of central government. There still remain a number of central government institutions which receive own funds

[80] Insufficient because the budget documentation sent to Congress is incomplete (see indicator ID-6).
[81] The quality and usefulness of these reports are analysed in ID-24.
[82] They are published within six months of the date in which it completes the audit. See the second part of the report of the Audit Commission to Congress relative to the fiscal year 2005 and the web page of the Audit Commission (www.ccuentas.gov.do).
[83] This information is not published in broken down form but it can be requested by any member of the public.
[84] The governing body responsible for ensuring compliance with this regulation (the Government's procurement commission, for the moment) has so far not imposed sanctions with respect to this.

independently of the State's budgetary year, but the amount of these funds is decreasing and does not appear to be very high. The fiscal information relative to loans is quite comprehensive but it is not always possible to obtain financial reports that can justify the reception and use of the donations. On another front, central government still does not supervise the aggregate fiscal risk associated with the non-financial public sector.

The public financial system has substantially improved the level of transparency in recent years as a result of new legal provisions which guarantee public access to key fiscal and budget information and a 'revolutionary' change in the method of organising financial information (introduction of the IFMS). However, the budget documentation accessible to the legislative branch when examining the budget project continues to be insufficient. On another front, although the municipal councils know in advance the percentage of funds which central government will transfer to them (and can estimate the amount), there are a number of transfers for specific ends that diminish the transparency of inter-governmental relations. The municipal councils not only issue quarterly reports but also monthly budget execution reports to the Office of the Comptroller General, which reviews their revenue and expenditure accounts.

3.3 III.3 Policy-Based Budgeting

This section addresses the budget formulation process based on two principles: (a) orderly and effective participation by sectoral execution entities and central authorities in the formulation process has an impact on the extent to which the budget manages to reflect the macro-economic, fiscal and sectoral policies, and (b) an effective expenditure policy should be projected along a multi-annual horizon to adapt the implications of sectoral strategies with the availability of funds in the medium term.

ID-11 Orderliness and participation in the annual budget process

The revenue budget projects and laws on expenditure approved in the last few years have been prepared under organic law 531-69 on the budget.

i. The budget preparation process followed until now is characterised as being a centralised process, weakly connected to other policies (monetary, fiscal) and uncoordinated (simultaneously top-down and bottom-up, but with hardly any connection between both). There is a very rudimentary calendar consisting of a series of stages (the majority without deadlines) and, in practice, it suffers frequent delays. The flexibility of the budget process is also reduced by the high level of predestined funds by law[85] and by the large burden of the fixed expenditure of all the central government institutions. Given that the regulations in force until last year diminished the credibility of the budget, the institutions have centred their interest on its actual execution without demanding full participation in the budget process;

85 See discussion text no. 7 from the former Economic Analysis Unit of the TSP, written by Rodrigo Jaque García: "*Inflexibility in budget formulation caused by laws that specialise revenue or assign it*". This document analyses the rigidity in the assignation of funds caused by specific ends established by law at the time of formulating the budget and it recommends a review of the laws that establish them. The report demonstrates that if all the legal provisions that specialise funds or assign specific expenditure amounts were complied with, there would just be 7.7% left to cover investment expenditure and the expenditure required to run the rest of the public administration.

ii. Until now, the former SSF initiated the process by preparing the revenue[86] and debt service forecasts with the support of the Central Bank and by estimating the expenditure of the current fiscal year. The sectoral Secretariats subsequently received a circular with a set of very general guidelines and an instructions document which seldom provided information on the ceilings available for the following fiscal year. On their part, the entities prepared detailed budget proposals[87] based on their needs and proposed assignations for values that were much higher than those approved for the current year. Based on new revenue and expenditure estimates, the former TSP (mainly the NBO and the NPO) exercised the role of arbitrator in these proposals in a race *against-the-clock* where there was hardly time for negations with the institutions. A draft budget was thus obtained which, once validated by the National Development Council (NDC), was sent to Congress for approval[88], generally at the end of the second legislature, and hastened through in an extraordinary period;

iii. In the last two years the budget was approved after the legally established deadline, in early January.[89]

The agreements established with the IMF in the last few years have introduced more fiscal discipline given that the equilibriums of the large accounts are negotiated based on the stand-by agreement. This has slowed the budget preparation process down for two main reasons: (a) the fiscal framework and the consequent determination of the ceilings are subjected to negotiations with the IMF (the mission generally arrives in the last quarter of the year) and (b) the distribution of funds becomes more complex (a solution that involves increasing the deficit cannot be agreed).

The new legal framework which regulates the management of the public administration envisages more discipline in the budget preparation process to improve the participation of the different entities and to achieve a budget that faithfully reflects macro-economic, fiscal and sectoral policies. The majority of these laws are currently in the process of regulation and there is still no predetermined calendar or precise task assignment schedule available. However, these laws establish the maximum deadlines for the main stages of the process[90].

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[86] According to articles 17 and 20 of Law 531-69, the agencies of the SSF should send to the budget office, prior to the 1st of August of each year, a duly justified estimate of the revenue that could be collected in the following budgetary year and, the Central Bank should send to the budget office an estimate of the revenue that could be obtained from foreign trade. Currently, the Central Bank no longer performs this task because, since 1999, all taxes on exports have been abolished. Communication of the SST.

[87] According to article 21 of Law 531-69, the different agencies should present their respective expenditure projects for the following year to the NBO prior to the 1st of September of each year. These budget projects are presented according to the different classifications presented in indicator ID-5.

[88] According to article 26 of Law 531-69, the budget project should be submitted to Congress in the second ordinary legislature which begins on the 16th of August and lasts 90 days (the deadline is the 15th of November and Congress should approve it in the form of a law prior to the end of the year.

[89] The budget for 2005 was approved in 2004 but the budgets for 2006 and 2007 were approved in 2006 and 2007, respectively. The ratification of the budgets for the administration years 2005 and 2006 was linked to the prior approval of the tax reforms and to several negotiations with the business sector and civil society. The preparation process of the 2007 budget was especially turbulent due to the fact that the revenue forecasts were changed during the Central America Free Trade Agreement negotiations, which did not end until the 2nd of December.

[90] These stages and deadlines are the following:

- Macro-economic forecasts completed prior to the 31st of March;
- Guidelines, rules and instructions completed prior to the 15th of July;
- Presentation to Congress, also prior to the 15th of July, of a summary with the macro-economic forecasts and the outlines of the budget in process of preparation;

ID-12 Multi-annual perspective in fiscal planning, expenditure policy and budgeting

The planning legislation implemented until now is based on Law 55-65, which set up the National Planning System and created the National Development Council as central body. This Council, supported by the former TSP, had to issue the general guidelines for the preparation and execution of the development plans and the annual budget project of central government to ensure co-ordination between them and that the plans were adequately reflected in the budget.

i. The law only required that the fiscal policy be formulated annually in harmony with national economic policy and the development plans. In general, no estimates have been made for the future of the fiscal aggregates but, since the stand-by agreements were initiated with the IMF, particular attention is dedicated to the deficit and debt forecasts, which cover a multi-annual horizon (from 2 to 3 years);

ii. In this analysis the debt sustainability reports issued by the IMF are used, given that central government still does not perform its own analyses;

iii. The planning documents used until now basically consist of the government programme which is prepared once every four years and integrates the MDG. Some sectors have gone as far as developing sectoral strategies[91] but without a full analysis of the current expenditure and investment costs and their practical implementation has been reduced to mere policy orientations;

iv. The budgeting of investment expenditure and recurrent expenditure continue to be independent processes managed by different entities, therefore planning does not communicate to budget the estimates on the recurrent cost inherent in investment projects.

All this planning system has been recently changed with the new legislation introduced early this year[92]. The new planning instruments are:

- Long-term development strategy (10 years);
- Multi-annual national plan for the public sector (4 years) which, in turn, integrates a multi-annual national plan for public investment;
- Regional plans;
- Medium-term sectoral and institutional plans.

These planning instruments should be co-ordinated with the fiscal policy and the financial framework of the multi-annual public sector budget. Furthermore, the legislation in force introduces debt sustainability analyses[93] and provides new guidelines for determining the total levels and the functional distribution of current and capital expenditure.

- Presentation of the draft budget to the NDC prior to the 1st of October;
- Approval of the budget project by the NDC prior to the 10th of October;
- Approval of the budget by Congress prior to the 31st of December.

91 For example, the education sector established a ten-year national education plan in the decade of 1990.

92 Mainly, law 498-06 on planning and public investment and organic law 423-06 on the budget.

93 The General Directorate for Public Credit is working on this.

III. Policy-based budgeting	Rating	D (i)	D (ii)	D (iii)	D (iv)
11. Orderliness and participation in the annual budget process (M2)	**D+**	C	D	D	--
12. Multi-annual perspective in fiscal planning, expenditure policy and budgeting (M2)	**D**	D	D	D	D

Conclusion

Currently, the Dominican Republic does not have a National Development Plan but a Government Plan, and neither is there an abundance of sectoral plans. The budget planning process is organised in a series of stages, the majority of which without deadlines or with frequent delays. Because the institutions do not give much credibility to the budget, they do not demand full participation in the budget process (they basically centre their interest on its execution). The process followed so far is characterised as being a centralised process, disconnected from other policies (monetary, fiscal) and uncoordinated. There are no planning or multi-annual budgeting instruments in place and neither are there the necessary mechanisms to verify the appropriateness of budget sectoral assignations in relation to public policies and strategies. The budget proposals are prepared 'bottom-up' without a prior framework of sectoral ceilings. The arbitration is exercised late and in a centralised manner and it is based on a historical renewal of the amounts assigned in the current fiscal year or on purely political negotiations. The budget project is sent to Congress on the brink of time and even off-schedule, which reduces the possibility of in-depth analysis by the legislative branch. The last two years began without the approval of the new budget, which led to budget execution delays. However, a new legal framework which introduces major changes in the areas of planning and budgeting has recently entered in force, paving the way for multi-annual management based on results.

3.4 Predictability and Control in Budget Execution

ID-13. Transparency of taxpayer obligations and liabilities.

The contribution of taxpayers to global compliance with the tax policy is encouraged and facilitated by a high degree of transparency in tax liabilities as a result of clear legislation and administrative procedures, access to information and the possibility of challenging the administrative decisions on tax liabilities.

i. The Tax Code (Law no. 11 of the year 1992) defines the parties liable for tax obligations[94]. This law explicitly establishes that "the determination of the tax obligation will be exclusively exercised by the Tax Administration"[95], it determines the circumstances under which the tax obligation is extinguished[96] and establishes the discretional powers of the Tax Administration as regards tax payments[97]. There are three tax collection entities: the General Directorate for

94 Law 11-92, Art. 4.
95 *Idem*, Art. 65.
96 For reasons of: a) payment; b) compensation; c) confusion; and d) prescription *Idem*, Art. 15.
97 Which may not exceed a period of one year *Idem*, Art. 17.

Internal Taxes (GDIT); the General Directorate for Customs (GDC) and the Treasury. Different laws and decrees establish the rates and the procedures for each tax[98] and they do not leave much room for discretional decisions. The legislation and the procedures are –on the whole- clear, with a few exceptions of a technical nature[99], for example, in the interpretation of the classification of national products[100]. Customs applies the international classification system and discretion is reduced to the valuation of certain import products, such as second-hand imported products (vehicles)[101]. As regards tax collection by the Treasury, the contract with the mine Falcombridge reflects a special type of agreement;[102]

ii. The law imposes the 'duty to publish' the acts of the Tax Administration[103] (see ID-10). The Department of Tax Education carries out a range of activities aimed at taxpayers and "pre-taxpayers"[104]. For taxpayers, the tax administration has a web-site, an E@dvisor, a call centre, three-fold brochures, information cards, guides by type of tax law, a CD for all the procedures and a tax information bulletin as well as different radio and television programmes [105]. To improve the service of Decentralised Administrations, 'multi-procedure platforms' (one-stop counters) have been installed. Furthermore, account officials have been appointed to cover the 700 largest taxpayers. However, there is no 'on-line' information facility for individualised tax obligations[106]. It is worth noting that all these facilities have been introduced in the course of 2006 as a result of contracting specialised staff and external technical assistance[107]. Its sustainability in time is unknown;

iii. An appeal mechanism is in place and in operation. First of all, the taxpayer is entitled to apply for reconsideration. In the case of internal taxes, the Reconsideration Department must issue a resolution whilst, in the case of Customs, this responsibility is delegated by the General Director to the Legal Department, which makes the appropriate recommendations. The Tax Code (Law 11-92) establishes that a decision on a reconsideration appeal must be issued within three months. The second appeal is made at Contentious Tax Tribunal level[108] and, finally, there is the option to appeal to the Supreme Court. The

98 In the case of import taxes, they are defined by product. See www.dga.gov.do.

99 Communication of the Tax Education Department of the GDIT.

100 Both for national goods and imported goods Customs employs the Harmonised System of Merchandise Classification and Designation of the International Customs Organisation. However, there is room for discretion in the technical interpretation of certain products, as manifested in relation to the application of exemptions on the Tax on the Transfer of Industrial Goods and Services (TTIGS). Communication of the GDIT and the GDC.

101 Communication of the GDIT and the GDC.

102 The special contract with the mine Falcombridge is a form of discretion. The contract defines the payment of a tax payment of 1% over the taxable base, a payment for the amount of nickel contained in exported iron-nickel and other charges. Falcombridge is an exceptional case. Another tax collection exercised by the Treasury is the automatic collection of a rate on the use of hydrocarbons.

103 Law 11-92, Art. 48-49.

104 For pre-taxpayers there is an Agreement with the State Secretariat for Education for the incorporation of tax issues in the school curriculum. Educational texts and games have been designed for children of different ages, as well as short videos on tax issues, a fiscal lottery for students, radio and television programmes, etc.

105 Although the majority of the Large Taxpayers are reached through Internet and the E@dvisor, only 5% of individual taxpayers are reached through these means.

106 Communication of the Department of Tax Education of the GDIT.

107 The Department of Tax Education has an advisor financed by the UN Development Programme (UNDP).

108 Art.140 of the Tax Code (Law 11-92)

practice of appealing before the Contentious Tax Tribunal is not very extended and, therefore, the volume of tax appeals currently in dispute is very small[109]. It is worth noting that the Dominican Republic does not have a culture of appealing against Government decisions or against those of the public sector in general.

ID-14 Effectiveness of measures for taxpayer registration and tax assessment

The level of effectiveness of tax assessment is determined by an interaction between the registration of liable taxpayers and correct assessment of tax liability for those taxpayers.

i. A National Taxpayer Register, both for legal entities and individual taxpayers, is in operation [110]. The registration of legal entities is characterised by its volatility, owing to the specific characteristics of business activity in the Dominican Republic. The register is cross-referenced with various public information databases[111], but with limited data from the financial system (only loan applications). Oversight of registration is performed through monitoring Large Taxpayers and selective physical inspections of the premises of small and medium companies. Customs holds a register of the 500 main importers which it controls by monitoring the imports made throughout the year;

ii. Taxpayer compliance with registration obligations and the corresponding tax declaration is encouraged through sanctions which range according to the seriousness of the offence[112]. The frequency of amended returns as a result of errors detected by tax audits is very high (above 95%[113]). The sanctions imposed until now are not severe enough to achieve changes in behaviour; however, the new Law 495-06 has introduced more severe sanctions[114]. The fines and the resulting collections from audit findings represented 0.39% of the tax collection for the year 2006 ;[115]

iii. The audit department draws up an annual Audit Plan which establishes the control priorities[116] based on a permanent analysis of risk factors, such as the historical behaviour of companies and an analysis of evasion methods according type of tax[117]. However, the volume of audits carried out represents a very small

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109 Sources: Law 11-92, Art. 140 and 141; Law 227-06, Art. 57; Law 226-06, Art.185.

110 At 31st of December 2006: 42,000 companies and 35,200 individuals. Source: External Audit Department GDIT.

111 The Civil Register, The Real Estate and Housing Register, The Register of Vehicles, The Social Security Register, The Register of Business Licences and the database of the Electoral Board. Cross-referencing with the telephone and electricity databases is in progress.

112 The procedures for defaults are defined in Law 11-92 (Art. 27 and 52), whilst sanctions for infractions are broken down into eight different types of sanctions (Law 495-06) such as imprisonment; surcharges, interest and other financial sanctions; confiscation of material goods; closure of establishment; barring from practicing trades and professions; cancellation of licences, permits and registration in public registers and others.

113 Of the 881 settlements audited by the External Audit Department of the GDIT, approximately 95% were found to contain errors. They do not always reflect evasion or fraud as they can also de due to lack of knowledge

114 Law 495-06 dated 27th of December 2006. See for example Art. 9 and Art. 12.

115 The payments of fines and collections resulting from audits increased to DR $ 698 million in 2006. Source: External Audit Department.

116 Communication of the GDIT.

117 Law 11-92 (Art. 44) confers wide powers of inspection, audit and investigation, such as inspections in offices, commercial and industrial establishments and means of transport as well as the right to demand taxpayers to show their books, commercial correspondence, goods and merchandise.

sample of the total number of taxpayers[118]. On its part, Customs holds an annualised Audit Plan which establishes audit and control priorities.[119]

ID-15. Effectiveness in collection of tax payments

It is fundamental for the Tax Administration to be in a condition to collect the taxes assessed and for the overall level of arrears to be insignificant.

i. There are historical and current tax arrears. Practically all the historical arrears are carried forward from 1996 and amount to approximately DR$ 2.000 million. Current tax arrears are the amounts in default at the end of the fiscal year. The aggregate amount of current tax arrears was 0.75% of the taxes assessed in 2005 and 0.92% in 2006;[120]

ii. The tax system has been modernised in the last few years and payment facilities for taxpayers have increased. In relation to the GDIT, taxpayers can pay through Internet or one of the 27 Tax offices[121] in operation throughout the country. Companies can make payments in Banco Popular[122]. The information on tax collection held by the GDIT is in a network system which registers the deposit in the collection account. At that moment, the Treasury is informed of the tax collection, although it is still not duly registered. As regards Customs, tax collection is done through one of the 23 collection offices distributed in different geographical points of the country and nearly all are connected to the network. All these collection accounts feed the account of the Dominican Republic[123] on a daily basis. The moment the deposit is made in the Account of the Treasury determines the registration (at cash level). Therefore, the Treasury receives the notification of the deposit in the collection account[124] one day prior to its registration;

iii. The reconciliation of the tax collections is carried out on a monthly basis and the results are published in the website of the State Secretariat for the Treasury[125]. A reconciliation of the assessments, collections and arrears is also carried out by type of tax.

ID-16 Predictability in the availability of funds for commitment of expenditure[126].

i. There is still no systematic cash-flow forecast mechanism available in the Dominican Republic[127]. However, a Financial Planning module is in the process

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118 In 2006, and mainly due to reasons of the institutional capacity of the Audit Department, 1.2% of the total number of taxpayers and only 0.14% of individuals were audited.

119 For example, the transport of containers from Haiti destined to the free-trade areas of the Dominican Republic.

120 Due to the absence of broken down data on realised collections, the figures are an estimate based on the data presented in the 2005 and 2006 Budgets. Technical Secretariat of the Presidency, National Budget Office. The mission's own calculations.

121 Directorate for Internal Taxes.

122 The Banco Popular holds a collection sub-account.

123 See ID- 17 (ii) for more details on the account of the Dominican Republic.

124 Communication of the GDIT, GDC and the Treasury.

125 www.finanzas.gob.do

126 Communication of the General Directorate for the Budget and the National Treasury, the State Secretariat for the Treasury for the three dimensions (i), (ii) and (iii).

127 Currently, the programming of the cash quotas is not backed by cash-flow planning and monitoring activities. To programme the quarterly quotas, the Treasury uses the revenue forecast (of the Treasury itself, the GDIT and the GDC).

of development in the IFMS, which will allow the gradual introduction of the mechanism. The objective is to finalise the mechanism for all the entities of Central Government in December 2007;

ii. *The Organic Law on the Public Sector Budget (Law no. 531 of December 1969) revoked by the new Organic Law on the Public Sector Budget (423-06) obliges the National Budget Office to prepare monthly Cash Plans for the assignations of funds (with classifications and sub-classifications) to all the entities concerned*[128]. Furthermore, the Presidential Decree which establishes the Planning System for Budget Execution *(Decree no. 1524 of December 2004) reiterates the legal obligation of the former National Budget Office to prepare monthly Cash Plans*[129]*. The same decree establishes that:* "Such monthly quotas will be approved by Item, Fund and Purpose of the Expenditure at first aggregate level".[130]

Under the latter decree and in accordance with the appropriations included in the budgets, Central Government entities had to send their applications for assignations covering a period of three months to the former NBO. These applications are generally sent on the 15th of the month prior to the start of the quarter and the entities receive an answer with reliable information within one week (approximately on the 22nd of the month prior to the start of the quarter). This means that the information on the maximum commitment ceilings reaches the executing entities just one week prior to the start of the scheduled quarter.

The new Organic Law on the Budget for the Public Sector (423-06) obliges the General Directorate for the Budget to establish quarterly commitment quotas for all the entities of the non-financial public sector (the Treasury must use these quotas to establish the monthly payment quotas)[131];

iii. Budget adjustments tend to be made during the fiscal year. Since 2006, the executive branch can no longer create new expenditure assignations to make discretional use of the generated revenue surplus. Because all transfers between items and programmes require a law on transfers, in practice, the adjustments made during the year are regulated through a law on transfers approved by Congress.[132]

ID-17 Recording and management of cash balances, debt and guarantees.

Quality recording and reporting is crucial for ensuring the budgeting and timely payments of the debt service. The recent Law on Public Credit (Law no. 6 of 2006) and its corresponding implementation regulations (of December 2006) make up the legal framework governing public debt and appoints the General Directorate for Public Credit

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There is an initial annual revenue forecast at the start of the year which is broken down into 12 months. Monthly revenue forecasts are also made at the start of each month, which are subsequently broken down into daily forecasts.

128 Law 531-69, Articles 39 and 40.

129 Presidential Decree 1524-04, Art. 3

130 *Idem* Art. 2.

131 Law 423-06, Art. 47.

132 See ID-2 and ID-27.

of the State Secretariat for the Treasury as entity responsible for its management[133]. In the Dominican Republic this directorate covers the internal and external debt of the non-financial public sector.

i. Currently, and with the new Law 6-06, internal debt records cover the debt of Central Government, non-financial autonomous institutions, social security institutions, non-financial public companies and municipalities[134]. Approximately 86% of the internal debt corresponds to commercial banks and it is covered by good quality data[135]. That part of the internal debt is in the PDMAS[136]. The rest of the internal debt (14%) is due to private suppliers and there are certain deficiencies in the data[137]. The data on the external debt of the non-financial public sector are of good quality[138]. The data on internal and external debt are updated on a monthly basis. There are minor reconciliation problems between the PDMAS and the IFMS, which now includes the data on central government's internal debt[139]. The General Directorate for Public Credit draws up comprehensive public reports on the public debt on a quarterly basis;[140]

ii. Currently, the Treasury controls: 1) the account of the Dominican Republic; 2) the collection accounts (89) which feed the latter mentioned account; 3) a disbursement account from which cheques are paid and which is fed by the account of the Dominican Republic; 4) the special accounts (approximately 83) where the funds (proceeds of donations and loans) from co-operation agencies are deposited as well as the funds to meet the obligations of the external and internal debt. The first three types of accounts are held at the Reserve Bank (BANRESERVAS) and the fourth type in the Central Bank of the Dominican Republic (CBDR). The institutions of Central Government hold approximately 3.000 accounts located in the BANRESERVAS and are still not controlled by the Treasury.[141]

   In accordance with the new Law on the Treasury (Law no. 567 of 2005) all the accounts of the non-financial public sector should be controlled by the Treasury and form part of the Treasury's Single Account. Clearing this up is a first step in

133 The new law also envisages the creation of a Public Debt Council integrated by the Governor of the Central Bank, the Technical Secretary of the Presidency (now State Secretary for the Economy, Planning and Development) and the State Secretary for the Treasury, for the main function of assisting the Executive Branch on public debt policy and strategy issues (Art. 11 of Law 6-06).

134 Law 6-06, Art. 3.

135 The data are from January 2007 (Communication of the General Directorate for Public Credit of the State Secretariat for the Treasury).

136 The General Directorate for Public Credit holds the database in the Public Debt Management and Analysis System (PDMAS) developed by UNCTAD. The PDMAS covers the debt of the non-financial public sector.

137 *Idem.* An inventory is held but without age profiles. See ID-4, in particular the part relative to the historical floating debt recognised by central government.

138 *Idem.*

139 The integration of the PDMAS and the IFMS is in the process of finalisation. There are several discrepancies between both system's data on debt and the General Directorate for Public Credit is working towards eliminating them (Communication of the General Directorate for Public Credit of the State Secretariat for the Treasury).

140 Those reports are also available on the Internet in the following web site of the SST: www.finanzas.gov.do/deuda_publica/est_trimestral.html

141 A clearing process is currently underway to eliminate the accounts of Central Government entities which are not controlled by the Treasury. In practice, they have decreased from 8000 (eight thousand) to 3000 (three thousand). (Communication of the Treasury).

this process[142]. The new law also establishes the principle of centralisation of revenue and expenditure around the Treasury's Accounts System, which includes the Treasury's Single Account in the national currency and the Treasury's Single Account in foreign currency, both collection and payment accounts simultaneously[143].

The current system only allows the daily calculation and consolidation of cash balances for the four types of accounts mentioned above and directly controlled by the Treasury. This excludes all the other accounts of Central Government which are still not under the control of the Treasury[144]. The objective of the Treasury is to take control of all the accounts, implement the law and to gradually create the Treasury's Accounts System;[145]

iii. The legal framework for taking on public debt and issuing guarantees (for the entities of the non-financial public sector) is clearly defined in the Law on Public Credit (Law 6-06)[146]. These new provisions are already being implemented by the current competencies of the directorate[147]. The entities of the non-financial public sector now need the authorisation of the SST before receiving funds from banks (March-April 2006) therefore all loans and guarantees are subject to approval.[148]

ID-18 Effectiveness of payroll controls.

i. Each Central Government institution holds its database which, in the majority of cases, is managed manually. Furthermore, the personnel database is centralised in the Office of the Comptroller General. This institution clears and adjusts the database before making the monthly payroll payments.[149]

The National Administration and Personnel Office (NAPO) of the new State Secretariat for the Economy, Planning and Development is currently implementing the Public Servants Administration System (PSAS), a human resources management tool for Central Government institutions[150]. With the new system, the data will be centralised in the NAPO. At the same time, each institution will have its own individualised system for generating management and administrative information and automating the daily functions of each of the Personnel Offices of the institutions. The PSAS is already integrated into the IFMS and operating for an initial group of institutions[151]. The objective is to cover all the institutions by the end of 2007 or early 2008. In the new system, the

142 *Idem.*
143 Law 567-05 Art. 11.
144 Communication of the Treasury.
145 *Idem.*
146 Law 6-06, Chapter I- On the Authorisation of Public Credit Operations, Articles 20-28.
147 Communication of the General Directorate for Public Credit. This Directorate sent a circular to the banks and organised a workshop with commercial banks to inform them about the new provision.
148 The PEFA mission has consulted the loan application documentation to obtain the authorisation of the Directorate sent by public sector entities.
149 Communication of the State Secretariat for the Treasury.
150 The objective is to cover all the non-productive public sector in the future.
151 The Office of the Comptroller General, the Treasury, the General Directorate for the Budget, the NAPO and NPO constitute a pilot group (Group I).

personnel database will be directly linked to the payroll – it will enable the cross-referencing of data with the Office of the Comptroller General, the Treasury and other institutions – and the controls will be immediate and automatic;[152]

ii. Currently, each institution has the faculty to introduce the necessary changes (a faculty limited to authorised public servants). In the majority of cases, these changes are made manually.

Delays in updating changes in personnel records and the payroll differ. They can range from one or a few days to several months, depending on the institution. They are immediate in the Group I pilot institutions which have already adopted the new PSAS. Retroactive adjustments also depend on the institution[153]. There are no retroactive adjustments in the Group 1 institutions. The adoption of the PSAS by all the institutions of Central Government will fully eliminate delays[154].

The Office of the Comptroller General exercises controls. Article 5 of circular no. 20 of the Office of the Comptroller General dated 14/07/2003 establishes that "prior to contracting temporary employees, an application must be filed to the Office of the Comptroller General to verify in the employee register that the person selected is not assigned to another State institution. This application must contain the name of the person, a copy of the identity and electoral document, the function to be performed and the salary to be received", *in order to ensure that the institutions comply with that established in Article 8, paragraph II of Law no.120-01 which prohibits public servants from exercising two functions in the Public Administration[155]. With the new PSAS the changes will be automated and recorded in the system[156];*

iii. Payroll audit are not currently carried out. The new PSAS will be the payroll audit tool and will identify fictitious workers.[157]

ID-19. Competition, value for money and controls in procurement.

Apart from the payroll, the biggest part of the public expenditure goes on contracting services and purchasing goods. A transparent contracting and procurement system based on open competition ensures the effective and efficient use of public funds.

i. The new Law on Procurement and Contracting Goods, Services, Works and Concessions (Law 340-06 dated 18th of August 2006) and its amendments (Law 449-06 dated December 2006) define the selection procedures used in adjudicating contracts. The implementation regulations of these laws are in the process of regulation[158]. In the meantime, contracts are adjudicated by applying

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152 Communication of the National Administration and Personnel Office (NAPO).
153 *Idem.*
154 *Idem.*
155 Communication of the Office of the Comptroller General.
156 Communication of the National Administration and Personnel Office (NAPO).
157 *Idem.*
158 Communication of the General Directorate for Procurement dated 14th of February 2007. Procurement policies are established by the Government Procurement Commission, comprised of 7 institutions, whose governing body is the new General Directorate for Government Procurement. This Directorate is responsible for implementing the regulations and for empowering the 225 public authorised entities to contract goods and services.

the procedures defined in Decree 63-06 on the Regulations for Procurement and Contracting Goods, Services, Work and Concessions[159], provided that these do not contradict the new Law. The Decree distinguishes five types of adjudications, in accordance with the magnitude of the contracts by financial volume[160]. It establishes exceptions for the acquisition of goods and services for reasons of national security or emergency[161].

In operational terms, the procurement and contracting system is decentralised[162] and each institution must apply the procedures through its Bidding Committee[163]. The law makes reference to the Information on Contracting System, which is in paper or electronic format[164]. An IFMS Procurement and Contracting module is in the process of development and not yet in operation[165]. Although the entities issue a copy of the contracts to the General Directorate for Procurement, there continues to be no consolidated register in place. The information available does not reveal the method employed in the adjudication of the different types of public contracts;

An ex-ante internal control on compliance with the regulations is carried out by the direct executors of the operations or activities in the institution based on the basic internal control regulations issued by the Office of the Comptroller General.[166]. This control does not contemplate the content of the contract or purchase, or the quality of the goods or services received[167]. The Internal Audit Units of each institution[168] keep a register of the contracts after the institution concerned has recorded the provision. The commitment cannot be initiated without having previously registering the contract. In the accrual phase, the institutions have already filed the applications for the purchase of goods or services and the payment order has been issued.

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159 Decree no. 63-06 which, in practice, is also referred to as 'bridging decree' was issued prior to the Law, but it is also relatively recent: 23rd of February 2006.

160 1) Public Bids, open, non-restrictive and through a widely published call; 2) Restricted Bids through a restricted call; 3) Draw for Works, a procedure used when the works exceed the equivalent in Dominican pesos of US $ 100,000.00; 4) Price comparison used to acquire goods and services when the estimated amount of the purchase or contract does not exceed the minimum amount established for public bids for the execution of projects and works; 5) Minor purchases. The thresholds for the last two methods are determined by an index of multiplication factors using Central Government's Current Revenue budget as base (source: General Directorate for Government Procurement). A specific method for purchasing goods through electronic means is the Inverse Auction (Source: Decree 63-06, Art.38 and General Directorate for Procurement).

161 Decree 63-06 Art. 1 Paragraph II c). This exception contemplates certain purchases of goods and services on the part of the Presidency, the Armed Forces and the Police (Source: Communication of the General Directorate for Procurement).

162 Decree 63-06 (Art.89) mentions the Procurement and Contracting System and the Government Procurement Portal, which should be developed by the 31st of March 2006 and be integrated into the IFMS.

163 The Bidding Committee of each institution is made up of five members: the highest ranking public servant of the institution, the Financial Administration Director of the institution, the Legal Advisor of the institution and two public servants of highest possible rank in the institution (Source: Decree 63-06, Art.12, Paragraph I).

164 Law 340-06, Law 449-06 (Art. 36.14) and Law 200-04.

165 Communication of the experts in charge of the IFMS of the 16th of February 2007.

166 See indicators ID-20 and ID-21.

167 The control on the content refers to the technical and quality aspects of the offer. The Office of the Comptroller General does verify the support documents that that back the content of the contract or purchase. It is worth noting that the Technical Audit Department of the Office of the Comptroller General has the faculty to interfere in the bids, for example, in that relative to the prices of the offers. That department is working on a control procedure for the average prices of construction in different locations. The Office of the Comptroller General does verify that the purchase was received by the contracting entity (Communication of the Office of the Comptroller General).

168 See ID-21

ii. Decree 63-06 clearly establishes that adjudications should be carried out on the basis of open competition according to different levels[169]. Although an ex-ante control is in place, in accordance with the regulations issued by the Office of the Comptroller General on selecting the method, as mentioned in the previous point (i), there is no internal control for the content, which would cover the implementation of the contract, nor a control on the quality of the supplies. The absence of an ex-post control and the systematisation of data on contracts, prevents gaining precise knowledge of the existence of less competitive methods and their possible justification;

iii. The new Law 340-06 establishes in detail a structure and a number of mechanisms for processing complaints in relation to the procurement process[170]. However, in practice, the Challenge and Claims Committees[171] which have been planned are still not in place. The appeal process on contracting issues has also been defined but is also not in operation[172]. In this context it is worth pointing out that the Dominican Republic does not have a culture of filing claims.

ID-20. Effectiveness of internal controls for non-salary expenditure

i. The Organic Law on the Budget for the public sector[173] implemented until very recently did not explicitly define what is understood by expenditure commitment. This law prohibits entities from committing funds without to having the respective expenditure assignations approved[174]. The budgets approved for each institution do not constitute an acquired right, but the funds are assigned in accordance with the real availability of revenue. Until early 2007, the institutions had to submit each expenditure item that they wanted to commit to the approval of the National Budget Office, accompanied by the appropriate justifications. If the expenditure involved was an investment item requiring a contract, the contract had to be duly registered in the corresponding institution (provision) and in the Office of the Comptroller to facilitate subsequent control.

The introduction of the IFMS in recent years has improved the effectiveness of the commitment controls, reducing the administration timeframes and levels of discretion. Among other things, the increased discipline introduced has resulted in a significant reduction in the global amount of payment arrears at the end of the fiscal year.[175]

Despite this, the control systems for the expenditure commitments implemented

169 Decree 63-06, Art. 2.

170 Law 340-06, Title III, Chapter II, Art. 67-69.

171 Law 340-06 does not demand a challenge or claims committee, but it implicitly assumes its existence, considering that the law assigns to the General Directorate for Contracting the faculty to receive the suggestions and claims of suppliers, whether or not included in the Register, as well as to take the opportune precautionary measures whilst a challenge is pending resolution in order to reserve the opportunity to correct a potential breach of the law. The participation of the private sector in the Claims Committee is envisaged, with the Chamber of Commerce as one of its permanent members.

172 Article 67 of Law 340-60 establishes the procedure through which suppliers or bidders can file a claim or a challenge, indicating the Audit Commission, acting as Contentious Administrative Tribunal, as last resort.

173 Law no. 531 of 1969.

174 Law no.531-69, Art. 42.

175 See ID-4.

until now in the Dominican Republic are proving to be only partially effective. In practice, the control mechanisms applied on expenditure commitments have not managed to prevent entities from incurring real expenditure prior to obtaining authorisation for the commitment. This irregular practice has enabled entities to accelerate the execution of sectoral budget assignations but has generated a large volume of non-administratively registered floating debt.

Furthermore, the controls on commitments implemented until now do not coincide with the concept used in financial management[176] given that, in reality, they are carried out on the authorisation to commit expenditure rather than on the commitment itself.[177]

The new Organic Law on the Budget[178] improves the definition of commitment, describing it as "…the approval, by the competent authority, of an administrative act through which a legal relationship with a third party is formalised for the purpose of executing works, acquiring goods and services, contracting personnel or acts through which transfers and loans are granted…"

ii. In accordance with the French-Spanish public finance tradition, public expenditure controls are essentially ex-ante controls. An initial formal documentation control is carried out by the decentralised units of the Office of the Comptroller General which are located in the different Secretariats responsible for realising the expenditure[179]. In the moment of the payment order, if they wish, the representatives of the Office of the Comptroller General can exercise an on-the-spot control, but this is only done occasionally. The Comptroller General carries out a third ex-ante control in his/her central office, which enables the payment order to be issued[180]. This process is excessive in time and effort and it delays the implementation of the budget.[181] With the implementation of the new Law on the Office of the Comptroller General, the decentralised units may authorise payments without going through the Comptroller General, and the National Treasury is the one responsible for issuing the payment order.

iii. The information received by the PEFA team indicates that the Presidential Decree which establishes the System for Planning the Execution of the Budget (1524-04) has not been implemented by the National Budget Office[182]. If a presidential decree fails to be implemented, one can assume that compliance with regulations is very low and that the basic regulatory framework is not complied

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[176] In the terminology of financial management, a commitment is the moment in which the Government assumes an expenditure obligation by signing a contract.

[177] Until now, the definition of commitment in the Dominican Republic corresponds to the authorisation of the commitment.

[178] Law 423-06, Art. 54 b iv).

[179] Communication of the Office of the Comptroller General.

[180] Communication of the Office of the Comptroller General and the General Directorate for the Budget.

[181] IMF (2006): *Modernisation and Restructuring of Budgetary Management*, Holger van Eden, Ilona Castro, Denis Lepage and Juan Ramón Ruiz, Washington DC 2006, p.9.

[182] Communication of the General Directorate for the Budget and the Office of the Comptroller General.

with in a systematic and generalised manner. But the recently adopted laws [183] lead us to believe that, in general, the situation should improve.

ID-21 Effectiveness of internal audit.

The Office of the Comptroller General is responsible for the internal audit function which is considered an integral part of internal control[184]. It has Units in central government entities.[185]

i. The internal audit function in the Dominican Republic does not focus on monitoring systems. It is confined to monitoring the legality, support documents and compliance with accounting standards[186]. The new Law that establishes the National Internal Control System (Law no. 10 of January 2007) contemplates a more rigorous and systematic internal audit[187] but, in practice, this is still pending implementation;

ii. In general, a report that summarises the internal audit function exercised by the Comptroller's Office is not issued. Reports are only prepared when internal auditors of the Department of Special Audits of the Office of the Comptroller General carry out occasional investigations on serious administrative and accounting irregularities that infringe the law (fraud)[188]. In such case, the audit reports on special investigations are distributed to the audited entity, the Secretariat for the Economy and the Treasury and the Audit Commission. The new Law 10-07 envisages issuing reports on assessments, examinations and preliminary investigations performed by the internal auditor, which should include recommendations[189];

iii. According to the former Law on the Accounting of the Office of the Comptroller General, the recommendations included in the special audit reports should be sent to the President of the Republic[190]. In practice, this has not been done and no sanctions have been imposed[191]. The new Law 10-07, which revokes the previous one, establishes that each infringement of the law will be subject to civil and criminal sanctions. This implies that the cases will be dealt by the Attorney General of the Republic's Office. [192]

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[183] See also Section 2, Legal and Institutional Framework of the Financial Administration.

[184] Law 10-07, Art. 3 and Art. 25

[185] The Units of the Government Audit were created through Decree 121 of January 2001. Once the new law is implemented, internal audit units may also be created in decentralised non-financial public entities and municipalities. See also: World Bank, Inter-American Development Bank, and Government of the Dominican Republic (2005): *Assessment of the Fiduciary System*, Volume II. CFAA Washington DC and Santo Domingo, p. 29.

[186] Communication of the Office of the Comptroller General; World Bank, Inter-American Development Bank and the Dominican Republic (2005), *Idem*, p. 31.

[187] Law 10-07, Title V, *On Internal Audit and Control*, Chapter II, *Internal Audit*

[188] Communication of the Office of the Comptroller General.

[189] Law 10-07, *Idem*, Art. 25.5.

[190] Law on Accounting (No. 3894 of August 1954), Art. 28.

[191] Communication of the Office of the Comptroller General.

[192] Law 10-07, Art.32.

IV. Predictability and control in budget execution	Rating	D (i)	D (ii)	D (iii)	D (iv)
13. Transparency of taxpayer obligations and liabilities	**B**	B	B	B	--
14. Effectiveness of measures for taxpayer registration and tax assessment	**B**	B	B	C	--
15. Effectiveness in collection of tax payments	**A**	A	A	A	--
16. Predictability in the availability of funds for commitment of expenditure	**D+**	D	D	C	--
17. Recording and management of cash balances, debt and guarantees	**B**	B	D	A	--
18. Effectiveness of payroll controls	**D+**	A	C	A	D
19. Competition, value for money and controls in procurement	**D+**	D	C	D	--
20. Effectiveness of internal controls for non-salary expenditure	**D+**	C	C	D	--
21. Effectiveness of internal audit	**D**	D	D	D	--

Conclusion

The predictability and control of budget execution shows adequate transparency in taxpayer obligations and liabilities. The taxpayer has excellent access to information on his/her tax responsibilities and administrative procedures. There is a taxpayer register which is cross-referenced with different databases and tax collection effectiveness is highly satisfactory (nevertheless, the inspection activity covers a very small sample of the taxpayer population). Current tax arrears represent less than 1%. In general, the current system facilitates making a good estimate of the taxable base and the collections to be made in the course of the fiscal year.

The recording and reporting of public debt are of high quality, although the information relative to external debt is more comprehensive than that of the internal debt. For contracting loans and issuing guarantees, the regulations of the new law on public credit are already being implemented.

In general, internal controls of public financial management are verifications of compliance with the legal and administrative regulations in force. The internal audit function is still not systematic, which restricts its use in management decision-making for improving the efficiency of the entity's operation. The new law on internal control envisages a more systematic internal audit.

Similarly, the ex-ante control for contracting and procurement is restricted to compliance with regulations based on a Decree, given that the new law on procurement and contracting and its amendments (which reflect international standards) continue to be unregulated. Although a system is in place to centralise information on adjudications and contracting, a systemised register is still not in operation. In practice, it is difficult to judge whether the methods employed adhere to the conditions of open competition. Neither the Challenge Committee nor the Claims Committee is operating as originally planned.

3.5 Accounting, Recording and Reporting

This section analyses the ability to keep records and issue financial information for management and scrutiny purposes.
An orderly public financial management system requires adequate records and information to be produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

ID-22 Timeliness and regularity of accounts reconciliation

i. Every day, the Treasury receives the bank statements of the transactions undertaken the day before in relation to the four categories of accounts under its control[193]. The Reserve Bank and the Central Bank send the account statements by electronic means. The same day, the information on the statements is incorporated into the Account Administration module of the IFMS, which enables automatic and immediate reconciliation and the detection of any difference[194]. The categories of accounts which are not controlled by the Treasury are not reconciled (which make up a majority);[195]

ii. Reconciliation and clearance of suspense accounts and advances are still not carried out. The process of incorporating these accounts into the information that should be supplied to the Treasury has been recently initiated. The purpose is to cluster them to facilitate monitoring and be able to reconcile and eventually clear them[196].

ID-23. Availability of information on resources received by service delivery units

i. The line ministries draw up the annual budget and, in particular, the Investment Plan from the 'bottom-up', from the decentralised units. These decentralised units (for example, regional directorates and area directorates) have precise knowledge of the resources assigned, received and spent. However, a decentralised entity is not the same as a service delivery unit, for example, a rural clinic. A service delivery unit of a lower rank receives its requirements in kind (for example, medical material) through the decentralised unit[197]. In the case of health services, the providers use the 'recovery quotas' to cover certain recurrent expenses (non personnel).

   Every quarter, each expenditure unit has to generate a Budget Execution Report. Whilst detailed information on expenditure is available according to lower ranking administration units, there is no record on reception of supplies in kind. The internal 'value for money' control on acquisitions just falls on the discretion

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[193] See ID-17 (ii).
[194] Communication of the Accounts Division of the Financial Analysis and Assessment Directorate of the Treasury.
[195] Idem
[196] *Idem.*
[197] In the case of the State Secretariat for Health, there are 9 regional directorates, 31 Provincial Directorates for Health and approximately 40 'health areas' (in the process of installation). The provincial directorates hold a preventive health function. The areas are responsible for providing curative services. These areas are basic expenditure units (plus some hospitals of a higher rank).

of the administrative unit. Neither the internal nor the external audits inspect the actual reception of supplies of the service delivery centres.

ID-24. Quality and timeliness of budget reports.

Adequate and regular information on budget execution is essential for the State Secretariat of the Treasury to be able to supervise fiscal performance and for the different entities to be able to manage their budget.

i. The monthly budget execution reports present both the tax collections and the current and capital expenditure of Central Government[198]. The reports reflect tax collections by source: GDIT, GDC and the Treasury. Current expenditure is divided into expenditure on personnel services; non-personnel expenditure, materials and supplies and ordinary transfers to public and private institutions. The transfers for capital expenditure are presented by function, administration and programme/activity. As a separate register, information is provided on the expenditure on external resources[199]. Its use for knowing the state of financial execution is relatively limited due to a lack of an accumulative column and another column reflecting the original approved budget. The information provided is complete but it is only presented at cash base (payment made);[200]

ii. The General Directorate for the Budget (GDB), with the help of the National Treasury, prepares a monthly budgetary report on the income and expenditure of Central Government. In compliance with Law 101-79, the report is published within 30 days following the end of the period;[201]

iii. Although the ROSC (IMF, 2006) highlights that the statistics are not entirely aligned with the Public Financial Statistics manual, the reports fulfil – in general terms – their basic purpose.[202]

ID-25. Quality and timeliness of annual financial statements

i. The General Directorate for the Budget prepares annual budget execution reports with a certain delay. The report relative to the year 2005 is currently in the process of completion 2005[203]. These reports present the income collected and expenditure executed by central government and include information on autonomous institutions, public companies and social security institutions.[204]. However, the information is not presented in integrated form, and neither does it reflect reconsolidated data relative to the non-financial public sector.

198 Presentation at Central Government level until the month of December 2006, inclusive. The broadening of information to the non-financial public sector is in process.

199 Report of December 2006.

200 *Idem.*

201 *Idem.*

202 "The concepts and definitions are not fully aligned with the Public Financial Statistics manual of 1986. There is no plan in place to meet the Public Financial Statistics manual of 2001. The data sources are assessed through crossed reconciliations, comparison of tendencies and comparisons of the estimated and actual values.... There is a balance between the delivery of data in time and their precision. …… The differences between deficit and financing are frequent and significant, particularly in quarterly data. The series of Public Finance Statistics are not disseminated to the public and therefore their soundness is not assessed throughout time. Despite the fact that the aggregate data are widely consistent at sectoral level, users cannot reconcile the published data". (Source: IMF, Report on the Observance of Standards and Codes- Table 3c Country Report No. 06/240, June 2006).

203 Communication of the General Directorate for the Budget.

204 Technical Secretariat of the Presidency, National Budget Office: *Budget Execution Reports*, 2003 and 2004.

With the Law that establishes the General Directorate for Accounting (No. 126 of June 2001) this Directorate is given the obligation to prepare Government financial statements[205]. Due to a lack of consolidated information on the wealth, it has been impossible to prepare an assets and liabilities balance sheet and, in practice, the General Directorate for Government Accounting has only prepared a Revenue Collection and Investment Statement for the fiscal years 2004 and 2005[206]. For the fiscal year 2005, this report constituted the basis of the Report to Congress from the Audit Commission.[207]

ii. The State Secretary for the Treasury must submit the Revenue Collection and Investment Statement to the Audit Commission prior to the 1st of March of the year following the budget execution year[208]. This date has already been adhered to for the report on the fiscal year 2005[209]. The budget execution reports do not have to be submitted to the Audit Commission or to Congress. The law does not establish a deadline for its completion.

iii. To date, the international accounting standards have not been fully applied[210]. Among others, the financial statements do not contain key information such as information on wealth (see i). The General Directorate for Accounting has initiated an accounting standards implementation process in accordance with the (IPSAS) international standards of the International Federation of Accountants (IFAC).[211]

V. Accounting, Recording and Reporting	Rating	D (i)	D (ii)	D (iii)	D (iv)
22. Timeliness and regularity of accounts reconciliation	**B**	B	D	--	--
23. Availability of information on resources received by service delivery units	**B**	B	**-**	-	-
24. Quality and timeliness of in-year budget reports	**D+**	D	A	B	
25. Quality and timeliness of annual financial statements	**D**	D	D	D	--

205 Law 126-01 Art. 7.3 and Art. 8.5. Law No. 126-01 establishes the Government Accounting System, setting apart the recording and control functions exercised by the Office of the Comptroller General. The General Directorate for Government Accounting was established half-way into the fiscal year 2003.

206 The mission did not have access to these reports because they are not of a public nature. For now, these only include Central Government. In fact, no progress has been made towards the decentralised sector, given that the computer platform guaranteeing reliability of information has not been developed. (Communication of the General Directorate for Accounting).

207 For the fiscal year 2006, the State Secretary for the Economy and the Treasury will officially send a Revenue Collection and Investment Statement to the Audit Commission. The PEFA team did not manage to obtain a copy of that report from the General Directorate of Accounting because it was not ready. This Statement contains financial statements and it is of a public nature (Communication of the General Directorate for Accounting and the Audit Commission).

208 Law 126-01, Art. 15.

209 Communication of the General Directorate for Accounting.

210 Source: IMF, ROSCA&A 2004 and the World Bank CFAA, 2005 p.27.

211 Communication of the General Directorate for Accounting.

Conclusion

The purpose of budget execution accounting, recording and reporting is to monitor compliance with the forecasted objectives, facilitating management tools for decision making. The significant progress made in the last few years is recognised and the numerous processes currently being implemented simultaneously are taken into account. However, to date, the scope, the content and the way the financial information is presented constitute serious restrictions. Among other deficiencies, it is worth mentioning the lack of reconciled information at non-financial public sector level and the absence of an assets and liabilities balance sheet in the financial statements. These weaknesses in the presentation of budget execution information in the course of the fiscal year restrict its use in the Government's management decision-making, in the legislative task assumed by Congress and in the general oversight of the public.

3.6 External Scrutiny and Audit

ID-26. External Audit

The Audit Commission is the supreme audit entity of the Dominican State's National Control and Audit System[212]. The operations of the Commission are steered by its Governing Body and endorsed by the Plenary Session, which is made up nine members who are also members of the Administrative High Court[213]. The Senate selects the members of the Governing Body from a list of candidates, who occupy their posts for two years.

i. The Law establishes that the responsibility of the Audit Commission is to 'audit or analyse in a timely manner the execution of the Revenue Budget and Law on Public Expenditure approved each year by National Congress"[214]. The mandate conferred by Law 10-04 covers the entire public administration, including autonomous institutions, municipal councils and (semi)-public companies. In 2005, the Audit Commission carried out 169 audits (81% of its Annual Plan), of which 40 summaries were included in the annual report sent to Congress[215]. These 169 audits represent 26% of the 301 entities of the State.[216] Of these 169 audits, 44 corresponded to central government. In 2005, the Audit Commission managed to audit 35-40% of the fiscal expenditure of 2004, a figure similar to the expenditure of central government.[217]

   The Audit Commission of the Dominican Republic implements the International Government Auditing Standards[218] and the Professional Government Auditing

[212] The Audit Commission was established through Law No. 338 dated 22nd of May 1855, which has been amended by laws 130 of 1942 and10 dated 20th of January 2004.

[213] According to Law 1494 (1947).

[214] Law 10-04, article 10, subsection 16.

[215] Not all the audits have reached the final report stage. The final reports obtained are available in the website www.ccuentas.gov.do.

[216] Report to the National Congress 2005. Audit Commission, pag. 108.

[217] The Audit Commission does not hold a database to register the financial volume audited. An estimate made by the mission on the basis of 67 of the 169 reports. An estimate considered by the Audit Commission as 'approximate' (21-02-2007).

[218] The Audit Commission is a member of the Latin-American and Caribbean Organisation of Supreme Audit Institutions (LACOSAI), and it implements the IOSAI standards (International Organisation of Supreme Audit Institutions) and not the LACOSAI variation.

guidelines[219]. The Audit Commission draws up its Audit Plan on an annual basis[220]. With few exceptions (special audits[221]) the audits carried out are compliance with the laws and regulations audits (in the Dominican Republic they are called 'financial audits' whilst, internationally, they are referred to as 'compliance audits'). These audits compare the initial budget assignation with the expenditure, but they do not analyse the veracity of the figures or the value for money of the transactions, and even less so the effectiveness of institutional systems and their results.[222]

ii. The Audit Commission presents the 'Report to the National Congress' in the first ordinary legislature of each year[223], which includes the results of the analysis and assessment of the execution of the Revenue Budget and Law on Public Expenditure approved in the previous year. This same report –in separate chapters- contains summaries of all the officially completed external audits. Furthermore, the Audit Commission has the faculty to inform National Congress, and to society in general, of the specific results of any audit[224]. In practice, this is carried out by publishing the results in the website of the Audit Commission. Because it is a faculty (and not an obligation), these results are not sent to Congress separately. In practice, apart from a few exceptions, the Audit Commission sends a single report per year to Congress.

iii. The recommendations issued by the Audit Commission in the final reports[225] are of obligatory compliance by the entity or agency[226], and they are subject to follow-up and assessment. The audited institutions of the executive branch must formally respond to the recommendations issued in the external audit reports. A specialised department in the Audit Commission follows-up on the recommendations issued in the audits of the previous year. In practice, this department delegates part of the recommendations follow-up tasks to the internal auditors, i.e., the Comptroller's Office[227].

ID-27. Legislative scrutiny of the annual budget law

i. The Constitution establishes that Congress[228] controls the way in which the Executive Branch invests the revenue collected, making use of its faculty to approve or disapprove the annual report which, in this respect, the Executive Branch must submit to Congress. Congress approves the Revenue Budget Project and the Law on Public Expenditure at Item and Entry level[229]. However, in

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219 Report to National Congress 2005. Audit Commission, p. 130, 132.

220 Established through Law 10-04, Art. 33.

221 Of the 169 audits carried out in 2005, 7 were special audit owing to a compliant.

222 Ref: Law 10-04, art.30, paragraph II.

223 Law 10-04, Art. 43. In which case, the Audit Commission informs the legislative branch within a period of 12 months.

224 Law 10-04, Art. 44.

225 During the 'draft' stage the audited entity has the right to reply.

226 Law 10-04, Art. 39.

227 This Department initiated its activities in December 2006 and the follow-up will be on the final reports issued in 2006 on the fiscal year 2005. The objective is to follow-up on 100% of the recommendations. A record of compliance is still pending.

228 The Legislative Branch is made up of the Senate (32 members) and the Chamber of Deputies (120 members), whose members are elected by direct vote. Both Chambers constitute the Congress of the Republic (Art. 16 and 17 of the Constitution). A joint gathering of the Senate and the Chamber of Deputies makes up the National Assembly.

229 Law 423-06, Art. 41, paragraph 1.

practice, Congress' Planning and Budget Commission exercises scrutiny by geographical classification for the purpose of being able to respond to the concerns of the parliamentary members who represent specific geographical areas. Congress subjects the Budget Project to debate, but the debate is not inclusive to national level and -until 2006- did not even contemplate the medium-term fiscal framework or the details of the revenue. The new Law 423-06 establishes that the Executive Branch must present to Congress a preliminary report on the macro-economic and fiscal forecasts and the expected economic and financial results[230]as well as a multi-annual forecast[231]. Considering the approval date of the previously mentioned Law (22nd of November 2006) the implementation of the presentation of the fiscal framework will be effective on the 2008 budget.

ii. There are no predetermined procedures for the budget review performed by the legislative branch[232], but Congress' Planning and Budget Commission[233] analyses the budget from a geographical perspective[234] and makes recommendations to the plenary session. This Commission is responsible for monitoring the processing and execution of the Revenue Budget and Law on Public Expenditure approved each year.

iii. The Executive Branch submits to the Congress of the Republic the Revenue Budget Project and Law on Public Expenditure during the second ordinary legislature[235], that is, in the period commencing the 18th of August and the following 90 days. In practice, it should be presented for Congress' consideration no later than the first half of the month of November. The Law also establishes that Congress must issue a decision prior to the 31st of December (otherwise the previous budget law will continue in force). In practice, owing to delays in the presentation of the Revenue Budget Project and Law on Public Expenditure to Congress, these calendar requirements have not always been complied with (see ID 11). In the last three fiscal years, Congress has taken at least one month to review the bill.

iv. Until the 2006 budget, tax collection surpluses could be used during the budgetary year. The law reserved 25% of additional collections, but the remaining 75% could be assigned by the Presidency to finance the investments it considered appropriate. These budget changes in the course of the fiscal year did not require the prior approval of the legislative branch. Any other change to the budget, above the level of transfers within the same programme, had to be

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230 Art.39; In the initiation year of the government term, the report referred to in this point will be presented to Congress no later than the thirtieth (30) of September.

231 Law 10-04, Art. 36h.

232 There is a Bill (June 2005) as regards Public Oversight and Relations with the Government which, in chapter IV establishes the procedures: "for the approval of the Revenue Budget, the Law on Expenditure and the Review of the Revenue Collection and Investment Statement".

233 For budget and public finance issues there are two permanent Commissions: the Permanent Planning and Budget Commission and the Permanent Finances and Contracts Commission. The role of the Finances and Contracts Commission is to address issues relative to national revenue, tariffs and income, and public finance in general.

234 Source: President of the Permanent Planning and Budget Commission.

235 The two Chambers gather twice a year: on the 27th of February and on the 16th of August for a period of 90 days. Constitution of the Republic, Art. 55, No. 23 and Law 423-06, Art. 40.

regulated through a law on Transfers (adjustments without changes to the total expenditure) and/or a law on Appropriation (change in total expenditure).

The new law establishes that all changes made by Congress which increase the total amount of expenditure contemplated in the Revenue Budget Project and Law on Public Expenditure must specify the respective source of revenue[236]. Once the Budget Law has been approved by Congress, the Executive Branch will not be able to make changes to the total expenditure approved, or make transfers from one Entry to another or from one Item to another. To make changes, an amendment to the Law is required (previously referred to the National Development Council). [237] However, to add flexibility within the main Items and thus improve the efficiency and effectiveness of the administration of the resources assigned, with the new law, the General Directorate for the Budget can propose to the State Secretary for Finance the budget changes system which will be in force during the respective budgetary year, which will be approved by the Executive Branch[238].

ID-28. Legislative scrutiny of external audit reports

(i)/(ii)/(iii) The Congress of the Dominican Republic does not have fixed procedures in place for exercising scrutiny over external audit reports. Scrutiny is partial and mainly focused on special audits. In special cases, both Congress Commissions request the Audit Commission to verbally present its conclusions. The Audit Commission only issues the Annual Report to Congress. There is no specific system in place for sending the rest of the reports to Congress. These reports appear in the web page of the Audit Commission. No deadlines have been established or time allocated in the parliamentary calendar to discuss the reports or to formulate recommendations. Except in few cases concerning special audits, Congress does not issue specific recommendations to the Executive Branch on the findings of the Audit Commission.

External scrutiny and audit	Rating	Dim (i)	Dim (ii)	Dim (iii)	Dim (iv)
26. Scope, nature and follow-up of external audit	**D+**	D	C	A	--
27. Legislative scrutiny of the annual budget law	**D+**	C	D	B	B
28. Legislative scrutiny of external audit reports	**D**	D	D	D	--

Conclusion

Since 2003, the Audit Commission has been subjected to an institutional strengthening and modernisation process. The Commission has wide powers and has strengthened its autonomy as supreme auditing entity. The recent adjustments to the role of the Office of the Comptroller General, an institution which now mainly exercises *ex-ante* control, entail that *ex-post* control now rests even more with the Audit Commission. The Audit

236 Law 423-06, Art. 41.
237 Law 423-06 Art. 48.
238 Law 423-6 Art. 49.

Commission informs Congress (and the public in general), facilitating its role of overseer of the Executive Branch. The current weakness in the oversight exercised by Congress is not just due to internal factors (limited capacity), but it is aggravated by the limited content of the compliance audits, published by the Audit Commission. To be able to exercise its role of overseer, Congress should be able to count on a veracity check –on the part of the Audit Commission- as regards the figures of the tax collection and the expenditure effected. Likewise, it would be preferable to have audits on the efficiency of institutions in performing the tasks assigned to them and on the effectiveness of public investment (value for money). The lack of accountability, both in financial and provision of services terms, leaves a void in the public financial management system of the Dominican Republic.

3.7 Donor practices[239]

D-1 Predictability of direct budget support[240].

The lack of predictability of the inflows of budget support affects the government's management, both in its initial budgeting and its financing programme in the course of the fiscal year. It is necessary that donors and international finance institutions inform the Government of the annual amounts forecasted and on the quarterly disbursement schedule, preferably aligned with the Government's budget calendar.

i. The volume of Official Development Assistance (ODA) in the Dominican Republic is relatively low[241]. Of the total ODA disbursed in 2005, only 11% was considered predictable[242] although these funds were not necessarily of the budget support kind[243]. The European Commission had 10 million Euros (US $ 12.9 million) of budget support scheduled for 2006 but the scheduled disbursements did not take place on the forecasted dates (they took place in early 2007) [244].

   In relation to credits on the part of international financing institutions[245], such as the World Bank (WB) and the Inter-American Development Bank (IDB), the situation is different. Because they are loans applied for by the Government, the portfolio is known with precision[246]. As of 2003 (IDB) and 2004 (WB), these institutions began to place certain loans through the national Treasury, recurring to the 'budget support' modality[247].

239 As far as possible, the analysis of these indicators takes into account both co-operation donations and credits from international financing institutions (WB and IDB), even when the credits are not concessional and do not constitute Official Development Assistance.

240 This indicator cannot be rated because of missing data to assess the dimension (ii).

241 www.oecd.org/dataoecd/dominicanrepublic. Organisation for Economic Co-operation and Development: net ODA: 2003: USD 69 million; 2004: 85 million; 2005: 77 million; 2006: 115 million.

242 Monitoring of the Paris Declaration. Survey OCDE 2006, financial year 2005, Dominican Republic. See also ID-7.

243 Funds provided by the UNDP and the UNFPA in 2005, according to the previously-mentioned OCDE survey.

244 Communication of the NOEDF

245 It is worth pointing out that these credits are not part of Official Development Assistance due to their low concessional percentage.

246 These loans include budget support and investment programmes. The credits that finance investment programmes are reflected in the budget of the nation but their financial management is external. Only the 'budget support' loans are executed and managed directly by the financial management system of the Dominican Republic.

247 The investment programmes are mentioned in the budget ("*on the budget*") for planning reasons, but their procedures are those of the financial institution. In the case of budget support, the loans are "*on budget*" and they are subject to the procedures of the public sector of the Dominican Republic.

In 2004, 2005 and 2006, the IDB disbursed the forecasted total amount of the US $ 298 million programme. These funds were geared towards:
1. The financial sector (US $ 100 million);
2. An emergency programme (US $ 198).

In the same period, the WB programmed a total of US $ 250 million[248] for:
1. Assistance for the 2004 social crisis (US $ 100 million);
2. The energy sector (US $ 150 million).

The volume of budget support disbursed by the WB has been lower than the amount forecasted in the last two years. The US $ 100 million in assistance for the social crisis were disbursed as pre-established (2004). In June and November of 2005, the US $ 100 for the energy sector could not be disbursed because of delays in the external verification of government compliance with the conditions[249]. The last US $ 50 million were scheduled to be disbursed in April 2006. To date, only US $ 50 million has been disbursed in 2006[250].

In short, the reception of the budget support provided by donors had an imbalance in excess of 10% of the amount forecasted, only in the year 2005 (annex 8). In fact, in the whole period analysed (2004-2006), of all the budget support forecasted by the IDB, the WB and the EC, 80% of the amount forecasted managed to be disbursed.

ii. [No comprehensive data could be obtained on the timeliness of the quarterly disbursements].

D-2 Financial information provided by donors.

For planning and budgeting purposes, it is extremely important that donors inform the government of the Dominican Republic of their forecasted co-operation programme, both in terms of financial and in kind resources. Likewise, it is important that the reports from the donors include the disbursements made during the fiscal year for the purpose of reconciling the records of the financing received through international co-operation and the national balancing entries towards the different projects and programmes.

i. The information on ODA disbursements (USAID, Spanish Co-operation, EC, Canada, GTZ) is generally available for incorporation into the nation's budget, but its presentation is not linked to the budget cycle [251] . And furthermore, it is also not presented in enough detail to enable the use of the classification used by the government. In the case of the loans (WB, IDB), the government can break the amounts down according to budget lines without any difficulty[252], whilst the

248 Communication of the WB.
249 World Bank, Report No. 31741-DO p.28
250 Communication of the WB. The reason is that the disbursement is conditioned to compliance with certain requirements in the reform process. Compliance requires verification by external auditors. In this case it is difficult to forecast the pace of disbursement.
251 Communication of the Undersecretariat for International Co-operation of the State Secretariat for the Economy, Planning and Development.
252 *Idem.*

budget support modality is fully 'on budget'. The information on the forecasts for donations in kind is insufficient or inexistent;[253]

ii. In relation to *ex-post* information on the disbursements effected, the donors inform the government mainly by giving it access to their website and sending it quarterly or half-year reports. In general, these reports are sent within a period of two months following each period. The IDB issues the notification the day after the disbursement is made and the World Bank and the EC issue monthly reports. Other donors, such as USAID, provide information upon petition[254]. The information is published and centralised in the General Directorate for the Budget (in the IFMS). However, this information is not complete or used systematically for reconciling the records[255]. The reports provided cover approximately 50% of the projects financed with external funds and included in the budget.[256]

D-3 Proportion of aid that is managed by use of national procedures.

i. Of the ODA (excluding non-concessional loans) received by the Dominican Republic in 2005, only 2% was managed by use of national procedures[257]. No record is kept of international co-operation by classifying the aid[258] according to financing method. Neither is there an international co-operation Harmonisation Plan to promote the use of national procedures. It is estimated that less than 50% of external resources (ODA and credits from international finance institutions) is submitted to the use of national procedures.[259]

VII. Donor practices	Rating	D (i)	D (ii)	D (iii)	D (iv)
D-1 Predictability of direct budget support	**B**	B	sd-	**--**	**--**
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	**D+**	D	C	**--**	**--**
D-3 Proportion of aid that is manager by use of national procedures	**D**	D	--	--	--

Conclusion

Official Development Assistance (ODA) is low in the Dominican Republic and it is generally for specific ends (project focussed). The development investments included in the nation's budget are mainly financed with national resources or through multi-lateral

[253] The donations in kind are the assistance provided through the direct administration of the co-operation agencies or through agreement between them and NGOs.

[254] Communication of the IDB, the WB, NOEDF and the Undersecretariat for International Co-operation of the State Secretariat for the Economy, Planning and Development.

[255] *Idem.*

[256] Communication of the Undersecretariat for International Co-operation of the State Secretariat for the Economy, Planning and Development.

[257] *Monitoring the Paris Declaration. Survey OCDE 2006, fiscal year 2005*, Dominican Republic, indicator 5a.

[258] For this calculation we require the average proportion of external funds that use national systems for each of the four areas of acquisitions, payments/accounting, audit and reporting, is required.

[259] Of the external loans and donations included in the 2006 budget (programmed data including the loans from the IDB and the WB), only 15% corresponds to budget support (Sources: Technical Secretariat of the Presidency, NBO, Revenue and Expenditure Budget of the Central Government 2006, page 23; IDB, WB, NOEDF, own calculations).

external debt. An increasing part of these credits is channelled directly through the government national system. The application of the PEFA performance indicators on donor practices highlights that budget support (2004-2006) has exclusively been limited to international financing institutions. These credits are taken out by the government and are therefore predictable, although the government does not always manage to satisfy the disbursement requirements within the forecasted deadlines. In general, there is a lack of uniformity in donor practices in relation to the financial information provided to the Dominican Government. Although if information on the assignation of co-operation resources for projects and programmes is provided, there is less information available on disbursements effected. With the exception of credits of a ‘budget support’ kind, the forecasted pace of disbursement does not coincide with the government’s budget cycle.

4 Reform process

4.1 Recent and in progress reforms

The public financial management system of the Dominican Republic embarked on a process of reforms in the year 1996 with the creation of the Institutional Technical Commission comprised of the former SSF, the TSP and the Office of the Comptroller General[260]. This Commission was created for the purpose of drafting the proposals for reforming and modernising the financial administration, which set the bases for the financing and technical co-operation programme with the IDB. Thus, the **Integrated Financial Administration Programme (IFAP)** was designed to introduce an Integrated Financial Management System (IFMS) which would also Control the pubic sector and help improve the quality of expenditure. The IFAP is integrated into the above-mentioned Commission through a Permanent Technical Unit, thus ensuring the Secretariat of the reform[261].

The IFAP received a credit of US $10.3 million from the IDB during its first implementation phase[262]. This first phase, which concluded in 2006, facilitated the initiation of several reforms in the areas of planning and budgeting, public credit, treasury, accounting, internal control, contracting systems, I.T., empowering and reinforcing the regulatory framework[263].

The Integrated Financial Management System (IFMS) is the most far-reaching product introduced by the public financial management system reforms in recent years (in particular by the IFAP).

This system has introduced a new financial administration model comprised of systems and units which act in an interrelated manner with consistent regulations and procedures between them, enabling the reconciliation of essential public sector management information and the automatic co-ordination of activities. The conceptual model of the IFMS[264] is based on the principles of regulatory centralisation and operative decentralisation, which entails the concentration of the functions of enacting regulations and the deconcentration of the operational and management functions[265].

The IFMS is made up of five sub-systems, each of which records, processes, controls and reports on the execution of public resources. These sub-systems are the following:

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260 Decree no. 581-96 dated 19th of November 1996.

261 Decree no. 468-97 dated 6th of November 1997.

262 IDB loan agreement no. 1093/OC-DR. The first disbursement was in 2001. Until then, a familiarisation with the programme and acceptance of the need for the reform phase was provided.

263 Report on the completion of loan IDB no. 1093/OC-DR '*Integrated Financial Administration Programme'*.

264 Conceptual model of the IFMS. Edition 2006. IFAP / SSF.

265 The public credit sub-system constitutes an exception to the principle of operational decentralisation given that the functions of negotiating, authorising, contracting, administering and controlling the public debt are centralised in the new General Directorate for Public Credit.

- The budget sub-system. Comprises modules for budget formulation, budget changes and planning commitment quotas. The governing body is the General Directorate for the Budget;
- The treasury sub-system. Comprises modules for payments, revenue and administration of accounts (banking reconciliation) and a module for financial planning [266]. The governing body is the National Treasury;
- The public credit sub-system. Comprises the use of the PDMAS in *interface* with IFMS. The governing body is the General Directorate for Public Credit;
- The government accounting sub-system. Comprises the revenue and expenditure execution module and the module for wealth accounting. The governing body is the General Directorate for Government Accounting;
- The internal control sub-system. Comprises the internal control module[267]. The governing body is the Office of the Comptroller General.

Furthermore, the IFMS is interrelated (or, depending on the case, is going to be interrelated) with other sub-systems connected to the system of the financial administration, namely:
- Tax administration sub-system;
- Human resources sub-system;
- Pubic investment sub-system;
- Procurement and contracting sub-system;[268]
- Goods administration sub-system.

In short, the IFMS provides a way of controlling the public sector as never before, thanks to the substantial improvement in the quality of the information relative to all aspects of revenue and expenditure. Although several modules are pending development and/or implementation, the IFMS has achieved improved effectiveness and efficiency in the economic activities of the non-financial public sector.

The reforms have also strengthened the **regulatory framework of financial management**. The conceptual model initially envisaged a Framework Law which integrated the set of necessary regulatory changes for the effective implementation of the reforms. For the purpose of maximising the pace of the regulatory evolution, the decision was taken to draw up laws and decrees of a specific nature in order to, if necessary, proceed in stages[269]. By the end of 2006, a large number of laws establishing the bases of the new regulatory framework for a modernised financial management system had already been approved (See section II.3). Some of these laws are still to be regulated, which restricts their implementation and, as a result, their positive impact on improving the public financial management system[270].

Two of the new laws, which were approved in December 2006 and came into force early this year, are the laws that create the SST and the SSEPD. This involves a very important **institutional change** given that it entails the abolishment of the former TSP and the

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266 The financial planning module is currently being developed.

267 The internal control module is still not operational.

268 The procurement and contracting module is available but pending implementation in the respective units of the public administration.

269 In fact, whist waiting the approval of the new laws, more than fifteen resolutions and presidential decrees were introduced to enable the development and implementation of the IFMS.

270 They are expected to optimise the processes and procedures of the government.

distribution of its competencies between two secretariats, one already in existence which now becomes the SST, and a newly created one, the SSEPD. Both these State Secretariats are given different missions and responsibilities, giving way to counterbalancing relations in the decision-making system. All these changes have been accompanied by important **training programmes** within the public administration to promote a culture of change and facilitate the comprehension of the new management instruments.

Among the **main results** attributable to the reforms introduced in the last few years, the following are worth highlighting:

- Development of new budget classifications, essential for integrating the different modules of the IFMS;
- Integration of all financial, budgetary and accounting information in a single database;
- Regulatory centralisation with general and common regulations and procedures for all the modules of the system;
- Operational decentralisation with full responsibility of the governing bodies in the preparation and implementation of each of the modules;
- Improvement of budget formulation: possibility of making simulations, introduction of programme classification, use of economic classification system to obtain the saving-investment-financing account and obtain the expected fiscal result;
- Introduction of a single form (generic) to register the execution of all the expenditure stages (of any expenditure);
- Creation of the General Directorate for Government Accounting and subsequent evolution from budget accounting to wealth accounting;[271]
- Introduction of an automated tool to reconcile the State's accounts;
- Transfer of all the public debt and its unification in the SST;
- More transparency in presentation of information.

There are other scheduled **reforms in progress**, such as:

- Integration into the same data recording and management system to enable integrated planning and execution of the budgets of central government, the non-financial autonomous and decentralised institutions and the public institutions of the social security;[272]
- Development of public management focused on results;
- Development of multi-annual plans at different levels;
- Completion of the forecasted modules in the IFMS and update all those already available based on the new laws approved.

In 1996 the Presidential Commission for State Reform and Modernisation was also created for the purpose of promoting qualitative changes in the public administration, municipal management and society[273]. This Commission was transformed into the National Council for State Reform (NCSR) in 2001[274]: This Council addresses the public

[271] This Directorate is responsible for the administration of the system, from a functional and information technology point of view.

[272] The new organic law on the budget (Law 423-06) sent to Congress for approving the budgets of these entities according to a 'consolidated' budget.

[273] Decree 484-96 of September 1996.

[274] Decree 27-01 dated 8th of January 2001.

administration reform in general, including certain aspects associated with the reform and modernisation of the financial administration[275].

Among other things, the NCSR has actively participated in the regulatory framework review, in streamlining the institutional organisation which created the SST and the SSEPD, improving public access to financial information, the proposal of the new organic law on municipalities[276], the implementation of participative budgets in 40 municipalities, the development of a unified budget classifications manual for all the municipalities in line with the one held by central government and in the development of integrated management system in every municipality. The European Commission participates in financing the NCSR.

Despite the fact that the IMF has not developed a specific reform programme associated with the stand-by loan agreement, the implementation of some of the requirements agreed entails the introduction of significant reforms in the area of public financial management[277].

4.2 Institutional factors that support the planning and implementation of reforms

The reform process evolves in a political environment that facilitates its introduction. It entails a change from a public sector organised according to the President to one geared towards the provision of services. It is a gradual and slowly unfolding change.

Despite this positive environment, the absence of a national reform programme with a clear action plan and a calendar backed by instructions from Congress raises several doubts as to how far they will be adopted[278] and their sustainability in the course of time. In practice, the technical unit boosting the progress of the financial reforms consists of part of the mechanism handed down by the IFAP[279]. The steering of the reforms is exercised by the SST[280] but there is no specific co-ordination mechanism in place at cross-cutting level with the rest of the government entities involved[281].

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275 Its main functions are:
Draw up global and sectoral State reform policies and programmes within the framework of the National State Reform Programme (NSRP).
Recommend administrative provisions and bills that contribute to the State reform.
Contribute to the decentralisation reform.
Guide and co-ordinate the efforts of the constitutional, the central electoral board and the political parties reform.
Co-ordinate international co-operation with respect to the reform and modernisation of the State within the framework of the national programme.

276 Includes the new statute on municipalities.

277 A number of examples are the improvement in the management of payment arrears, co-ordination between budget formulation and a sustainable fiscal framework and more discipline in debt management.

278 The Dominican Republic has a CFAA and a CPAR which were eventually published in 2005. However, until now, there are no signs that the recommendations formulated therein have been adopted and, therefore, no reform plan has been developed to implement them.

279 Currently, the government is financing the recurrent costs of this technical unit.

280 The Institutional Technical Commission initially created to steer and co-ordinate the PFMS reform at government level was tripartite and also included what is now the SSEPD and the Office of the Comptroller General.

281 In fact, the technical ministries have barely participated in designing the reforms.

The reforms introduced so far have had the important support of the donors (IMF, IDB, WB, EC), both in financial and technical terms. Many of those reforms are the result of conditions imposed by the international co-operation.
Until recently there was no mechanism in place to co-ordinate the contributions of the different donors within the process of financial reforms. In December 2006, the PFM reform co-ordination Table was officially created and held its first meeting[282]. The presidency rests with the new SST and the secretariat with the SSEPD. All the institutions and donors involved in the financial administration reform are members of the Table[283].

The financial sustainability of the reform seems to be guaranteed in the medium term given that the main donors which have been supporting the reform are refuelling their contributions. However, the reform presents several handicaps which could paralyse the progress made so far:

- In practice, the reforms have been largely imposed by the compulsory nature of the IFMS, without necessary seeking the co-operation and consensus of the public administration. The government institutions most affected by the reform have not fully matured the advantages associated with the new financial management model and show certain reticence towards the change, slowing the process down;[284]
- The approach followed is basically of a technical nature and does not contemplate important political and social aspects;
- The reform process continues to be strongly supported by foreign experts paid by technical assistance[285] and has still not addressed the need to improve relations between the Executive and the Legislative branches;[286]
- The decentralised level has still not been addressed and there is a risk that parallel system, incompatible with the system of central government, may be developed.

282 The creation of this Table was a prior condition to the general budget support of the European Commission.

283 There is a lack of co-ordination with NSRC, which was invited to the Table.

284 A number of examples are: records continue to be kept in parallel, causing loss of time, or available modules are not used.

285 However, since the administration year 2005, when the first stage of the Government Financial Administration Reform Programme concluded, the Government of the Dominican Republic has been attempting to ensure the consolidation and the sustainability of the reforms, mainly through national consultants. On another front, the European Commission currently finances technical assistance in the main institutions involved in the financial reform to provide training.

286 However, it is worth pointing out that during the approval of the new legal framework, the Executive Branch intensified its relations with the Legislative Branch, giving rise to a certain (though limited) country perspective in the Government Financial Administration reforms.

Annexes

Annex 1 Summary of Performance Indicators

	A. PFM RESULTS: Credibility of the budget	Rating	Sources
ID-1	Results of aggregate expenditure compared with original approved budget	**D**	Law 531-69; Law 423-06; IFMS; GDB, Laws on expenditure 2004, 2005 and 2006
ID-2	Deviations in budgeted expenditure compared with original approved budget	**C**	Law 531-69; IFMS; GDB,
ID-3	Deviations in total revenue compared with original approved budget	**A**	IFMS, National Treasury, Revenue budgets 2004, 2005 and 2006
ID-4	***Balance and follow-up of expenditure payment arrears***	**B+**	IFMS, General Directorate for Public Credit, Treasury
	B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency		
ID-5	Classification of the budget	**B**	Public sector budget classifications manual, Budgets 2004, 2005 and 2006
ID-6	Comprehensiveness of information included in budget documentation	**C**	GDB, Budgets 2004, 2005 and 2006
ID-7	Extent of government operations included in budget reports.	**C+**	SSEPD, IFMS
ID-8	Transparency of inter-governmental fiscal relations	**A**	DML; Law 166-03;Law 423-06; WB (2004) Public Expenditure Report; GDB, Office of the Comptroller General
ID-9	Oversight of aggregate fiscal risk from other public sector entities	**D+**	Law 423-06; GDB
ID-10	Public access to key fiscal information	**B**	Law 200-04, Head of the AIO of the NCSR, Public participation, www.finanzas.gov.do, www.presidencia.gov.do, www.ccuentas.gov.do, Web sites of line ministries, GDB, GDGA
	C. BUDGET CYCLE		
	C i) Policy-based budgeting		
ID-11	Orderliness and participation in the annual budget process	**D+**	GDB, Law 531-69; Law 423-06

ID-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D**	GDB, SSEPD, Law 531-69; Law 423-06; Law 498-06
	C ii) Predictability and control in budget execution		
ID-13	Transparency of taxpayer obligations and liabilities	**B**	Law 11-92; , Law 226-06 (GDC) Law 227-06 (GDIT); GDC, GDIT
ID-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**	Law 11-92; , Law 226-06 (GDC) Law 227-06 (GDIT), GDC, GDIT
ID-15	Effectiveness in collection of tax payments	**A**	GDIT, GDC, Budgets for 2005 and 2006, Audit Commission
ID-16	Predictability in the availability of funds for commitment of expenditure	**D+**	Treasury, IFMS Directorate
ID-17	Recording and management of cash balances, debt and guarantees	**B**	General Directorate for Public Credit, the Treasury
ID-18	Effectiveness of payroll controls	**D+**	National Administration and Personnel Office (NAPO)
ID-19	Competition, value for money and controls in procurement	**D+**	Decree 63-06; Law 340-06; Law 449-06; General Directorate for Procurement
ID-20	Effectiveness of internal controls for non-salary expenditure	**D+**	Office of the Comptroller General; GDB; the Treasury; IMF (2006): *Modernisation and Restructuring of Budget Management, IFMS Directorate*
ID-21	Effectiveness of internal audit	**D**	Law 3894 (1954); Law 10-07; Office of the Comptroller General; WB, IDB, CFAA (1905)
	C iii) Accounting, recording and reporting		
ID-22	Timeliness and regularity of accounts reconciliation	**B**	The Treasury
ID-23	Availability of information on resources received by service delivery units	**B**	State Secretariat for Health; Accountability System and Services Network Model
ID-24	Quality and timeliness of in-year budget reports	**D+**	GDB; IMF (2006)
ID-25	Quality and timeliness of annual financial statements	**D**	Budget execution reports 2003 and 2004; law 126-01
	C iv) External scrutiny and audit		
ID-26	Scope, nature and follow-up of external audit	**D+**	Audit Commission; Law 10-04;Law 423-06; www.ccuentas.gov.do
ID-27	Legislative scrutiny of annual budget law	**D+**	Audit Commission; Law 10-04;Law 423-06; www.ccuentas.gov.do
ID-28	Legislative scrutiny of external audit reports	**D**	Audit Commission; Law 10-04;Law 423-06; www.ccuentas.gov.do

	D. DONOR PRACTICES		
D-1	Predictability of direct budget support	**B**	WB, IBRD, NOEDF; Redbook (WB) 2005; Undersecretariat for International Co-operation
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	**D+**	WB, IBRD, NOEDF Redbook (WB) 2005; Undersecretariat for International Co-operation
D-3	Proportion of aid that is managed by use of national procedures	**D**	WB, IBRD, NOEDF Redbook (WB) 2005; Undersecretariat for International Co-operation; Budget for 2006

Annex 2 Summary of Ratings

A. PFM RESULTS: Credibility of the budget					
Indicator	**Rating**	**D (i)**	**D (ii)**	**D (iii)**	**D (iv)**
ID-1	**D**	D	--	--	--
ID-2	**C**	C	--	--	--
ID-3	**A**	A	--	--	--
ID-4	*B+*	A	B	--	--
B. KEY CHARACTERISTICS OF ALL THE STAGES: Comprehensiveness and transparency					
ID-5	**B**	B	--	--	--
ID-6	**C**	C	--	--	--
ID-7	**C+**	A	C	--	--
ID-8	*A*	B	A	A	--
ID-9	*D+*	C	D	--	--
ID-10	*B*	B	--	--	--
C. BUDGET CYCLE					
C (i) Policy-based budgeting					
ID-11	**D+**	C	D	D	--
ID-12	**D**	D	D	D	D
C (ii) Predictability and control in budget execution					
ID-13	**B**	B	B	B	--
ID-14	**B**	B	B	C	--
ID-15	**A**	A	A	A	--
ID-16	*D+*	D	D	C	--
ID-17	*B*	B	D	A	--
ID-18	*D+*	A	C	A	D
ID-19	*D+*	D	C	D	--
ID-20	*D+*	C	C	D	--
ID-21	*D*	D	D	D	--
C (iii) Accounting, recording and reporting					
ID-22	**B**	B	D	--	--
ID-23	**B**	B	--	--	--
ID-24	**D+**	D	A	B	--
ID-25	**D**	D	D	D	--

C (iv) External scrutiny and audit					
ID-26	**D+**	D	C	A	--
ID-27	**D+**	C	D	B	B
ID-28	**D**	D	D	D	--
D. DONOR PRACTICES					
D-1	**B**	B	--	--	--
D-2	**D+**	D	C		
D-3	**D**	D	--	--	--

Annex 3 Calculation table for ID-1

		año fiscal		
		2004	2005	2006
Presupuestado	Gasto del gobierno central	96.946.405.327	160.152.043.294	194.185.648.193
	Intereses de la deuda	15.019.019.954	21.870.500.000	13.932.766.733
	Gasto financiados por el exterior (créditos y donaciones)	9.146.561.086	27.831.420.337	29.887.799.012
	Gasto primario ajustado	**72.780.824.287**	**110.450.122.957**	**150.365.082.448**
Asignaciones vigentes	Gasto del gobierno central	141.906.714.951	188.524.177.075	215.317.909.052
	Intereses de la deuda	15.554.574.621	11.525.584.768	14.348.964.639
	Gasto financiados por el exterior (créditos y donaciones)	25.133.634.771	34.225.900.742	37.848.577.184
	Gasto primario ajustado	**101.218.505.559**	**142.772.691.565**	**163.120.367.229**
Devengado	Gasto del gobierno central	121.008.227.212	162.371.358.210	181.904.336.834
	Intereses de la deuda	13.717.993.694	10.791.551.484	13.508.581.635
	Gasto financiados por el exterior (créditos y donaciones)	16.608.994.398	17.424.587.274	16.002.998.100
	Gasto primario ajustado	**90.681.239.120**	**134.155.219.452**	**152.392.757.099**
	Diferencia en valor absoluto en relación al gasto presupuestado	17.900.414.833	23.705.096.495	2.027.674.651
	Diferencia en valor absoluto en relación a las asignaciones vigentes	-10.537.266.439	-8.617.472.113	-10.727.610.130
	Diferencia en % (en relación al gasto presupuestado)	**25%**	**21%**	**1%**

Annex 4 Calculation table for ID-2

SIGEF

		ID-1: Calificación D	ID-2 : Calificación C				
Año 2004	**Institución**	**Pres. Inic.**	**Dev Total**	**Diferencia**	**ABS**	**%**	
1	0206 SEC. DE ESTADO DE EDUCACIÓN	11.868.879.918	10.876.705.814	992.174.104	992.174.104	8%	
2	0202 SEC. DE ESTADO DE INT. Y POL.	8.922.339.605	9.662.459.326	-740.119.721	740.119.721	8%	
3	0207 SEC. DE ESTADO DE SALUD PÚBLICA	8.836.142.479	8.133.029.271	703.113.208	703.113.208	8%	
4	0999 OBLIGACIONES DEL TESORO NACIONAL	8.814.918.975	17.908.554.125	-9.093.635.150	9.093.635.150	103%	
5	0201 PRESIDENCIA DE LA REPÚBLICA	7.137.583.702	17.301.404.194	-10.163.820.492	10.163.820.492	142%	
6	0203 SEC. DE ESTADO DE LAS FF AA	5.214.503.145	5.372.420.878	-157.917.733	157.917.733	3%	
7	0205 SEC. DE ESTADO DE FINANZAS	3.640.527.690	4.441.847.007	-801.319.317	801.319.317	22%	
8	0210 SEC. DE ESTADO DE AGRICULTURA	3.397.164.645	3.092.694.229	304.470.416	304.470.416	9%	
9	0211 SEC. DE E. DE OBRAS PÚB. Y COM.	2.570.973.885	1.865.688.348	705.285.537	705.285.537	27%	
10	0401 JUNTA CENTRAL ELECTORAL	1.826.355.042	1.826.355.042	0	0	0%	
11	0219 SEC. DE ESTADO DE EDUCACION SUP., C. Y TEC.	1.568.663.608	1.545.178.016	23.485.592	23.485.592	1%	
12	0218 SEC. DE ESTADO DE MEDIO AMBIENTE. Y REC. NAT.	1.343.465.044	1.129.048.107	214.416.937	214.416.937	16%	
13	0204 SEC. DE ESTADO DE REL. EXT.	1.309.271.602	1.472.299.596	-163.027.994	163.027.994	12%	
14	0101 CONGRESO NACIONAL	1.213.282.691	1.233.282.644	-19.999.953	19.999.953	2%	
15	0301 PODER JUDICIAL	1.141.032.500	1.141.200.368	-167.868	167.868	0%	
16	0213 SEC. DE ESTADO DE TURISMO	775.216.555	724.519.921	50.696.634	50.696.634	7%	
17	0214 PROCURADURÍA GRAL. DE LA REP.	665.147.961	664.433.728	714.233	714.233	0%	
18	0208 SEC. DE E. DE DEP., EDUC. FÍS. Y REC.	580.314.611	597.662.366	-17.347.755	17.347.755	3%	
19	0216 SEC. DE ESTADO DE CULTURA	512.874.594	464.400.169	48.474.425	48.474.425	9%	
20	OTRAS INSTITUCIONES (0212, 0209, 0402, 0215, 0217)	1.442.166.035	1.228.055.970	214.110.065	214.110.065	15%	
2.004		**72.780.824.287**	**90.681.239.120**		**24.414.297.134**		
	2004	Desviacion global del gasto		17.900.414.833	17.900.414.833	25%	Diferencia
		Variancia en la composicion del gasto			24.414.297.134	34%	9%
Año 2005	**Institución**	**Pres. Inic.**	**Dev Total**	**Diferencia**	**ABS**	**%**	
1	0201 PRESIDENCIA DE LA REPÚBLICA	16.341.935.096	29.937.292.473	-13.595.357.377	13.595.357.377	83%	
2	0206 SEC. DE ESTADO DE EDUCACIÓN	15.865.005.381	15.160.480.324	704.525.057	704.525.057	4%	
3	0999 OBLIGACIONES DEL TESORO NACIONAL	15.043.494.053	18.050.376.798	-3.006.882.745	3.006.882.745	20%	
4	0202 SEC. DE ESTADO DE INT. Y POL.	13.434.660.098	15.963.406.722	-2.528.746.624	2.528.746.624	19%	
5	0207 SEC. DE ESTADO DE SALUD PÚBLICA	13.126.798.778	13.618.302.513	-491.503.735	491.503.735	4%	
6	0203 SEC. DE ESTADO DE LAS FF AA	6.917.202.481	7.817.271.329	-900.068.848	900.068.848	13%	
7	0211 SEC. DE E. DE OBRAS PÚB. Y COM.	5.691.341.512	6.623.197.234	-931.855.722	931.855.722	16%	
8	0210 SEC. DE ESTADO DE AGRICULTURA	4.135.530.158	5.306.370.611	-1.170.840.453	1.170.840.453	28%	
9	0205 SEC. DE ESTADO DE FINANZAS	3.191.573.470	4.382.324.508	-1.190.751.038	1.190.751.038	37%	
10	0101 CONGRESO NACIONAL	2.187.497.467	2.437.497.440	-249.999.973	249.999.973	11%	
11	0219 SEC. DE ESTADO DE EDUCACION SUP., C. Y TEC.	2.082.962.261	2.142.404.292	-59.442.031	59.442.031	3%	
12	0301 PODER JUDICIAL	1.967.782.050	1.978.385.615	-10.603.565	10.603.565	1%	
13	0204 SEC. DE ESTADO DE REL. EXT.	1.771.475.370	1.917.620.638	-146.145.268	146.145.268	8%	
14	0218 SEC. DE ESTADO DE MEDIO AMBIENTE. Y REC. NAT.	1.667.080.121	1.543.120.290	123.959.831	123.959.831	7%	
15	0401 JUNTA CENTRAL ELECTORAL	1.506.000.000	1.509.960.159	-3.960.159	3.960.159	0%	
16	0214 PROCURADURÍA GRAL. DE LA REP.	1.094.844.849	1.094.844.846	3	3	0%	
17	0212 SEC. DE ESTADO DE IND. Y COM.	953.223.531	984.796.463	-31.572.932	31.572.932	3%	
18	0213 SEC. DE ESTADO DE TURISMO	925.723.500	711.983.123	213.740.377	213.740.377	23%	
19	0208 SEC. DE E. DE DEP., EDUC. FÍS. Y REC.	882.795.067	1.284.994.605	-402.199.538	402.199.538	46%	
20	OTRAS INSTITUCIONES (0216, 0209, 0402, 0215, 0217)	1.663.197.714	1.690.589.471	-27.391.757	27.391.757	2%	
2.005		**110.450.122.957**	**134.155.219.452**		**25.789.547.032**		
	2005	Desviacion global del gasto		23.705.096.495	23.705.096.495	21%	Diferencia
		Variancia en la composicion del gasto			25.789.547.032	23%	2%
Año 2006	**Institución**	**Pres. Inic.**	**Dev Total**	**Diferencia**	**ABS**	**%**	
1	0201 PRESIDENCIA DE LA REPÚBLICA	27.662.617.093	28.459.793.529	-797.176.436	797.176.436	3%	
2	0206 SEC. DE ESTADO DE EDUCACIÓN	18.657.731.552	16.998.966.004	1.658.765.548	1.658.765.548	9%	
3	0202 SEC. DE ESTADO DE INT. Y POL.	18.061.649.223	19.020.536.220	-958.886.997	958.886.997	5%	
4	0207 SEC. DE ESTADO DE SALUD PÚBLICA	18.058.624.193	17.715.433.482	343.190.711	343.190.711	2%	
5	0999 ADMINISTACION DE OBLIGACIONES DEL TESORO NACIONAL	17.092.630.722	19.566.579.110	-2.473.948.388	2.473.948.388	14%	
6	0203 SEC. DE ESTADO DE LAS FF AA	8.453.730.820	8.614.578.482	-160.847.662	160.847.662	2%	
7	0205 SEC. DE ESTADO DE FINANZAS	8.225.630.868	6.673.586.158	1.552.044.710	1.552.044.710	19%	
8	0210 SEC. DE ESTADO DE AGRICULTURA	5.219.694.998	5.077.424.698	142.270.300	142.270.300	3%	
9	0211 SECRETARIA DE ESTADO DE OBRAS PUBLICAS	5.031.348.467	7.097.039.933	-2.065.691.466	2.065.691.466	41%	
10	0101 CONGRESO NACIONAL	3.570.858.873	3.670.840.192	-99.981.319	99.981.319	3%	
11	0301 PODER JUDICIAL	3.169.619.956	3.165.017.624	4.602.332	4.602.332	0%	
12	0219 SEC. DE ESTADO DE EDUCACION SUP., C. Y TEC.	2.744.719.311	2.743.188.075	1.531.236	1.531.236	0%	
13	0401 JUNTA CENTRAL ELECTORAL	2.477.249.005	2.475.141.236	2.107.770	2.107.770	0%	
14	0204 SEC. DE ESTADO DE REL. EXT.	2.241.784.991	2.355.032.699	-113.247.708	113.247.708	5%	
15	0218 SEC. DE ESTADO DE MEDIO AMBIENTE. Y REC. NAT.	2.039.928.579	1.984.018.585	55.909.994	55.909.994	3%	
16	0208 SEC. DE E. DE DEP., EDUC. FÍS. Y REC.	1.685.567.987	1.430.773.479	254.794.508	254.794.508	15%	
17	0214 PROCURADURÍA GRAL. DE LA REP.	1.512.092.530	1.512.092.507	23	23	0%	
18	0212 SEC. DE ESTADO DE IND. Y COM.	1.105.236.675	886.083.350	219.153.325	219.153.325	20%	
19	0213 SEC. DE ESTADO DE TURISMO	960.513.798	778.086.352	182.427.446	182.427.446	19%	
20	OTRAS SECRETARIAS (0216, 0209, 0402, 0215, 0217)	2.393.852.807	2.168.545.385	225.307.422	225.307.422	9%	
2.006		**150.365.082.448**	**152.392.757.099**		**11.311.885.301**		
	2006	Desviacion global del gasto		2.027.674.651	2.027.674.651	1%	Diferencia
		Variancia en la composicion del gasto			11.311.885.301	8%	6%

Annex 5 Calculation table for ID-3

	Año fiscal		
	2004	2005	2006
Ingresos tributarios presupuestados (a1)	101.277.190.819	140.905.000.152	179.662.282.122
* Impuestos presupuestados sobre los ingresos	23.482.700.397	28.558.983.602	37.036.206.761
* Impuestos presupuestados sobre el patrimonio	1.384.741.584	2.185.868.826	8.194.525.421
* Impuestos presupuestados sobre mercancías y servicios	41.494.202.350	68.891.767.461	107.748.286.162
* Impuestos presupuestados sobre el comercio exterior	32.373.317.997	41.030.010.297	26.583.933.129
* Otros impuestos presupuestados	2.542.228.491	238.369.966	99.330.648
* Impuestos presupuestados sin clasificar	0	0	0
Ingresos no tributarios presupuestados (a2)	6.497.606.572	10.854.069.262	11.019.437.959
Ingresos tributarios y no tributarios presupuestados	107.774.797.391	151.759.069.414	190.681.720.081
Ingresos corrientes presupuestados (excluidas donaciones) (a3)	107.844.267.591	151.826.000.149	190.805.867.563
Ingresos internos corrientes y de capital presupuestados (a4)	**108.096.916.791**	**151.832.995.849**	**190.805.978.891**
Ingresos tributarios reales (b1)	116.587.219.298	148.624.394.197	176.662.046.006
* Impuestos reales sobre los ingresos	24.385.569.099	30.041.863.137	38.981.923.856
* Impuestos reales sobre el patrimonio	1.932.097.919	3.592.336.871	7.128.601.782
* Impuestos reales sobre mercancías y servicios	72.929.277.508	79.187.556.629	103.569.812.136
* Impuestos reales sobre el comercio exterior	17.146.582.006	35.706.145.158	26.870.627.275
* Otros impuestos reales	193.690.685	98.112.771	111.368.113
* Impuestos reales sin clasificar	2.081	-1.620.369	-287.157
Ingresos no tributarios reales (b2)	8.353.836.426	7.955.010.549	11.995.377.288
Ingresos tributarios y no tributarios reales	124.941.055.724	156.579.404.746	188.657.423.293
Ingresos corrientes reales (excluidas donaciones) (b3)	125.062.281.669	148.129.992.427	188.763.654.956
Ingresos internos corrientes y de capital reales (b4)	**125.064.336.472**	**156.724.123.158**	**188.795.700.981**
Porcentaje del ingreso tributario real sobre la parte presupuestada (b1/a1)	115%	105%	98,3%
* Porcentaje del impuesto real sobre los ingresos en comparación con la parte presupuestada	104%	105%	105%
* Porcentaje del impuesto real sobre el patrimonio en comparación con la parte presupuestada	140%	164%	87%
* Porcentaje del impuesto real sobre mercancías y servicios en comparación con la parte presupuestada	176%	115%	96%
* Porcentaje del impuesto real sobre el comercio exterior en comparación con la parte presupuestada	53%	87%	101%
*Porcentaje de otros impuestos reales en comparación con la parte presupuestada	8%	41%	112%
Porcentaje del ingreso no tributario real sobre la parte presupuestada (b2/a2)	129%	73%	109%
Porcentaje del ingreso tributario y no tributario real sobre la parte presupuestada	116%	103,2%	99%
Porcentaje del ingreso corriente real (excluidas donaciones) sobre la parte presupuestada (b3/a3)	116%	97,6%	99%
Porcentaje del ingreso interno corriente y de capital real sobre la parte presupuestada (a	**116%**	**103,2%**	**99%**

Annex 6 Calculation table for ID-4

	2005	2006
Accrued expenditure in current fiscal year	162.464.092.452	190.716.645.095
Paid expenditure in current fiscal year	158.283.988.989	189.351.005.215
Difference (settled in first month of following year)	4.180.103.463	1.365.639.880
- as a % of total accrued expenditure in fiscal year	2.57%	0.72%
Accumulated floating debt (historical) at year-end	5.259.306.649	3.621.005.614
- as a % of total accrued expenditure in fiscal year	3.2%	**1.9%**

Annex 7 Functional classification of the Dominican Republic

Conversion table to find the equivalents between the functional classifications COGOF99 and those used in the Dominican Republic for ID-5

Functional Classification of the Dominican Republic		COGOF equivalent
Functions	**Sub-functions**	
General Services	General Administration	**Public and general services**
	Justice and public order	**Public order and security**
	National Defence	**Defence**
	International relations	**Public and general services**
Social Services	Education	**Education**
	Sport, leisure, culture and religion	**Leisure activities, culture and religion**
	Health	**Health**
	Social Welfare	**Social protection**
	Housing and town planning	**Housing and community services**
	Potable water and sewage	
	Municipal services	**General public services**
	Social security	**Social protection**
Economic Services	Agriculture, livestock and fishing	**Economic affairs**
	Irrigation	
	Industry and Commerce	
	Mining	
	Transport	
	Communications	
	Energy	
	Tourism	
	Labour	
	Banking and Insurance	
Debt interest	Debt interest and commissions	**General public services**
Environment protection	Protection of air, water and soil	**Environment protection**
	Protection of biodiversity	

Annex 8 Calculation table for D-1

		2004	2005	2006
IDB	Budgeted	198	50	60
	Paid	198	50	60
	Difference	0	0	0
BM	Budgeted	100	100	50
	Paid	100	0	50
	Difference	0	100	0
CE	Budgeted	0	0	12,9
	Paid	0	0	0
	Difference	0	0	12,9
Total forecasted support		298	150	122,9
Total annual differences		0	100	12,9
% of annual differences		**0%**	**67%**	**10%**

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Leyes. Véase la Sección II.3.