Summary of the Series Evaluation
“Tax systems and revenue authorities in developing and transition countries as an instrument of poverty reduction”
Field Study “Modernization of the Dominican Tax System”
Dominican Republic

The opinions presented in this study are those of independent external experts
German Development Cooperation with the Dominican Republic
Summary of the Series Evaluation
"Modernization of the Dominican Tax System"

Summary
The evaluation of the project "Modernization of the Dominican Tax System" is part of the serial evaluation "Tax systems and revenue authorities in developing and transition countries as an instrument of poverty reduction."

The aim of the evaluation is, firstly, to analyze and assess the project under all aspects that are relevant in developmental and technical terms (traditional evaluation). Secondly, it is intended to examine the project's impact and its potential to contribute, and/or its actual contribution, to poverty reduction. Lessons learned are to be drawn up, and recommendations made, with a view to further developing assistance policies in this sector and with a view to better networking with other related areas of assistance.

The evaluation showed that it is possible, to a certain extent, to identify impacts on the project-executing agency in particular and, partially, on taxpayers. It is difficult to establish any longer-term relationships of cause and effect because of the growing influence of external factors. Impacts on the sector, on the general environment and on poverty are of a very indirect nature and cannot be attributed to this specific project unless one relies on a great deal of speculation.

The project activities have strengthened the municipalities selected. The relationship between municipalities and citizens is also improving. It is not possible to discern any impacts on the sector as a whole in the partner country – especially on the country's self-financing ability – that would have resulted from the project activities. Nor does the project have any direct link to poverty reduction.

Taking into account the experience gained in the project and the new priority area chosen for development cooperation with the Dominican Republic, the evaluators recommend that the resources of the DGII/GTZ project be concentrated exclusively on advisory services for municipalities and on strengthening activities at the political level.

Findings
The economic environment in which the project operates can be described as fairly favorable. The political and institutional environment for the project, however, is difficult.

While the project has the benefit of a project-executing agency that is widely recognized as the most efficient governmental implementing organization, namely, the central tax authority DGII (Dirección General de Impuestos Internos), it must be said that this organization lacks the political mandate to pursue the decentralization component contained in the DGII/GTZ project. The central government organ officially in charge of municipalities, the Dominican municipal league (Liga Municipal Dominicana – LMD), which is responsible specifically for allocating central government transfer payments to municipalities, for approving municipal budgets and for technical support to municipalities, is doing an inadequate job and is regularly used as a vehicle for conflicts between different political parties.

The driving force in the ongoing discussion on (fiscal) decentralization is the National Council for state modernization (Consejo Nacional de la Reforma del Estado – CONARE), which was founded through a presidential decree in 2001. It serves as an umbrella for the coordination of all current decentralization projects.
The municipalities' degree of organization and political influence has improved over the last few years. The federation of municipalities (Federación Dominicana de Municipios – FEDOMU), which was founded in June 2002, now represents over 90% of the municipalities.

One project closely related to the DGII/GTZ endeavor is the "Decentralization and Regional Planning" project with the national ONAPLAN planning agency (Oficina Nacional de Planificación), which is concerned with strengthening municipalities' development roles, for instance in the field of participatory planning and implementation of local investment and in the field of improving municipal services that should be financed (at least partially) through charges (fees). Another important donor in the field of decentralization is the European Union, which will provide further support to the decentralization process in the Dominican Republic with a financial contribution of $37 million through its PArME program (Programa de Apoyo de Reforma y Modernización del Estado), which started in February 2002 and will run until 2007. Cooperation with other development agencies' projects, especially those of the EU, and with the bilateral project (ONAPLAN/GTZ) is good, and donor coordination through CONARE is excellent.

The Dominican Republic has about 130 municipalities. The responsibilities of municipalities are governed by a number of outdated laws. They encompass those areas that are typically the responsibility of municipalities in all countries. However, in practice it is often the central government that controls what are clearly municipal tasks.

Municipalities' income comes from transfer payments from the central government and from revenue they generate themselves. Government transfers account for an average of 85% of municipal income. Thus, 15% of municipalities' income is based on their own revenues on average. These revenues are composed of a broad variety of over 90 – mostly small – kinds of charges, taxes, fees and contributions which, again, are in most cases based on outdated laws. The distribution of transfer payments between individual municipalities is mainly determined by the number of inhabitants and is revised every year.

The evaluators did not find any evidence of impacts on the executing agency (DGII). The expected establishment of a new unit within DGII for support to municipalities did not materialize. Nor did any significant additional expertise develop on municipal revenue collection.

The use of SIFMUN (Sistema Integrado de Finanzas Municipales), including the ATM module (Administración Tributaria Municipal), helped to considerably strengthen the municipalities selected (good governance). Workflows have been greatly rationalized (increased productivity), freeing up capacity for other fields of work and resulting in reductions of staffing levels. Moreover, the mayors of those two municipalities that have started to use ATM now have access to up-to-date management information, resulting in greater transparency and more reliable decision-making and thus, in more effective deployment of resources. The procedure, which is now computer based, is less prone to corruption than the previous manual procedure because it cannot be manipulated as easily. As their jobs have become more attractive, their image among taxpayers has improved, the results of their work have become more visible and their qualifications have been enhanced through training, the staff have become much more motivated.

The introduction of SIFMUN and ATM has also helped improve the relationship between municipalities and citizens. Almost all of the 23 taxpayers polled took a positive view of the procedure. It was not possible to find any evidence of significant impact on municipalities' revenue because the period of application had been so short. There are no discernible impacts on the sector as a whole in the partner country – especially on the country's self-financing ability – that would have resulted from the project activities. And municipal revenue only accounts for a miniscule portion of total government revenues. The project did not have any impact on substantive tax law or on fiscal decentralization. The distribution of responsibilities between regional authorities has not changed since the start of the project.

The Dominican Republic does not have any explicit national poverty reduction strategy. Nor does the project have any direct link to poverty aspects. The aim of improving taxation procedures cannot be directly equated with poverty reduction or with poverty orientation. Nor does
the increased availability of funding mean that this will benefit poor people, let alone exclusively poor people, because the project has no influence on the way municipal income is used.

What is decisive for the sustainability of the project's impact is ultimately the future policy and design of fiscal decentralization in the Dominican Republic, with the design of central government financial transfers playing a special role. As long as these transfers continually grow and as long as they are allocated regardless of the efforts a municipality has made on its own, municipalities will have less incentive to generate income of their own from the charges they are authorized to raise, or they will lose their incentive again. Conversely, it may be expected that positive diffusion effects will most likely be achieved if the benefits of raising one's own revenues are highly visible for other municipalities.

On the whole, the aspects just described show that the contribution of the project's decentralization component to sustainable development is difficult to assess at this point. What is decisive in this regard is the general environment, especially any changes that may occur within the context of fiscal decentralization in its broadest sense, that is to say, the future distribution of responsibilities with regard to tasks, expenditure and income among the various regional authorities, and the design of the future system of financial allocations from the central government. And of course, fiscal decentralization must be paralleled by political and administrative decentralization.

Recommendations

The evaluators felt that the expectation that assistance to DGII would result in support for municipalities has not materialized so far under the given circumstances. For one thing, DGII has already had the requisite capacity to support municipalities for some time now because of its excellent integrated taxation system. For another, DGII lacked a political mandate, which the DGII management deems necessary if DGII is to provide support at the municipal level. Ultimately, however, DGII also lacked – from the beginning – the ownership to proactively initiate, from within DGII, relevant activities that would have been possible without a political mandate.

On the basis of this assessment, and taking into account the new priority area chosen for development cooperation with the Dominican Republic, reflected, among other things, in a "Decentralization and Municipal Development" Program, the evaluators recommend that the resources of the DGII/GTZ project be concentrated exclusively on advisory services for municipalities and on strengthening activities at the political level. The latter is intended to help prepare, by means of advice on the drafting of policy reforms, the process of "true" decentralization based on legislative reform. The evaluators believe that it is no longer necessary to provide assistance to DGII.

The evaluators recommend that the project's links with the ONAPLAN/GTZ project and with the EU PARME program, which are already quite close both in organizational and substantive terms, be further developed in a targeted way. For one thing, such a "strategic alliance" will make two things possible: further consolidation of the project's influence on the political level; and the channelling of the efforts for greater decentralization pursued by a number of groups within Dominican society to the political level (development of ownership). Moreover, the advisory services provided by this alliance include all aspects of decentralization: political, administrative and fiscal decentralization (with the latter including tasks and expenditure, budgeting and income).

As regards the first of these aspects, the evaluators believe that special attention should be given to FEDOMUN. As a voluntary, horizontal federation, this organization could assume a significant role both in political and operative terms if its capacity were built up accordingly.

However, the evaluators feel that the vital aspect is to link the Ministry of Finance more closely to the executing agencies, because the Ministry is one of the authorities in charge of all legislative changes that relate to the distribution of responsibilities between governmental authorities.
General Conclusions
On a general note, the evaluators believe that it is perfectly possible for a central tax authority, in the right circumstances, to play the role of technical advisor. These circumstances, which need to be examined individually for each given country, relate to whether such "inter-agency assistance" is needed, feasible and whether the relevant agency is willing to provide it. Need relates to the question of what interfaces exist between the two organizations to begin with. Feasibility relates to the capacity of the central authority. Willingness relates to the political mandate and/or the level of ownership existing within the organization.

Basic Data
Start of project: Second phase, November 2001
End of project: Second phase, October 2004
Appropriated sum: DM 3.5 million
Implementing agency: GTZ
Responsible BMZ division: 120