ove Office of Evaluation and Oversight

Approach Paper

Dominican Republic
2009-2013

Country Program Evaluation

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CONTENTS

PREFACE

The Board of Executive Directors has requested on different occasions a review of the content of country program evaluations (CPEs). In response, as a pilot test, the Office of Evaluation and Oversight (OVE) will make some adjustments to the CPEs to be presented in 2013, namely those for: the Dominican Republic, Paraguay, and Barbados. The emphasis placed on each adjustment will depend on its relevance to the country context:

- OVE will seek to more closely link discussion of the country context to the evaluation of the program's relevance.
- The CPE will cover the entire Bank program with the country for the evaluation period, including sovereign guaranteed and non-sovereign guaranteed loans, together with nonreimbursable activities, such as technical cooperation and knowledge products.
- The effectiveness analysis will include not only the results of the Bank's program at the sector level, but will also look at crosscutting issues. Those matters, depending on the circumstances in each country, could include the suitability and use of lending instruments and knowledge products; support for the strengthening and use of country systems (fiduciary, safeguards, monitoring and evaluation); and the quality of self-assessment systems and portfolio monitoring.
- As part of the effectiveness evaluation, the CPE will include an analysis of factors that impacted program implementation and other efficiency-related issues.
- OVE will aim to provide a forward-looking approach, identifying how positive and negative lessons from the past can contribute to formulation of the country program and strategy in the future.

OVE thanks in advance the Board of Executive Directors and other stakeholders for their comments and reactions.

I. INTRODUCTION

1.1 As part of its annual work plan, the Office of Evaluation and Oversight (OVE) is preparing the Country Program Evaluation (CPE) for the Dominican Republic for the period 2009-2013. This approach paper defines the evaluation's scope.

1.2 According to the Protocol for Country Program Evaluation (document RE-348-3), the main goal of a CPE is to "*provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance*."

1.3 This CPE therefore aims to analyze the Bank's relationship with the country, taking an independent and holistic view, assessing in particular the program's relevance and effectiveness, including both financial and nonfinancial products offered by the Bank during the period under analysis. This evaluation is intended as input for the new strategy document the Bank is preparing.

1.4 In 2009 the Bank's Management developed a new country strategy document model to equip the Bank with an effective tool to sharpen the country focus while ensuring the flexibility envisaged during the realignment process. In this framework, new guidelines were drawn up that reformulate the country strategy to emphasize the need for results-focused, risk-based programming that takes a flexible, programmatic approach and responds to the country's needs. Apart from these general principles, the most significant practical effects of the new strategy papers were: (i) separation between the country strategy, which is prepared every four years, and actual programming, which is annual; (ii) a new emphasis on sector notes; and (iii) strengthening the results matrix with specific indicators.

1.5 This CPE is the third occasion on which OVE has evaluated the Bank's program with the Dominican Republic. The previous evaluations covered the periods 1991-2003 (document RE-306) and 2004-2008 (document RE-371). This CPE covers the Bank's program for 2009-2013.

1.6 In 2009, the Bank's work in the Dominican Republic was guided by the update to the previous strategy document approved for the period 2004-2008 (document GN-2379-1).[1] The current country strategy (document GN-2581) was approved in September 2010, and is for a period (2010-2013) that does not coincide with the country's political cycle.[2]

II. OVERALL COUNTRY CONTEXT

2.1 The Dominican Republic's economy has been one of the most dynamic in Latin America and the Caribbean (LAC) in terms of economic growth. From 1991-2012 real GDP grew at an average annual rate of 5.6%, outpacing the region's average of

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1 Country strategy updates (document GN-2570).

2 The current government under the presidency of Danilo Medina took office in August 2012.

3.3% (Figures 1 and 2). Real GDP per capita has therefore more than doubled over this period (Figure 3). In general terms, this growth has been accompanied by a climate of political and social stability.

2.2 In terms of their contribution to GDP, the economy's main sectors are currently manufacturing (21%), telecommunications (16.2%), commerce (9%), agriculture (7.6%), and tourism (6.1%). Although growth in the 1990s was closely linked to the export sector and development of tourism and in-bond assembly (*maquilas*) in export-processing zones, in recent years these sectors have started to show signs of slowing down, particularly *maquilas*.[3] Growth in the 2000s was mainly driven by the service sector (e.g. telecommunications).

2.3 Despite rapid economic growth, significant economic, social, and institutional challenges persist. On the macroeconomic level, the vulnerability of public finances represents a significant challenge. The Dominican Republic has made progress in implementing tax reforms, but still has one of the lightest tax burdens in the region (14.1% in 2005-2012),[4] largely due to the number of tax incentives and exemptions.[5] Moreover, public spending has been under constant pressure from the fiscal impact of natural disasters[6] and from the high level of transfers from the central government to public utilities, particularly in the electricity sector, which is characterized by recurrent operational and financial difficulties.[7]

2.4 On the social front, in the context of the 2003 financial crisis, poverty levels rose from 32% in 2000 to 48.8% in 2004.[8] In the subsequent scenario of rapid growth, although poverty levels dropped (40.4% in 2011), they are still above pre-crisis levels (Figure 4). While the country has made progress in terms of access to

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3 Even in the context of DR-CAFTA's entry into force in 2007, total exports declined from 26.3% of GDP in 2004 to 15.5% in 2012, mainly because of the drop in exports from export-processing zones (from 20.7% of GDP to 8.5% in 2012) associated with increased external competition, particularly from Asian products. Moreover, income from tourism dropped from 13.9% of GDP in 2004 to 7.8% in 2012, with the sector's share of GDP shrinking from 7.6% to 6.1%. Finally, remittances, another important source of income over the last decade, have performed similarly (slipping from 9.9% of GDP in 2004 to 5.4% in 2012). (Source: Central Bank of the Dominican Republic).

4 Source: Central Bank of the Dominican Republic.

5 In 2012, tax expenditure came to 5% of GDP (Source: Budget Division, Ministry of Finance).

6 The country's geographic location makes it highly vulnerable to natural disasters, which, as a contingent liability, have a significant impact on public finances. It is estimated that the most recent storms, Noel and Olga, in late 2007, had an impact of 0.6% of GDP. Hurricane Jeanne (2004) caused damage costing 1.6% of GDP, while the most catastrophic events, Hurricane Georges (1998), Hurricane David, and Tropical Storm Frederic (1979), caused damage amounting to 16.1% and 18.4% of GDP, respectively (Source: DR-L1045, Insurance Facility for Emergencies Caused by Catastrophic Natural Disasters).

7 Given that the energy matrix is highly dependent on fossil fuels, with high levels of technical and commercial losses, low collection rates, limited institutional capacity, and a fee structure that does not cover supply costs, the sector suffers a chronic deficit, which is met by transfers to distributors. In 2008, the spike in oil prices meant transfers to the electricity sector came to 2.7% of GDP.

8 Poverty rates, based on the national poverty line (% of the population) (World Development Indicators, World Bank).

education and health care, major challenges remain. The main problems facing education are the low secondary education coverage rates, low internal efficiency of the educational system, and poor instructional quality.[9] In terms of health, mortality levels remain high in comparison with the region, particularly in the case of maternal/infant mortality.[10] Rapid economic growth has also failed to translate into a significant increase in job creation (Figure 5). Labor force participation rates also remain low, and the labor market is characterized by a high degree of informality, with women and young people being the most affected by unemployment and lack of job security.

III. OVERVIEW OF THE BANK'S PROGRAM (2009-2013)

3.1 The period 2009-2013 is marked by the 2008-2009 international financial crisis. After the 2003 banking crisis, the economy grew at an average rate of 8.5% during 2005-2008, with growth accompanied by a drop in inflation and interest rates. In the fiscal area, the public sector deficit dropped from almost 9% of GDP in 2003 to 4.4% in 2008, owing to increased tax pressure and a cost containment policy. Nevertheless, the international financial crisis began to threaten the economic stability and growth outlook. Against this backdrop, in October 2009 the authorities negotiated a stand-by arrangement with the International Monetary Fund. The main objective of the program was to give short-term support to the implementation of countercyclical policies to avert a sharp drop in economic activity. After the countercyclical phase had been completed, policies would focus on consolidating macroeconomic sustainability and implementing a series of reforms, mainly in tax administration, banking regulation and supervision, and the electricity sector.

3.2 The current country strategy (document GN-2581) was drawn up in the difficult economic climate resulting from the international financial crisis. This strategy identified the need to structure actions with a view to "*promoting a recovery of economic growth in a fiscally stable environment.*"[11] Specifically, the strategy defines the Bank's work in nine areas: (a) public finance; (b) social protection; (c) education; (d) workforce integration; (e) energy; (f) transportation; (g) water and sanitation; (h) agriculture; and (i) tourism. The strategic objectives associated with each sector of Bank intervention are described below.

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[9] The net basic education rate is 90%. Nevertheless, for secondary education, the rate is 50% (Statistical Bulletins, Ministry of Education). Likewise the rate of progression to secondary education is 89% (World Development Indicators, World Bank).

[10] The mortality rate for children under 5 (per 1,000 live births) is 24.7 (LAC: 19.1), and the infant mortality rate (per 1,000 live births) 20.9 (LAC: 16.1). Maternal mortality (per 1,000 live births) is 150 (LAC: 80.1). (World Development Indicators, World Bank).

[11] The previous strategy document (document GN-2379-1) covering 2004-2008 was also prepared during a time of economic difficulties (2003 banking crisis). Its main aim was "*to support the government's poverty reduction efforts.*"

Table 1: The Bank's Strategic Objectives by Area of Intervention (document GN-2581)

Intervention Area	Strategic Objectives
Public finance	To increase tax revenue levels
	To make public spending more efficient
Social protection	To make the social safety net more efficient and effective
Education	To improve the quality of basic and secondary education in low-income areas
Workforce integration	To improve the positioning in the labor market of young people in low-income areas
Energy	To promote the operational and financial sustainability of the electricity sector
Transportation	To improve the quality and management of the road system and management of the urban transportation system in Santo Domingo
Water and sanitation	To improve the coverage and management of water and sanitation services in low-income rural and periurban areas
Agriculture	To boost productivity in the agricultural sector
Tourism	To support diversification of the tourism sector

3.3 Between 2011 and 2013, Management also prepared three country programming documents (CPDs), as part of the Bank's Operational Program Reports (documents GN-2617, GN-2661-2, and GN-2696 for 2011, 2012, and 2013, respectively). The CPD for 2010 was not included in the 2010 Operational Program Report, because the country strategy was being prepared at that time (document GN-2576, p. 2).

3.4 The Bank stepped up its financial support to the country considerably over the period. In the period 2009-2013 the Bank approved US$2.179 billion (26 loans), a sum 188% higher than in 2004-2008 (US$756.8 million, 19 projects).[12] These approvals were concentrated mainly in the public finances (32.3%),[13] social protection (17.4%), and energy (12.8%) sectors (Table 2).

3.5 Sovereign guaranteed (SG) approvals in the period reached US$1.856 billion (19 loans), of which US$1.060 billion (57%) were budgetary support loans (emergency and programmatic policy-based loans).[14] Non-sovereign guaranteed (NSG) operations came to US$323 million in seven operations (six loans for US$293 million and one Trade Finance Facilitation Program (TFFP) operation for US$30 million), exceeding the amount approved in 2004-2008 (US$30 million, in

[12] Corresponds to **amounts originally approved** as of 31 March 2013 and therefore includes an emergency loan of US$300 million that was subsequently canceled (DR-L1040: Liquidity Program for Growth Sustainability). If one considers the **amounts actually approved** (as of 31 March 2013), i.e. excluding cancelled amounts, between 2009 and 2013 the Bank approved US$1.879 billion (of which US$500 million was in emergency loans), an amount 162% higher than the 2004-2008 period (US$718 million, of which US$200 million was emergency lending).

[13] Following the country strategy guidelines, approvals in the areas of support for competitiveness policies (US$180 million) and financial insurance for natural disasters (US$24 million) are also included in the public finance area.

[14] Corresponds to **amounts originally approved** as of 31 March 2013. If one considers the **amounts actually approved** (as of 31 March 2013), i.e. excluding cancelled amounts, between 2009 and 2013 the Bank approved US$1.556 billion in sovereign guaranteed loans of which US$760 million was budgetary support (49%).

two TFFP operations). Additionally, at the end of 2008 there were 21 active projects with a balance pending disbursement of US$422 million.[15]

3.6 This higher level of approvals was accompanied by a high level of disbursements. From 2009-2012 US$1.401 billion was disbursed, equivalent to an average of US$350 million a year. It should be noted that 67% of those disbursements (US$943 million) were in 2009 and 2010, of which US$500 million was for an emergency loan approved in 2009. Generally speaking, disbursements in 2009-2012 were higher than the annual average from 2004-2008 (US$151 million) and the period 2000-2008 (US$144 million) (Figure 6).

3.7 Lastly, in terms of nonreimbursable technical cooperation (TC) funding, approvals were also up over the previous period. During the evaluation period 42 TCs were approved, for US$15.5 million, with the approved amounts being concentrated mainly in the reform and modernization of the State (21.3%),[16] social protection (13.8%), and water and sanitation (13.3%) sectors (Table 3). This compares with approval of 26 TCs for a total of US$6 million over the period 2004-2008. Other approvals in the period include an investment grant for US$35 million and 14 MIF operations for US$8.5 million (Table 4).

IV. EVALUATION QUESTIONS

4.1 This CPE will analyze questions relating to the relevance, implementation and effectiveness, and sustainability of the Bank's program with the country.

A. Relevance

4.2 Relevance refers to the degree of consistency between (i) the formulation and objectives of the Bank's strategy and program, and (ii) the country's needs, development plans, and government priorities. On this dimension, the CPE sets out to answer the following questions:

- To what extent were the Bank's strategic objectives consistent with the country's main development challenges and the government's priorities?
- To what extent was the program actually implemented consistent with the Bank's strategic objectives?
- How appropriate was the mix of instruments used (loans and technical cooperation) by the Bank to achieve its strategic objectives?
- To what extent did the Bank program take account of support other development agencies operating in the country were providing and coordinate with them?

[15] Of the active projects, 17 were SG operations for US$248.8 million, and four were NSG operations for US$174 million (US$140 million corresponding to a guarantee).

[16] In the modernization of the State sector, 4.2% of the approved amounts are associated with public finances.

B. Implementation and effectiveness

4.3 Effectiveness refers to the extent to which the support instruments achieved the proposed objectives. As part of the effectiveness analysis, the CPE will examine factors that affected program implementation and efficiency-related issues, for example in preparation and execution. On this dimension, the CPE aims to answer the following questions:

- What are the main determinants of success and problems affecting implementation of the Bank's program?
- What is the level of progress on achieving the Bank's strategic objectives (Table 1)? For example:
  - *How effective has the Bank’s program been in helping the country to improve revenue collection and make public spending more efficient?*
  - *How effective has the Bank’s program been in helping the country make the social safety net more efficient and effective?*
  - *How effective has the Bank’s program been in helping the country promote the operational and financial sustainability of the electricity sector.*

C. Sustainability

4.4 Likewise, sustainability refers to the likelihood that the outcomes of the Bank's support will persist after the program has concluded. On this dimension, the CPE aims to answer the following questions:

- What are the main factors that might affect the outcomes achieved by the Bank's program?
- To what extent has the Bank been able to identify these factors and take measures to control them?

V. METHODOLOGY

5.1 The evaluation will use a set of methods to answer these questions. To analyze the country's main development challenges, government priorities, and the context in the period, the evaluation will analyze a set of national economic and social data and documents including, for example, the National Development Strategy, multiyear government plans, sector plans, and other relevant studies at the country or sector level produced by the government or other bodies.

5.2 Regarding the revelance of the Bank program’s design during the period, the evaluation will analyze, for example, the Bank’s areas of intervention, strategic objectives, and expected outcomes at the sector level. To understand the relevance of the program implemented, it will look at, for example, the objectives of operations that were actually implemented during the period (approvals in 2009-2013 and active portfolio at the start of 2009). The sources of information include, for example, country strategy papers and country programming documents, loan documents, and general information on operations from the Bank's information systems (e.g. OPS, OVEDA, Finance Data Mart, FIN LMS).

5.3 With respect to program implementation and effectiveness, the evaluation will analyze crosscutting factors that affected program implementation (preparation and execution), as well as progress on objectives at the strategy and operations level. The sources of information include, for example, portfolio review documents, project monitoring reports (PMRs) and project completion reports (PCRs), external evaluations of operations, and operational performance of the project portfolio (e.g. preparation and implementation times and costs, disbursements).

5.4 In light of the increase in approvals of technical cooperation operations and the limitations of the Bank's monitoring and evaluation systems for this kind of operation, this evaluation will consider developing a specific methodology for exploring the strategic relevance and effectiveness of these products in the context of the Bank's program in the country.

5.5 This analysis of documentation and data will be complemented with interviews with the various actors involved in program design and implementation at the strategic and operational level, including:

- Authorities responsible for sector policies, whether in the current or previous administrations, who are familiar with the sector policies and the strategic relationship with the Bank in the various sectors in which it acts.
- Staff of bilateral and multilateral agencies actively working in the country.
- Other sector specialists, representatives of academia or research centers who are able to offer their forward-looking view of the current and long-term sector development challenges, and the potential role of the Bank.
- Staff of the executing agencies for Bank projects.
- Bank staff.

VI. EVALUATION TEAM AND TIMETABLE

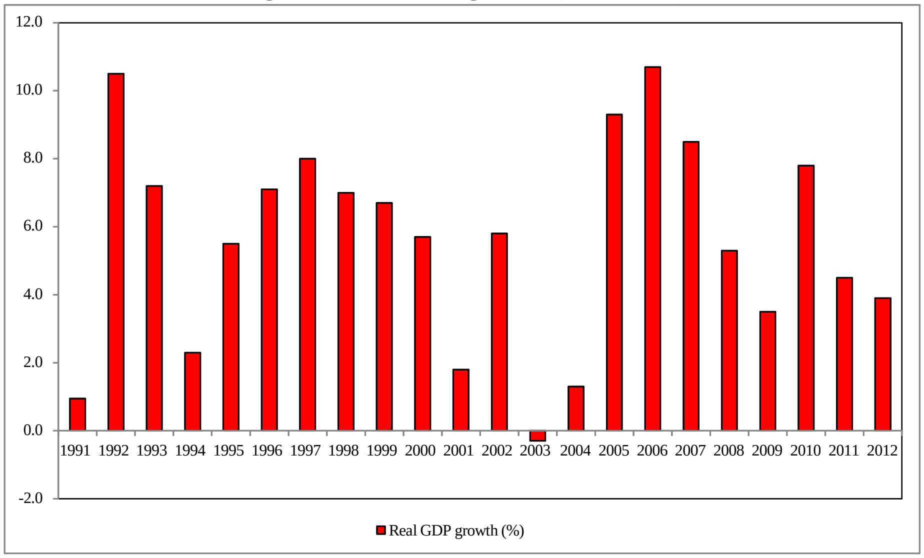
6.1 **Evaluation team:** The evaluation team is led by José Ignacio Sémbler, and comprises Ana María Linares, Monika Huppi, David Suárez, Saleema Vellani, Miguel Soldano, and an external consultant.

6.2 **Timetable:** The evaluation timetable is as follows:

Activity	Date
Identification mission	18-21 March
Operations review mission	First half of June
Approach paper submitted to the Office of the Secretary for distribution	31 May
First draft of CPE for internal review by OVE	19 July
Second draft of CPE for review by Management/government	9 August
Receipt of comments from government/Management	9 September
CPE sent to the Office of the Secretary (SEC)	30 September
CPE discussed in the Board of Executive Directors	October

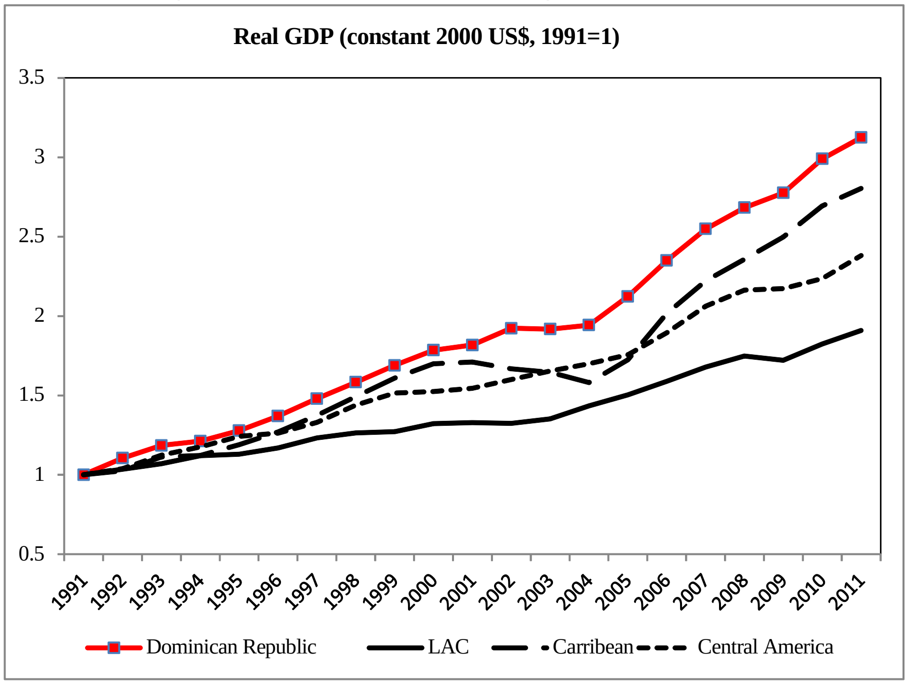
FIGURES AND TABLES

Figure 1: Real GDP growth (1991-2012)



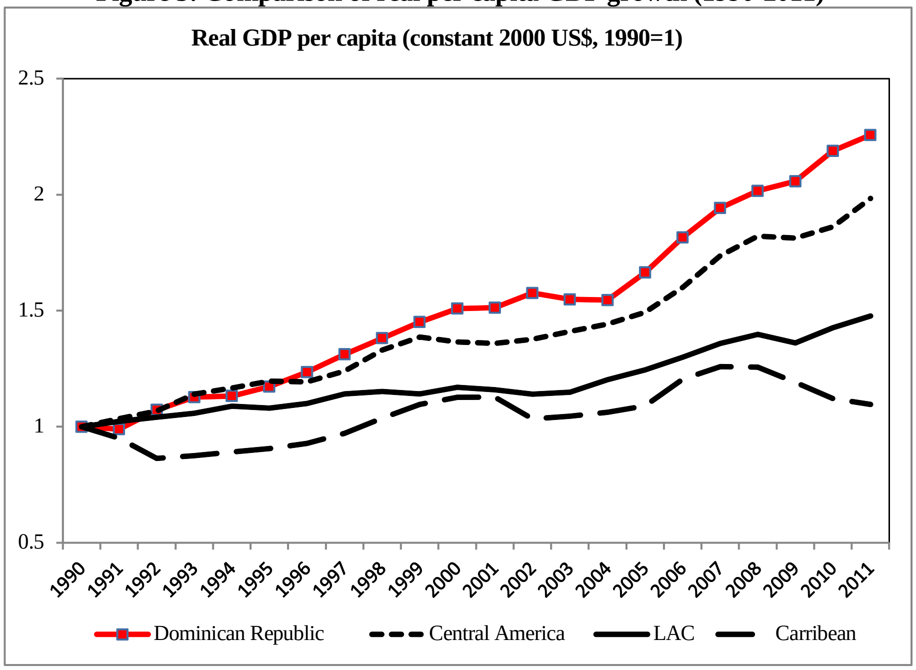
Source: Central Bank of the Dominican Republic.

Figure 2: Comparison of real GDP growth (1990-2012)



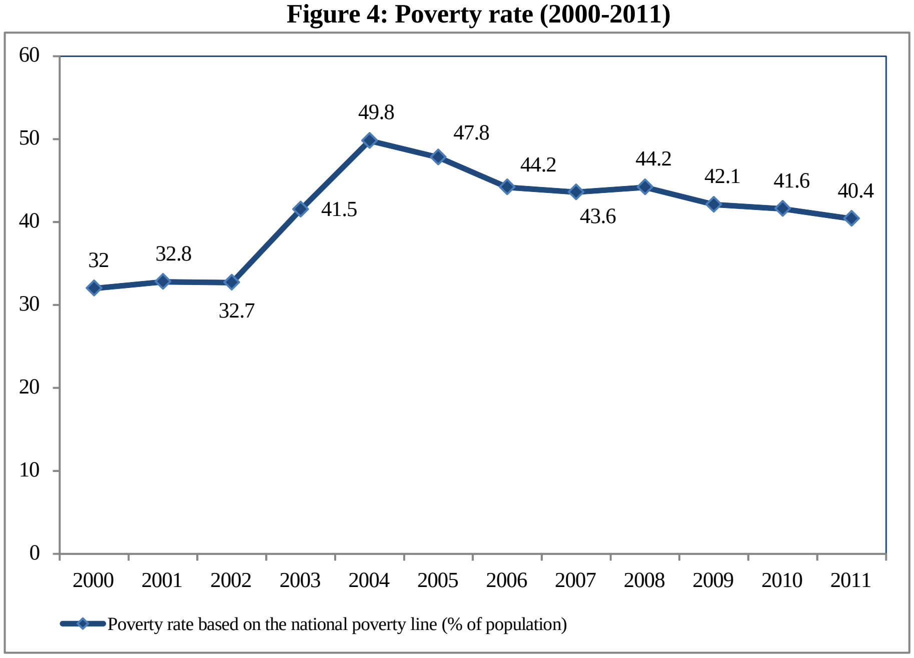
Source: World Development Indicators (World Bank).

Figure 3: Comparison of real per capita GDP growth (1990-2011)



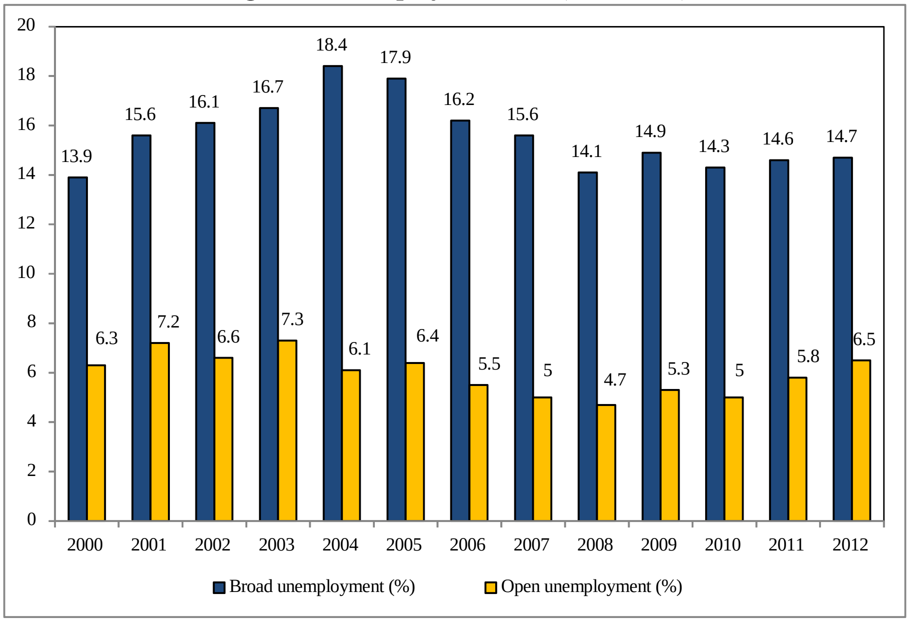
Source: World Development Indicators (World Bank).

Figure 4: Poverty rate (2000-2011)



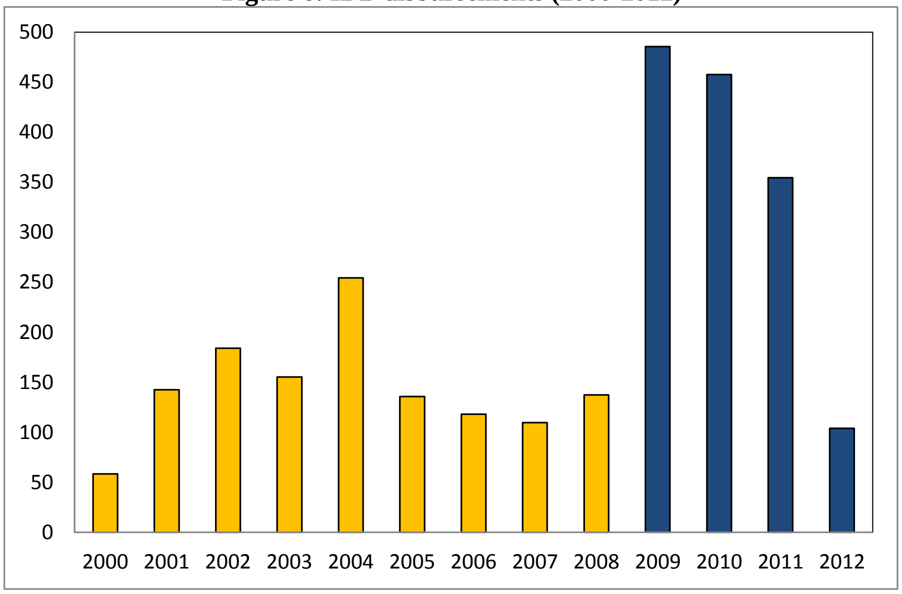
Source: World Development Indicators (World Bank).

Figure 5: Unemployment rate (2000-2011)



The open unemployment rate is the proportion of the economically active population taking steps to find work during the reference period. Broad unemployment includes open unemployment plus those persons who did not actively seek work during the reference period but who are nevertheless available to start work immediately.
Source: Central Bank of the Dominican Republic.

Figure 6: IDB disbursements (2000-2012)



Source: Finance Department (IDB).

Table 2: Loan approvals (SG and NSG), by sector (2009-2013)

Area	Number	%	Original amount approved (US$ million)	% originally approved
Public finances	4	15.4%	704	32.3%
Fiscal strengthening	*1*	*3.8%*	*500*	*22.9%*
Competitiveness support policies	*2*	*7.7%*	*180*	*8.3%*
Financial insurance against natural disasters	*1*	*3.8%*	*24*	*1.1%*
Social protection	4	15.4%	380	17.4%
Workforce integration	1	3.8%	20	0.9%
Education	2	7.7%	100	4.6%
Energy	3	11.5%	278.3	12.8%
Transportation	2	7.7%	174.8	8.0%
Water and sanitation	2	7.7%	60	2.8%
Agriculture	3	11.5%	62	2.8%
Tourism	1	3.8%	30	1.4%
Commerce	2	7.7%	52.5	2.4%
Financial markets /a	2	7.7%	317.5	14.6%
TOTAL	**26**	**100%**	**2179.1**	**100%**

Notes: Considers originally approved amounts (SG and NSG) as of 31 March 2013.
/a Financial markets includes an emergency loan for US$300 million that was subsequently canceled (DR-L1040: Liquidity Program for Growth Sustainability).
Source: OVEDA using the Bank's data warehouse.

Table 3: Approvals of nonreimbursable technical-cooperation funding, by sector (2009-2013)

Sector	Number	%	Original amount approved (US$ million)	% originally approved
Reform and modernization of the State	10	23.8%	3.30	21.3%
Public finances	*3*	*7.1%*	*0.65*	*4.2%*
Other reform and modernization of the State	*7*	*16.7%*	*2.66*	*17.1%*
Social protection	4	9.5%	2.14	13.8%
Workforce integration	2	4.8%	0.91	5.9%
Education	5	11.9%	1.22	7.9%
Health	1	2.4%	0.15	1.0%
Energy	3	7.1%	1.36	8.8%
Transportation	1	2.4%	1.00	6.4%
Water and sanitation	4	9.5%	2.06	13.3%
Agriculture	3	7.1%	1.45	9.3%
Tourism	1	2.4%	0.29	1.9%
Commerce	1	2.4%	0.08	0.5%
Financial markets	3	7.1%	0.31	2.0%
Private firms and SME development	1	2.4%	0.60	3.9%
Other	3	7.1%	0.68	4.3%
Total	**42**	**100%**	**15.5**	**100%**

Notes: Considers approved amounts originally approved as of 31 March 2013.
Source: OVEDA using the Bank's data warehouse.

Table 4: MIF operations approved, by sector (2009-2013)

Sector	Number	%	Original amount approved (US$ million)	% originally approved
Social investment	1	7.1%	0.37	4.4%
Agriculture and rural development	1	7.1%	0.13	1.5%
Tourism	1	7.1%	0.54	6.4%
Financial markets	4	28.6%	4.03	47.6%
Private firms and SME development	7	50.0%	3.39	40.1%
Total	**14**	**100%**	**8.5**	**100%**

Notes: Considers amounts originally approved as of 31 March 2013.
Source: OVEDA using the Bank's data warehouse.