



Country Program Evaluation

Dominican Republic

2009-2013



Inter-American Development Bank

October 2013

ABSTRACT

This Country Program Evaluation (CPE) for the Dominican Republic covers the period 2009-2013. It is the third occasion on which the Office of Evaluation and Oversight (OVE) has evaluated the Bank's program with the country. The previous evaluations covered the periods 1991-2003 (document RE-306) and 2004-2008 (document RE-371). 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."

In 2009, the Bank's work in the Dominican Republic was guided by the update to the previous strategy document for the period 2004-2008 (document GN-2379-1). 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.

The Board of Executive Directors has requested a review of CPE content on various occasions. In response, as a pilot test, the Office of Evaluation and Oversight (OVE) is incorporating a number of adjustments to the CPEs to be presented in 2013 (the Dominican Republic, Paraguay, and Barbados). Against this backdrop, and in accordance with the proposed adjustments (document RE-353), OVE has sought in this evaluation to (i) more closely link discussion of the country context to the evaluation of program relevance; (ii) cover the entire Bank program for the evaluation period, including sovereign and nonsovereign guaranteed loans, as well as nonreimbursable activities (technical cooperation and knowledge products); (iii) include crosscutting issues relevant to specific country circumstances (for example, the suitability and use of lending instruments and knowledge products, and support for the strengthening and use of country systems); (iv) include analysis of factors that have affected program implementation, and of other efficiency-related issues; and (v) provide a forward-looking approach, identifying how positive and negative lessons from the past can contribute to formulation of the country strategy and program in the future.

The evaluation is structured into four chapters, plus annexes. **Chapter I** analyzes the general context in the country from two perspectives. First, the structural characteristics of the country's growth model are briefly described. Second, the main economic events during the 2009-2013 period covered by the Bank's program are described. **Chapter II** provides a general analysis of the Bank's program in 2009-2013, with particular reference to the relevance of the country strategy, together with analysis of the program actually implemented. **Chapter III** provides a sector-based analysis of the implementation, effectiveness, and sustainability of the operations, and of the level of progress towards the Bank's proposed strategic objectives. **Chapter IV** presents conclusions and recommendations. Lastly, the **annexes** present the sectoral analyses upon which the evaluation's findings are based.

Analysis of documentation and data was complemented by interviews with various stakeholders involved in the design and implementation of the program, including representatives of the current government and the previous one; Bank staff members; executing units; and bilateral and multilateral agencies present in the country.

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OFFICE OF EVALUATION AND OVERSIGHT, OVE



Inter-American Development Bank

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ACRONYMS

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ACRONYMS

BTA	<i>Boulevard Turístico del Atlántico</i> Toll Road
CAASD	<i>Corporación de Acueducto y Alcantarillados de Santo Domingo</i> [Water and Sewer Corporation of Santo Domingo]
CAFTA-DR	Dominican Republic-Central America-United States Free Trade Agreement
CCLIP	Conditional credit line for investment projects
CDEEE	<i>Corporación Dominicana de Empresas Eléctricas Estatales</i> [Dominican Corporation of State Electricity Companies]
CPD	Country programming document
DGII	<i>Dirección General de Impuestos Internos</i> [Internal Revenue Department]
EDEs	<i>Empresas Regionales de Distribución Eléctricas</i> [Regional Electricity Distribution Companies]
EMIs	<i>Escuelas Multigrados Innovadoras</i> [Innovative multigrade schools]
END	<i>Estrategia Nacional de Desarrollo</i> [National Development Strategy]
IMF	International Monetary Fund
INAPA	<i>Instituto Nacional de Aguas Potables y Alcantarillados</i> [National Water and Sanitation Institute]
INE/TSP	Transport Division
LAC	Latin America and the Caribbean
NSG	Nonsovereign guaranteed
ONE	<i>Oficina Nacional de Estadísticas</i> [National Statistics Office]
OVE	Office of Evaluation and Oversight
PACE	<i>Programa de Apoyo a la Calidad Educativa</i> [Program to Support Quality in Education]
PAFI II	Integrated Financial Management Program II (Bank-financed program)
PATCA	Program of Support for the Transition to Competitive Agriculture (Bank-financed program)
PPP	Purchasing power parity
PRA	<i>Programa de Reducción de Apagones</i> [Program to Reduce Blackouts]
SCF	Structured and Corporate Financing Department
SENAE	<i>Servicio Nacional de Empleo</i> [National Employment Service]
SIGEF	<i>Sistema Integrado de Gestión Financiera</i> [Integrated Financial Management System]
TC	Technical cooperation operation
UEPEX	<i>Unidades Ejecutoras de Proyectos con Fondos Externos</i> [Executing Units for Externally Financed Projects]
UFW	Unaccounted-for water

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The Dominican Republic has been one of the fastest-growing economies in the region. However it faces structural challenges due to fiscal vulnerability, its inability to significantly reduce poverty levels and increase job creation, and difficulties in relation to public management effectiveness.

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Executive Summary

CONTEXT

Although the Dominican Republic has historically been one of the fastest-growing economies in the region, the country faces a series of structural challenges at the *economic, social, and institutional* levels. The key issue at the *economic* level is fiscal vulnerability, owing to low tax revenue, high levels of fiscal exemptions, and constant pressure on public expenditures stemming from natural disasters and transfers to state enterprises (particularly in the electricity sector). In the *social* sphere, high growth rates have not translated into significant reductions in poverty levels or increases in job creation. Moreover, the country's education and health indicators are below those of other countries in the region with similar income levels. At the *institutional* level, economic growth has been accompanied by a climate of political stability and democratic consolidation, although significant challenges remain in relation to public management effectiveness.

The Bank's strategy with the country was formulated against the backdrop of the 2008-2009 international financial crisis, which endangered the country's achievements in terms of growth and fiscal consolidation after the 2003 banking crisis. As a result, the Bank sought to develop a program of actions aimed at "promoting economic growth in a fiscally stable environment," that would also be aligned with the International Monetary Fund (IMF) standby arrangement signed by the country in October 2009. Two phases were planned under the standby arrangement: (i) a first phase of

countercyclical policy measures for short-term implementation (2009-2010); and (ii) a second phase of macroeconomic consolidation and implementation of medium-term structural reforms (mainly in tax administration, banking regulation and supervision, and the electricity sector).

THE BANK'S PROGRAM FOR 2009-2013

The country strategy was relevant to the extent that the strategic objectives proposed by the Bank addressed priority development challenges and were aligned with the national objectives set out in the National Development Strategy. The Bank's strategy identified strategic objectives in nine areas: public finances, social protection, education, labor market inclusion, the electricity sector, transportation, water and sanitation, agriculture, and tourism.

The program as implemented was characterized by an emphasis on approvals, aimed at ensuring positive financial flows over the period and supporting the introduction of structural reforms in key economic sectors, using programmatic approaches. Over the 2009-2013 period, 28 loans (both *sovereign and nonsovereign guaranteed*) were approved, for a total of US\$2.225 billion. This represented an increase of 195% over approvals in the previous period. Although operations were approved in all areas of the strategy, in value terms, approvals were concentrated in public finances (36.5%), social protection (21.8%), and the electricity sector (12.6%). **Sovereign guaranteed** approvals totaled US\$1.902 billion (21 loans)—an amount that, to date, is less than the financial scenarios set out in the strategy and country programming documents. Loans prepared by the Bank's private sector—the Structured and Corporate Financing Department (SCF)—accounted for a larger share of the implemented program. **Nonsovereign guaranteed** (SCF) approvals totaled US\$323.1 million (six loans and one operation under the Trade Finance Facilitation Program). They were concentrated in road infrastructure (54%; two loans for US\$174.8 million) and the electricity sector (24%; two loans for US\$78.3 million). No Opportunities for the Majority loans were approved during the period under evaluation. The other private-sector windows (MIF and IIC) also increased their approvals, although in areas that were not always directly related to the strategic objectives. The Bank also made strategic use of nonreimbursable technical cooperation, mainly to support the preparation and implementation of approved loans (50% of the approved amount was for *operational support*).

The program provided a substantial infusion of financial resources in the form of emergency and programmatic policy-based loans (PBPs) that made it possible to mobilize resources quickly to respond to the country's financing needs, particularly during the initial years of the evaluation period. Over the 2009-2012 period, total disbursements (sovereign and nonsovereign guaranteed) reached US\$1.401 billion. Sovereign guaranteed disbursements totaled US\$1.316 billion, of which 69% were concentrated in 2009 and 2010—equivalent to 21% of the

country's external financing needs in the first two years of the period. They also formed part of the countercyclical fiscal support coordinated with the IMF (16%) and the World Bank (12%) and, in general, of the Bank's strategy of quickly increasing disbursements to the region. Sovereign guaranteed disbursements during the period were channeled largely through **emergency and policy-based loans**, which accounted for 70% of total disbursements for the period and 79% of those for 2009 to 2010. In addition, cash transfer components of **social protection investment loans** served in practice as earmarked budget support, covering on average 30% of the costs of the government transfer program. These loans represented 51% of the Bank's investment loan disbursements from 2009 to 2012, 53% of total disbursements in 2012, and 70% in the first half of 2013 (years in which all disbursements stemmed from investment loans). Consequently, net flows to the country were positive, with the exception of 2012 (when no policy-based loans were approved or disbursed). The Bank's financial importance was also reflected in the better financing terms offered, particularly in the context of the international financing constraints during the international financial crisis.

The implementation of reforms that accompanied the budget support, however, was delayed and, in some cases, cut short. Although both tranches of the emergency loan (2009, 2010) were disbursed, only the initial operations under the two programmatic policy-based series (electricity sector and competitiveness) were disbursed, owing to a lack of progress on the reforms that they supported. In the electricity sector, only the first of the series of three operations structured over the 2011-2013 period was approved, due to changes made by the country in the direction of the sector. In the case of the competitiveness programmatic series, which consisted of three operations, ultimately the third operation was not programmed or approved. In addition, a number of the conditions under the first operation approved in 2009 had been met in 2006 (those related to the creation of the Departments of Finance, the Economy and Planning, and Public Administration). In the case of investment loans for social protection, the resources for cash transfers were generally disbursed in the first 12 to 18 months following approval, while disbursement of funds linked to reforms and institutional issues was much slower.

IMPLEMENTATION, EFFECTIVENESS, AND SUSTAINABILITY

Progress in relation to most of the strategic objectives proposed by the Bank was limited, although there were advances in some sectors. Delays in the implementation of reforms linked to budget support and in the execution of investment loans, mainly during the latter part of the program, explain most of the lack of progress in relation to the Bank's proposed strategic objectives. In addition, in some of the areas in which progress was initially seen, reforms have not been sustained.

In **public finances**, the program proposed to make public *spending more efficient and to improve revenue levels*. Results with respect to expenditure efficiency have been mixed. Although some advances were made in fiscal and financial management, their consolidation is in doubt as a result of serious challenges that persist in the institutional framework for fiscal management, as demonstrated by the loss of fiscal discipline in 2012. Progress was also made in the targeting of subsidies and social spending, as well as in ex ante financial coverage for natural disasters. Lastly, transfers to the electricity sector declined slightly, but were ultimately higher than expected. Regarding tax revenue, the Bank's support in the form of analytic work and technical cooperation was decisive for the approval of the tax reform approved in November 2012, although its results will only be seen in the medium term.

In the **electricity sector**, the program aimed to *promote operational and financial sustainability* through a combination of analytic work and loan operations. As part of a coordinated approach with the IMF and the World Bank, the IDB contributed significantly to the definition of a comprehensive policy of intervention aimed at modernizing the sector. Although measures that had long been postponed were carried out, the results in terms of policy implementation have been modest compared to the agreed action plan. Moreover, the sustainability of some of the reforms is questionable, and the current level of policy dialogue cannot be compared to that which existed at the beginning of the evaluation period. The Bank also supported investment in the rehabilitation of distribution networks. Although there was progress in loss reductions, it was less than expected. With hindsight, it can be concluded that the Bank's program proposed far-reaching structural reforms that, if they were to be consolidated, would require decisions that would be politically costly.

Concerning **social protection**, the program proposed to *make the social safety net more effective and efficient*. The Bank's participation helped to gradually make Solidaridad (Solidarity) an effective conditional cash transfer program and to strengthen its link to the supply of associated services, particularly in health. Nonetheless, the Bank has systematically underestimated the complexity and time required to implement the necessary reforms to strengthen the program. The annual programming process and pressure to disburse led to an emphasis on approving new operations each year, even where no significant progress on the reform and institutional strengthening components had been achieved under previous operations.

In **workforce integration**, the program proposed to *improve the positioning in the labor market of young people in low-income areas*. The Bank supported the creation of the Servicio Nacional de Empleo [National Employment Service] and the Observatorio de Mercado Laboral [Labor Market Observatory], as well as an evaluation of the effectiveness of the Programa Juventud y Empleo [Youth and Employment Program]. However, the evidence shows that progress towards the strategic objective has been limited. In **education**, the Bank actively supported teacher training, financing for teaching materials, and classroom construction. However, there is little evidence

that progress has been made in relation to the strategic objective of *improving the quality of basic and secondary education in low-income areas*, owing in part to a lack of monitoring and information systems to measure the effectiveness of these interventions.

In **transportation**, the program proposed to improve *the quality and management of the road system, and the urban transportation system in Santo Domingo*. In relation to the former, the Bank's support has been marginal and has not succeeded in promoting management changes that would ensure the maintenance and sustainability of investments. Of the two nonsovereign guaranteed operations supporting road concessions, one was canceled after the country rescinded the relevant concession, and the other is operating under a scheme that creates substantial fiscal obligations. With respect to the second objective, the Bank financed the design of a system of feeder routes for Metro Line 1. This has not yet been implemented. In **water and sanitation** and the productive sectors (**agriculture, tourism**), the low level of execution in projects approved during the evaluation period does not allow for a clear picture of progress towards the Bank's proposed strategic objectives.

CONCLUSIONS AND RECOMMENDATIONS

Among the positive aspects of program implementation are donor coordination and the more strategic use of technical cooperation and analytic work. Donor coordination, particularly in response to the 2008-2009 crisis, facilitated the definition of a unified vision for support to the country, as well as an efficient division of labor, particularly in the electricity sector and social protection. Technical cooperation and analytic work were used to define policy options and lines of intervention that were subsequently used by the government to set its sector vision and policy in areas, such as tax policy, natural disaster management, and the electricity sector. In the case of social protection, technical cooperation financed activities such as baseline surveys and part of the strengthening of monitoring and evaluation systems, which are essential for ensuring the monitoring of transfer programs and the evaluation of the effectiveness of interventions.

Among the main problems in program implementation were the emphasis on annual approvals in a given sector, irrespective of progress under previous operations, and weak coordination between the public and private sector windows in the area of infrastructure. At the end of 2012, the Bank had four operations approved in social protection and a further three in the agriculture sector, with substantial undisbursed balances. In the case of social protection, operations were approved each year that maintained transfer-related disbursements, despite the fact that reform components had advanced slowly. In agriculture, three operations were approved between 2010 and 2012, even though there had been problems with the counterpart since the first one. In road infrastructure, the involvement of the transportation and public finances sector divisions in the design of SCF's road concession projects was

limited, affecting the coherence of the Bank's approach and resulting in inadequate analysis of the fiscal implications of this type of intervention. In the electricity sector, the wind power generation projects incorporate guarantee schemes for private sector participation that, although they are in keeping with international standards, given the fiscal situation in the country, could result in a liability for the Corporación Dominicana de Empresas Eléctricas Estatales [Dominican Corporation of State Electricity Companies] (CDEEE) that should have been analyzed more closely, not only from the standpoint of the project sponsors, but also from that of the country's public finances.

OVE'S RECOMMENDATIONS AND MANAGEMENT'S RESPONSE

OVE's Recommendation	Management's Response
<p>Redefine the <i>programmatic approach for sector support</i>, so as to maintain a medium-term perspective but approving new loans only once all components of loans under execution have been substantially disbursed. The aim should be to ensure that there are no more than two active loans under a program at any one time. In <i>social protection</i> in particular, a new loan should only be approved when the components that are not related to cash transfers in the four operations approved from 2010 to 2013 have been substantially disbursed, and new operations should be structured so that all the components can move forward and be substantially completed before another operation is approved. Implementation of this recommendation requires greater flexibility in the country programming process to help establish a medium-term commitment, instead of proceeding with annual loan approvals. In the absence of such flexibility, annual operations under the medium-term support program should be designed so that all aspects of an operation can be substantially completed within the year leading up to the approval of a new operation.</p>	<p>Disagree. It is important to have a programmatic vision of the sector to guide Bank programming. However, implementation of a programmatic approach for sector support is contingent on the annual allocation of resources for Bank loans. Thus, in the case of the Dominican Republic, social protection and health loans, and their components, were coordinated based on the programmatic area, with approvals based on annual resource allocations. In this regard, loans that take a programmatic approach must be evaluated based on the priorities and work areas of each loan in the program, so as to determine whether they should be developed simultaneously or with one contingent on the other, before considering whether or not to approve new operations.</p> <p>As a result, under the current programming framework, establishing the programming of a future operation based on the % disbursed is not necessarily the appropriate criterion. It would be advisable to evaluate the development of instruments that would allow for multiyear programming to support the programmatic approach.</p>

OVE's Recommendation	Management's Response
<p>Continue with the strengthening of public finances. The main challenge faced by the current government is to deepen the process of consolidation of the public finances with a view to ensuring fiscal sustainability and creating the fiscal space necessary to meet social needs. Given the value placed by the country on technical expertise, and the Bank's ability to promote policy changes in this area, the Bank can play an important role by supporting the government in its efforts to improve tax revenue levels and spending efficiency.</p>	<p>Agree. Dialogue on this was initiated in the context of preparing the strategy. In the Bank's 2013-2016 country strategy, fiscal management was established as one of the priority sectors for Bank intervention; accordingly, the Bank will continue to support the country in strengthening public finances through actions defined and detailed in the strategy document.</p>
<p>Promote a reactivation of the policy dialogue in the electricity sector, with the aim of promoting the reform agenda required as a complement to investment programs. The operational and financial sustainability of the sector remains a critical issue for the country's competitiveness and development. The Bank should promote a sector dialogue aimed at creating the necessary policy conditions for simultaneous progress on both investment programs and other pending comprehensive reform measures, within a framework of close coordination with key sector stakeholders.</p>	<p>Agree. Dialogue on this was initiated in the context of preparing the strategy. The Bank will continue dialogue with the country in the electricity sector, which is considered a priority sector in the new 2013-2016 country strategy. The Bank's actions in the sector are defined and detailed in the strategy document.</p>
<p>Approve nonsovereign guaranteed infrastructure loans in the country once the fiscal risks and implications have been analyzed jointly by the relevant units in VPC, VPS, and VPP, and discussed with the Ministry of Finance.</p>	<p>Disagree. Management notes that proper coordination of the private sector windows with the public sector has been documented since the design of the previous strategy and continued in the different phases of processing the operations that were analyzed, and was even included in the analysis of fiscal impacts.</p> <p>The Bank already has the necessary review mechanisms that take into account the nature of each project to determine where and how to emphasize different technical and fiscal elements, among other things. However, Management acknowledges there is room to deepen coordination and collaboration between the Bank's public- and private-sector windows during preparation of new projects in both sectors. In terms of infrastructure, based on the nature of the specific project under consideration, emphasis will be placed on the need for joint analyses of the potential fiscal implications.</p>



1

...tipical
...Alcimos los colores

...nuestros números hablan
131723
El Día

Corripio

The Dominican Republic is the third largest country in the Caribbean in terms of population and the second largest in terms of surface area. Almost 70% of the population is urban, with Santo Domingo and Santiago de los Caballeros being the main urban centers.
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1 Overall Country Context

The Dominican Republic is a middle-income country located on the island of Hispaniola alongside Haiti. The country is the third largest in the Caribbean in terms of population (9.4 million, after Cuba and Haiti) and the second in terms of surface area (48,442 km², after Cuba). According to the 2010 census, 67.7% of the population is urban, with the main urban centers of Santo Domingo and Santiago de los Caballeros accounting for approximately 50% of the population. The economy is currently the ninth largest in Latin America and the Caribbean (LAC). The main economic sectors in terms of contribution to GDP are manufacturing (21%), telecommunications (16.2%), trade (9%), agriculture (7.6%), and tourism (6.1%). With a GDP per capita of US\$9,796 (PPP) in 2011, the country ranks 14th among the Bank's 26 borrowing member countries.¹

A. CHARACTERISTICS OF THE GROWTH MODEL

The Dominican Republic has been one of the fastest-growing economies in Latin America and the Caribbean. From 1991-2012, real GDP grew at an average annual rate of 5.6%, outpacing the region's average of 3.3% (Figures 1 and 2, Annex). Real GDP per capita has therefore more than doubled over this period (Figure 3, Annex). Although the economy has experienced periods of deceleration, in general it has been characterized by rapid recovery. Over the last decade, the most acute crisis was the local 2003 financial crisis, which was created by weak banking supervision and entailed fiscal costs estimated at 20% of GDP. After negative growth in 2003 (-0.3%), from 2004 to 2008, the economy once again experienced one of the highest growth rates in the region (7%). Similarly, after the slowdown brought about by the international financial crisis in 2009 (3.5%), growth averaged 5.4% from 2010 to 2012.



The electricity sector has been characterized by recurrent operational and financial problems that limit the competitiveness of the economy. Chronic deficits have been created in the sector as a result of the high dependence on fossil fuels in the energy matrix, as well as high levels of technical and commercial losses, low billing, limited institutional capacity, and a rate structure that is insufficient to cover costs. These deficits are covered by transfers to the distribution companies.

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This growth dynamic has been closely linked to development of the export sector, the in-bond textile assembly (maquila) industry in free-trade zones, and tourism. As a result of a series of liberalizing economic reforms in the 1990s, and against a favorable external backdrop, exports grew by an annual average of 8.3% from 1991 to 1999, while foreign direct investment (FDI) grew by 88% on average. Manufacturing in free-trade zones and tourism became the most dynamic sectors, benefiting from special fiscal treatment (e.g. exemptions and subsidies). Free-trade zone exports rose from US\$850 million in 1990 to US\$4.987 billion in 2012, and tourism earnings increased from US\$810 million to US\$4.549 billion over the same period.² The highest average rate of growth over the last decade has been seen in the services sector—particularly telecommunications and financial services (13.1% and 9.3%, respectively, from 2003 to 2012), which have increased in relative economic importance.

Despite these growth rates, one of the fundamental characteristics of the economy is its dualism. According to Fanelli and Guzmán (2008), the most dynamic sectors (free-trade zones and all-inclusive tourism) have developed according to an “enclave” model that hinders the creation of cross-sectoral chains and prevents benefits generated by these leading sectors from filtering down to less-developed sectors (such as agriculture).³ This has reinforced existing gaps between these sectors. This production structure has meant that high growth rates have not necessarily translated into overall improvements to the country’s development, as explained below.⁴

High rates of economic growth have not been reflected in a significant increase in job creation. The labor market is characterized by low job creation elasticity and a concentration of employment in low productivity sectors.⁵ GDP grew at an average rate of 7.1% from 2005 to 2011, while the rate of job creation was 3.6%. Levels of informality in the labor market are high (56% in 2012), and the rate of self-employment is the highest in the region (45%). More than half of the labor force is employed by small- and medium-sized enterprises, which usually have limited potential for growth and productivity.⁶ In addition, unemployment mainly affects young people (30% of the population ages 15 to 24, versus 10% for those 24 and over).

High growth rates have not translated into significant reductions in poverty and inequality. Against the backdrop of the 2003 crisis, the level of poverty rose from 32% in 2000 to 49.8% in 2004. Although poverty declined (40.4% in 2011) during the subsequent phase of high growth, it remains above pre-2003 levels, with urban areas exhibiting the highest incidence (Figures 4 and 5, Annex). Similar trends have been seen in extreme poverty, which reached 10.2% in 2011 (Figure 4, Annex). Although inequality, as measured by the Gini coefficient, has declined over the last decade (Figure 6, Annex), inequalities in access to basic services remain. Primary education coverage is almost universal, yet at the secondary level it is low. The education system is also characterized by low internal efficiency and poor quality of learning.⁷ There are, furthermore, weaknesses in health services in terms of quality and access, particularly among poorer households. Health indicators are below those of other

countries in the region with similar income levels, particularly with respect to maternal and child health.⁸ In addition to below- average coverage in water and sanitation and a lack of wastewater treatment,⁹ the country faces serious problems in relation to water quality (potability rate of 28.3%).¹⁰

In addition to the aforementioned problems, the growth model faces a number of challenges that have become apparent since the last decade. Despite the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) in 2007, exports dropped from 26.3% of GDP in 2004 to 15.5% in 2012. Export performance has been weaker than that of the country's trading partners in Central America. One of the main reasons is the decline in free- trade zone exports (from 20.7% of GDP in 2004 to 8.5% in 2012, and from 78.9% of total exports in 2004 to 54.9% in 2012). The decline is linked to greater competition in overseas markets, particularly from Asian goods in the U.S. market (its main trading partner). Tourism earnings fell from 13.9% of GDP in 2004 to 7.8% in 2012, while remittances—another important source of income—have shown a similar trend (9.9% of GDP in 2004 to 5.4% in 2012). This, combined with the decline in exports, has led to persistent current account deficits.

The electricity sector has been characterized by recurrent operational and financial problems that limit the competitiveness of the economy. Chronic deficits have been created in the sector as a result of the high dependence on fossil fuels in the energy matrix, as well as high levels of technical and commercial losses, low billing, limited institutional capacity, and a rate structure that is insufficient to cover costs. These deficits are covered by transfers to the distribution companies.¹¹ Transfers reached 2.7% of GDP in 2008, owing to the sharp increase in oil prices. At the same time, a lack of funding hinders the investment necessary to modernize the sector, and compromises the payments required to guarantee uninterrupted service. This affects the performance of a wide range of economic sectors, and limits productive investment.

The country also faces cross cutting challenges that make it difficult to overcome this dualism. In the *fiscal sphere*, the key issue is the vulnerability of public finances, owing to low tax revenue (14.1% from 2005 to 2012), high levels of fiscal exemptions,¹² and constant pressure on public expenditures stemming from natural disasters and transfers to state-owned enterprises (particularly in the electricity sector). In the *institutional sphere*, although economic growth has been accompanied by a climate of political stability and democratic consolidation, difficulties remain in terms of governance and public management effectiveness. These have been responsible to some degree for the failure of progress in some sectors to be transmitted to the rest of the economy. Moreover, the system of government and public administration is characterized by a high level of political and administrative centralization, as well as weak mechanisms for public management, accountability, and citizen oversight of State activities.¹³

B. ECONOMIC CONTEXT TO THE BANK'S PROGRAM FOR 2009-2013¹⁴

The 2008-2009 international financial crisis jeopardized the country's outlook in terms of growth and fiscal consolidation after the 2003 banking crisis. The economy grew at an average rate of 7% over the 2004 to 2008 period, accompanied by a drop in inflation (40% in 2004 to 4.5% in 2008) and interest rates, and stabilization of the exchange rate. In the fiscal area, the public sector deficit dropped from almost 9% of GDP in 2003 to 4.4% in 2008, owing to an increased tax burden and a policy of cost containment. Public debt declined from 60% of GDP in 2003 to 35% in 2008. In the context of the international crisis, the rate of growth fell to 1.5% in the first half of 2009, as a result of the global credit tightening and weakening external demand. Exports, private investment, tax revenues, and public expenditure in particular all underwent a marked deceleration.

Against this backdrop, the authorities reached a standby arrangement with the International Monetary Fund (IMF) in October 2009. The program contained two phases: (i) a first one of countercyclical policy measures for short-term implementation (2009 and the first half of 2010), aimed at avoiding a sharp decline in economic activity; and (ii) a second involving targeted measures to secure macroeconomic stability and implement reforms (mainly in tax administration, banking regulation and supervision, and the electricity sector).

The 2009-2012 period was marked by an initial recovery in economic growth, against the backdrop of the crisis and the subsequent weakening of public finances. Amid a difficult external context, the economy grew by 3.5% in 2009. In 2010, growth was 7.8%, with strong recoveries in consumption, investment, and exports to pre-crisis levels. With a subsequent decline in growth in the industrialized countries, as well as high oil prices, growth weakened (in line with the Central American countries).¹⁵ In 2011, the economy grew by 4.5% and the country experienced difficulties in meeting targets for fiscal deficit reduction and reform implementation, mainly in the electricity sector (see Box 1 and Chapter III). The consolidated fiscal deficit of 4.5% of GDP surpassed the target (3%) in large part due to tax revenues that remained almost constant (12.9% of GDP) and transfers to the electricity sector, which remained at 1.2% of GDP (double the projected level). As a result, the seventh review of the standby arrangement was not completed, and the agreement expired in May 2012. The economy grew 3.9% in 2012, while the consolidated fiscal deficit rose to 7.9% as a result of strong increases in public capital expenditure (82%),¹⁶ mainly on off-budget infrastructure.

BOX 1: SUMMARY OF MAIN PROGRESS ON REFORMS UNDER THE STANDBY ARRANGEMENT¹⁷

In the area of **taxation**, steps were taken to rationalize exemptions and, in 2011, a limited package of measures was approved to strengthen tax administration and raise collections. However, these efforts were insufficient given the international environment (tax revenues declined from 13.1% in 2009 to 12.9% in 2011). In the **electricity sector**, measures were implemented to improve management and reduce technical and commercial losses in the public distribution companies. Electricity rates were raised by a cumulative 12.5% over June and July 2009, and by a further 19% between November 2010 and May 2011 in the context of the standby arrangement. However, the reforms and their effects were slower than expected, and the rate increases were insufficient to offset the higher cost of fuel. Moreover, a flexible “technical rate” aimed at shielding the budget from energy price fluctuations was not implemented. Sector transfers rose between 2009 and 2011, owing in large part to a rise in oil prices that required higher transfers in order to avoid significant rate increases.

With respect to the **monetary policy** framework, at the end of 2011, the Central Bank announced the adoption of an inflation targeting regime. This has been implemented with limited exchange rate flexibility. Moreover, although the government continued to transfer funds to recapitalize the Central Bank, the quasi-fiscal deficit of the latter did not change significantly (1.3% of GDP on average from 2009 to 2011). In the **financial sector**, the Banking Superintendency moved forward with the drafting of standards for risk-based supervision and the adoption of the Basel principles for supervision. Additional improvements depend on the approval of modifications to the existing legal framework, in particular to the Ley Monetaria y Financiera [Monetary and Financial Law].

With respect to **social spending**, coverage of the conditional cash transfer program (Solidaridad [Solidarity]) was expanded, and targeted subsidy programs were implemented in the energy sector (BONOLUZ and BONOGAS).

The current government’s economic policies include a significant fiscal adjustment. In October 2012, the administration of President Danilo Medina presented a tax reform to increase tax revenues by 1.6% of GDP in 2013. On the expenditure side, a net reduction of 2.3% of GDP in central government spending is projected under the fiscal reforms, mainly through adjustments to capital expenditure. The authorities estimate the consolidated public sector deficit for 2013 at between 4.1% and 4.4% of GDP. In a regional context of lower growth, this adjustment is expected to result in a growth rate of approximately 3% in 2013. The economy grew by approximately 0.3% in the first quarter of 2013, and the figures for both central government revenues and expenditures were in line with budget projections.¹⁸



2

The IDB's sovereign guaranteed active portfolio was composed of 17 loans distributed across 10 sectors of which more than 20 percent accounted for social protection and labor markets.

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2 The Bank's Program, 2009-2013

Historically, the Bank has had an important financial and sector presence in the Dominican Republic. As of December 2008, the Bank accounted for 17.6% of the country's total external debt, 70% of multilateral debt, and 3% of GDP. The sovereign guaranteed active portfolio was composed of 17 loans distributed across 10 sectors, with an undisbursed balance of US\$248 million¹⁹—mainly in social investment (social protection/labor markets, 21.9%), reform and modernization of the State (17%), the electricity sector (16%), transportation (16%), and education (11%). There were also three nonsovereign guaranteed (NSG) operations totaling US\$174 million (two under the Trade Finance Facilitation Program and one guarantee) (Table 1, Annex).

A. RELEVANCE OF THE COUNTRY STRATEGY

The country strategy aimed to create a program of actions aimed at “*promoting economic growth in a fiscally stable climate.*” The current strategy (document GN-2581, approved in 2010) was designed against the backdrop of the international financial crisis, and it was aligned with the standby arrangement signed by the country with the IMF. In this scenario and the regional financial context, the financing envelope for sovereign guaranteed approvals for the 2009 to 2013 period was US\$2.175 billion,²⁰ a substantially higher figure than the envelope for the 2004 to 2008 period (US\$948 million).²¹

The strategy was relevant to the extent that its strategic objectives addressed priority development challenges. Design of the strategy was based on extensive analytic work and country dialogue. The **growth assessment** highlighted fiscal vulnerabilities and

emphasized that the country faced a “*declining competitiveness syndrome*,” reflected in the weakening of lead growth sectors. The assessment also concluded that “*the central issue in the country is undoubtedly institutional*”—reflected, for example, in the difficulty of resolving the energy problem. The Bank, in the framework of the new 2009 country strategy guidelines,²² also prepared **sector notes** as an input for the country dialogue;²³ in some cases, such as in the electricity sector, these served as a basis for the setting of the government’s sector policies (see Chapter III). The strategy laid out nine **areas for intervention** that, generally, were already included in the previous strategy, which facilitated the alignment of much of the portfolio in execution.²⁴ The strategy’s **results matrix** specifically set **strategic objectives** at the sector level (Table 1) that served as a reference for OVE to analyze program implementation and effectiveness. Nonetheless, there has been limited monitoring of its **indicators** in country programming documents (CPDs) (Table 2, Annexes). Therefore, **separating programming from the strategy** to date has allowed for better alignment between the programmed operations and those ultimately approved (Table 3, Annexes), but the annual nature of programming, in some cases, has imposed temporary restrictions that have led to the approval of successive annual operations with a view to supporting a specific sector in the medium term (see Social Protection).

TABLE 1. THE BANK’S STRATEGIC OBJECTIVES BY AREA OF INTERVENTION

Area of intervention	Strategic Objectives
Public finances	Increase tax revenue levels
	Make public spending more efficient
Social protection	Make the social safety net more effective and efficient
Education	Improve the quality of basic and secondary education in low-income areas
Workforce integration	Improve the positioning in the labor market of young people in low-income areas
Energy	Promote operational and financial sustainability of the electricity sector
Transportation	Improve the quality and management of the road system
	Improve the management of the urban transportation system in Santo Domingo
Water and sanitation	Improve the coverage and management of water and sanitation services in low-income rural and periurban areas.
Agriculture	Increase productivity in the agricultural sector
Tourism	Support diversification of the tourism sector

Strategic objectives were aligned with the national objectives established in the Estrategia Nacional de Desarrollo [National Development Strategy] (END). The END 2010-2030 was formulated in 2009 and enacted in January 2012. It is built around four strategic axes, with corresponding objectives (19 general and 57 specific),

lines of action, indicators, and targets to 2015 and 2030. The END was an important national milestone in the creation of a consensus long-term vision, and it played an important role in guiding the process of dialogue with the country and aligning the objectives of the Bank's program (Table 4, Annexes).

B. PROGRAM IMPLEMENTATION

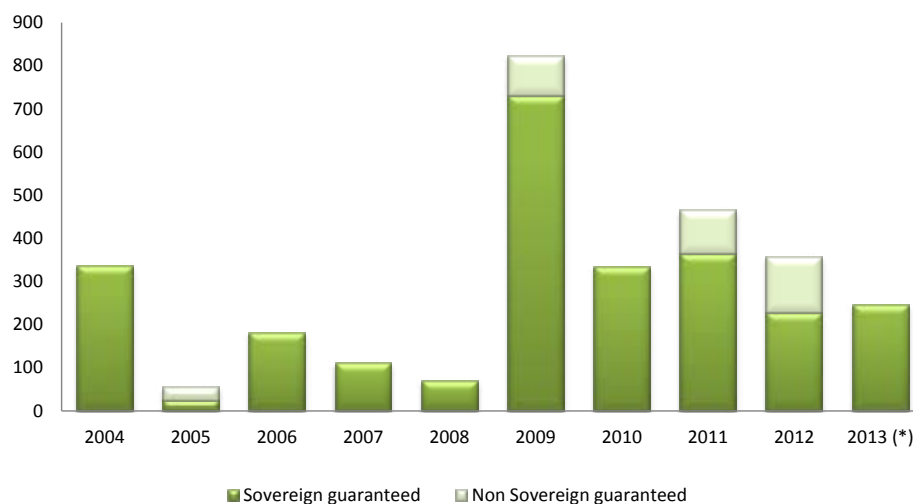
1. The Bank's program, 2009-2013

The program actually implemented was characterized by an emphasis on approvals, aimed at ensuring positive financial flows over the period and supporting the introduction of reforms in key sectors. From 2009 to 2013, total approvals (*sovereign and nonsovereign guaranteed*) reached US\$2.225 billion, representing an increase of 195% over the 2004 to 2008 period (Table 2). Although loans were approved in all of the areas defined in the strategy, approved amounts were concentrated in public finances (36.5%),²⁵ social protection (21.8%), and the electricity sector (12.6%) (Table 5, Annex). **Sovereign guaranteed** approvals were consistent with strategic objectives and totaled US\$1.902 billion (21 operations)— an amount that, to date, is less than the financial scenarios set out in the strategy and country programming documents for 2011-2013²⁶ (Table 6, Annex). The implemented program also included greater participation by the Bank's private sector (SCF) (Table 2). **NSG** approvals (SCF) totaled US\$323.1 million (six loans and one operation under the Trade Finance Facilitation Program), mainly in road infrastructure (54%, two loans for US\$174.8 million) and the electricity sector (24%, two loans for US\$78.3 million). No Opportunities for the Majority loans were approved during the evaluation period. The other private sector windows (MIF and IIC) also increased their approvals, although in areas not always directly related to the strategic objectives.²⁷

Type of borrower	Approvals 2004-2008				Approvals 2009-2013			
	Number		Amount		Number		Amount	
	N	(%)	US\$ million	%	N	(%)	US\$ million	%
Sovereign guaranteed	13	87	723.5	96	21	75	1902.0	85
Nonsovereign guaranteed (SCF)	2	13	30.0	4	7	25	323.1	15
Total	15	100	753.5	100	28	100	2225.1	100
Other Operations	Approvals 2004-2008				Approvals 2009-2013*			
	Number		US million		Number		US million	
Technical Cooperation	26		6.0		45		16	
Grants	-		-		1		35	

(*Approvals as of September 2013. The Country Programming Document for 2013 included nonsovereign guaranteed approvals of US\$260 million. The 2009 figures include a contingent credit line of US\$100 million for natural disasters.

FIGURE 2
Loan Approvals, 2004-2013
 (US\$ million)



The Bank emphasized the use of a programmatic approach to support reforms and provide continuity to operations at the sector level. The strategy indicated that new interventions would be developed based on “a programmatic approach, aimed at providing stability and continuity in support initiatives, with an emphasis on programs rather than projects,” “so they can outlast turnovers of administrations or political parties.”²⁸ This approach determined the lending instruments that were selected (Table 2). The Bank approved three multiphase loans and two specific investment loans to support the social protection program (US\$480 million); two loans under a conditional credit line for investment projects (CCLIP) to support the Ten-year Education Plan (US\$100 million); two investment loans to continue the agriculture sector support that began in 2002 under the Program of Support for the Transition to Competitive Agriculture (PATCA, US\$62 million); and two series of programmatic policy-based loans to support electricity sector and competitiveness reforms.

The Bank also made strategic use of nonreimbursable technical cooperation. The approved amount of technical cooperation operations (TCs) rose by 158% over the previous period, concentrated in the sectors of reform and modernization of the State (21.3%),²⁹ social protection (13.8%), and water and sanitation (13.3%) (Table 8, Annex). *Operational support* accounted for 50% of the total approved amount, aimed at supporting the preparation and implementation of loans (for example, demand studies, preparation of investment plans, impact evaluations)—mainly in social protection (22.4%), agriculture (18.5%), and water and sanitation (16.7%). *Client support* accounted for 45% of the approved amount, focused essentially on institutional strengthening (an area which, in individual loans, was supported mainly through specific components linked to sector loans).

The implemented program provided a substantial infusion of financial resources, particularly during the initial years of the evaluation period. From 2009 to 2012, disbursements (sovereign guaranteed and NSG) totaled US\$1.401 billion. Sovereign

TABLE 3. USE OF SOVEREIGN-GUARANTEED FINANCING INSTRUMENTS

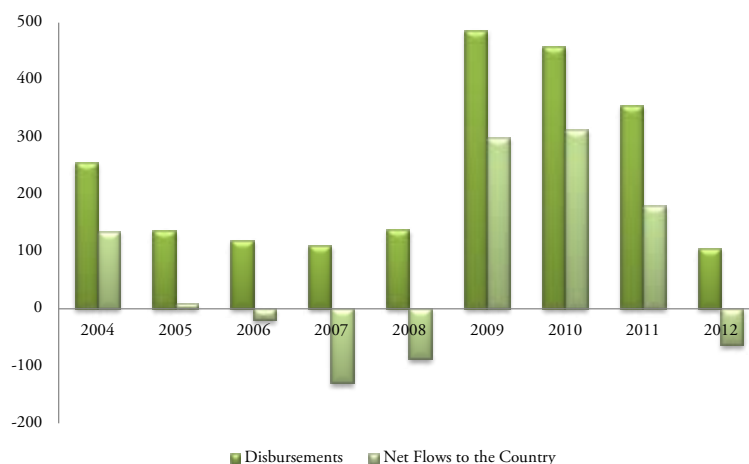
Type of loan	Type of instruments	2004-2008				2009-2013			
		Number		Amount		Number		Amount	
		(N)	(%)	(US\$ million)	(%)	(N)	(%)	(US\$ million)	(%)
Investment	Sector Facility	1	7.7	5	0.8	-	-	-	-
	Multiphase	3	23.1	127	19.1	3	14.3	250	13.1
	CCLIP	-	-	-	-	2	9.5	100	5.3
	Specific investment	5	38.5	121.5	18.3	11	52.4	572(*)	30.1
	Immediate Response Facility	1	7.7	20	3.0	-	-	-	-
Emergency/policy-based	Emergency	1	7.7	200	30.1	1	4.8	500	26.3
	Policy-based	2	15.4	250	37.7	-	-	-	-
	Programmatic Policy-based	-	-	-	-	3	14.3	370	19.5
	Contingent-credit line	-	-	-	-	1	4.8	100	5.3
Total sovereign-guaranteed		13	100%	723.5	100%	21	100%	1902	100%

(*) Two investment loans for US\$100 million each were approved in 2012 and 2013 to provide further support to the social protection system, a sector for which three multi-phase loans had been approved between 2009 and 2011. Moreover, three investment loans for US\$62 million were approved in the agriculture sector, to continue support under the programmatic lines that began with the PATCA program.

guaranteed disbursements totaled US\$1.316 billion, with 69% of these frontloaded in the first two years. The Bank's financial support from 2009 to 2010 was equivalent to 21% of the country's gross external financing needs, and it constituted part of a coordinated effort with the IMF (16%) and the World Bank (12%) to provide countercyclical fiscal support (Figure 7), and, in general, of the Bank's strategy to quickly increase disbursements to the region. Consequently, total net flows to the country were positive during the period, with the exception of 2012 (when no budget support loans were approved or disbursed). The financial importance of the Bank is also reflected in the more advantageous financial conditions offered, particularly in the context of the international financial crisis given the external financing restrictions faced by the country (Figure 7, Annex).³⁰

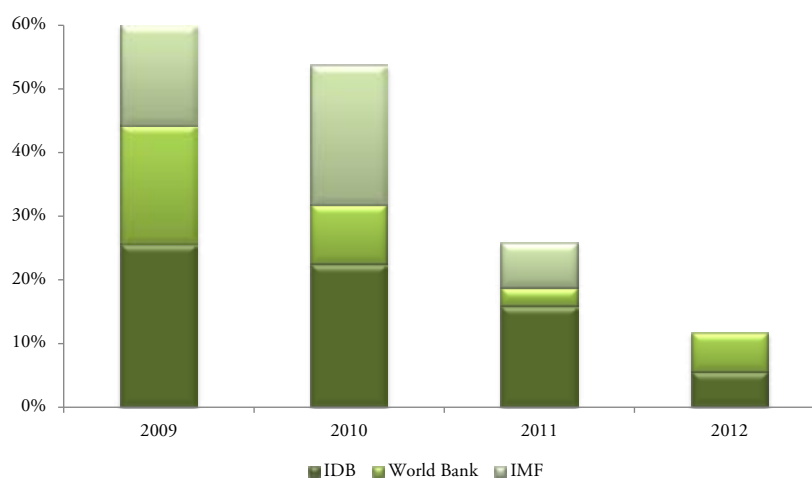
Disbursements were channeled to a large extent through emergency and programmatic policy-based (PBP) loans, which ultimately proved to be a mechanism for quickly mobilizing substantial amounts of financial resources. Disbursements under emergency and policy-based loans accounted for 70% of sovereign guaranteed disbursements for the period, and 79% of such disbursements for **2009 to 2010**. Approval and disbursement of these loans was rapid. The Liquidity Program for Growth Sustainability

FIGURE 7
Disbursements and Net
Financial Flows to the Country
(2004-2008)



(DR-L1040, US\$300 million) was included in the pipeline in December 2008 (a month in which sovereign risk reached 1,750 basis points) and took 3.3 months to be approved.³¹ Although the program was canceled at the government’s request,³² its funds were directed at supplementing the emergency Fiscal Strengthening Program (DR-L1043, US\$500 million) which had been under preparation since February 2009, initially prepared as a policy-based loan (for an initial amount of US\$200 million). Operation DR-L1043 was approved in October 2009; the first and second tranches were disbursed in December 2009 and November 2010, respectively. In the case of policy-based loans, the average time from pipeline inclusion to approval was 8.7 months and the average time from approval to disbursement was 2.4 months.

FIGURE 8
IDB, World Bank, and IMF
shares of gross external
financing needs (2009-2012)



In addition, cash transfer components of social protection investment loans served, in practices, as earmarked budget support. The Bank’s disbursements represented (on average) around 30% of cash transfer costs in 2009-2013. From the Bank’s perspective, social protection loans accounted for 51% of total investment loan disbursements from 2009 to 2012. In 2012, and the first half of 2013 (when there were only disbursements associated with investment loans), those loans represented 53% and 70%, respectively, of total disbursements (Figure 9).

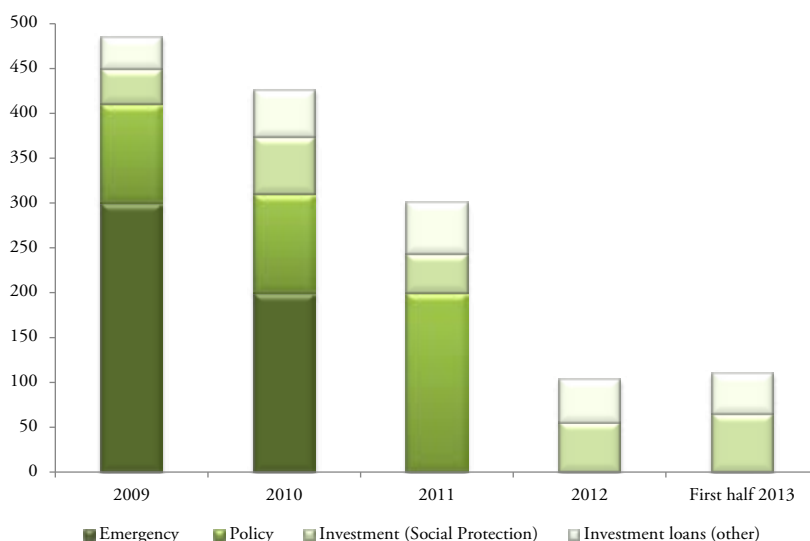


FIGURE 9
Sovereign guaranteed
disbursements by type of
instrument

The implementation of the reforms that accompanied the budget support, however, was delayed and, in some cases, cut short. Although both tranches of the 2009 emergency loan were disbursed in 2009 and 2010, only the initial operations under the two programmatic policy-based series (electricity sector and competitiveness) were disbursed, owing to a lack of progress on the reforms that they supported. In the electricity sector, the series consisted of three operations structured over the 2011-2013 period. However, only the first operation was approved, due to changes made by the country in the direction of the sector (see Electricity Sector). In competitiveness, which consisted of three operations, the third operation was ultimately not programmed or approved. In addition, a number of policy measures included under the first tranche had already been taken by the country in 2006 (see Public Finances). In the case of social protection (investment loans), cash transfer funds were generally disbursed over the first 12 to 18 months following approval, while disbursement of funds linked to reforms and institutional issues was much slower (see Social Protection).

2. Coordination with other financial institutions

In the 2009 to 2012 period, the IDB remained the main multilateral agency in the country. In terms of the country's external debt stock, the IDB's share remained roughly constant over the period (17%). Other financially significant multilateral agencies over the period were the World Bank (whose share in the external debt rose from 6.2% of GDP to 7.1%) and the IMF (0% to 6.6%). At the bilateral level, Venezuela, through Petrocaribe (17.4% to 24%), and Brazil (6.8% to 6%) were the main sources of funds.

World Bank approvals totaled US\$628 million, approximately one-third of the IDB total. The approvals included four development policy loans for US\$520 million (83%) and five investment loans for US\$108 million (17%). In terms of sectors, approved amounts were concentrated mainly in the sectors of health and

other social services (54.5%), education (15.3%), and law, justice administration, and public administration (13.3%). The World Bank has not approved any new loans since November 2011.

The international financial crisis led to a coordinated effort by the IDB, the World Bank, and the IMF in terms of financial and technical support. In the context of the standby arrangement, the three institutions (“the working group for the Dominican Republic”) coordinated a financing package equivalent to 50% of the country’s gross external financing needs for 2009 and 2010, as well as the setting of associated policy measures. Technical support by the IDB and the World Bank played an important role in the design and implementation of sector reforms, mainly in relation to the electricity sector and tax policy. The working group also monitored the results of the standby arrangement and the rate of progress on reforms. Another important area of joint and coordinated work by the IDB and the World Bank was support for reform of the social protection program.

Collaboration between the multilaterals ensured that conditionalities were coordinated, but it did not mean that there was always agreement on the sequencing of certain reforms (in the electricity sector in particular). The three institutions identified the need for reforms to improve the management and efficiency of the electricity distribution companies, reduce technical and commercial losses, and increase rates and make these more flexible. In 2011, however, the IMF placed greater emphasis on proceeding rapidly with rate adjustments in order to stabilize the fiscal situation, while the IDB and the World Bank emphasized to a greater extent the need to proceed in a balanced way in relation to the various reforms put forward in the joint Action Plan.

Coordination among development partners was also carried out through roundtables and, in some cases, through the cofinancing of investment initiatives and coordinated operations in a given sector. The Bank participated actively in the different roundtables, not least the Iniciativa Participativa Anticorrupción [Participatory Anticorruption Initiative] (IPAC), in which the government, multilateral and bilateral agencies, the private sector, and civil society all participated. The Initiative was launched in June 2010 at the government’s request. Through roundtables in 10 areas, it aimed to identify and implement activities to strengthen levels of transparency and integrity.³³ The final evaluation (February 2012) indicated that 20 of the 30 recommendations had been implemented, while the rest were still in progress. In addition, three investment loans in the portfolio received cofinancing—from the OPEC Fund for International Development (OFID) in the electricity and transportation sectors, and from the Spanish Agency for International Development Cooperation (AECID) in water and sanitation. The IDB also worked with the World Bank through parallel operations in the areas of labor markets, social protection, and energy (network rehabilitation). Moreover, the private sector (SCF) mobilized significant cofinancing resources for its infrastructure operations.³⁴

3. Performance of the investment loan portfolio (efficiency)

In line with overall trends at the Bank, preparation times for investment loans shortened in relation to the previous period. The average time from pipeline inclusion to approval fell by 26%, from 17.3 months (2004 to 2008) to 12.3 months (2009 to 2013), while the Bank average declined from 20.9 months to 15.4. This drop resulted partly from the increased use of programmatic investment loans (CCLIPs and multiphase loans), which had shorter approval times compared to specific investment loans (9.3 months versus 14.2 months). At the same time, the average time from approval to first disbursement was reduced from 27.4 months to 9.3 months, lower than the Bank average of 12.6 months. This was the result, in part, of a reduction in congressional ratification times, which fell from 15.2 months to 5.4 (from contract signature to ratification).³⁵

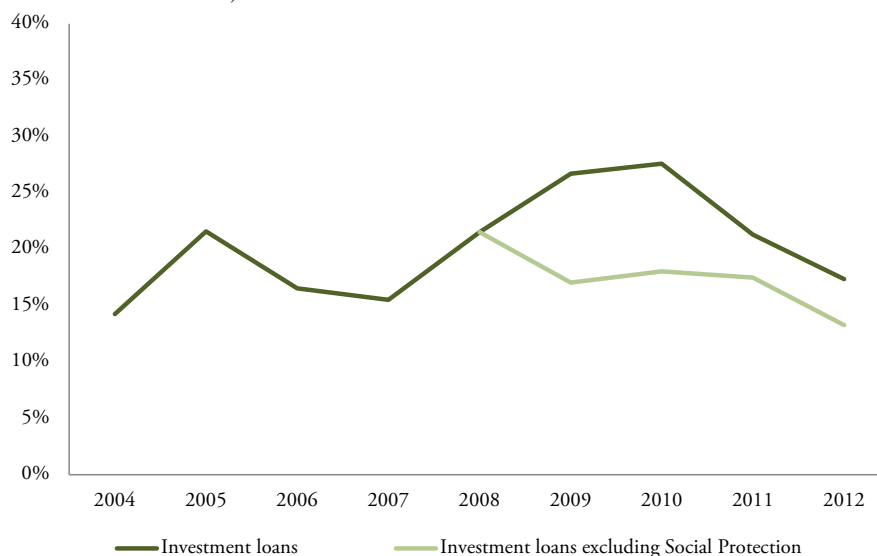


FIGURE 10
Investment loan disbursements
as a proportion of annual
available funds (2004-2012)

Regarding execution, although there was some improvement in the performance of the investment loan portfolio, extensions to execution periods continued to be a problem, particularly during the latter part of the period. At the end of 2008, extensions had been granted for 53% of the investment loan active portfolio. At the end of 2012, 31.5% of the active portfolio was still under extension (40% at the end of June 2013). As for disbursements, 22.9% of annual available investment loan funds³⁶ were disbursed on average in the 2009 to 2012 period, higher than in the 2004 to 2008 period (18.6%). The increase is mainly the result of disbursements under social protection loans (Figure 10). The main execution problems during the latter part of the program relate to both the limited availability of local counterpart resources (stemming from the government's fiscal adjustment) and the insufficient programming of disbursements in the budget (see Chapter III).



3 Program Implementation, Effectiveness, and Sustainability

Progress in relation to most of the strategic objectives the Bank set for itself was limited, although there were advances in some sectors. Delays to the implementation of reforms linked to budget support, as well as to the execution of investment loans, mainly during the latter part of the program, explain most of the lack of progress regarding the strategic objectives set by the Bank in its strategy. In addition, in some of the areas in which progress was initially seen, reforms have not been sustained.

A. PUBLIC FINANCES

1. Objective 1: Increase tax revenue levels

The Bank financed analytic support for the design of reforms, as well as a loan to strengthen the Dirección General de Impuestos Internos [Internal Revenue Department] (DGII). It also played a key role in the design and implementation of tax reforms included in both the standby arrangement with the IMF and the 2012 tax reform. Under a TC to support the strengthening of public finances (DR-T1047), studies and consultancies were financed in the areas of taxation, evasion, exemptions, and the impact of tax reforms. The objective of the 2007 DGII loan (DR-L1006, US\$10.5 million) was to support the institutional reorganization of the DGII and increased use of information technologies in auditing processes, with a view to reducing evasion and costs to taxpayers. The project was launched in 2009; among its main outputs to date are a human resources development plan, the DGII data center, and several automated collection processes.

Results in tax collection have been mixed, owing in part to factors external to tax administration. *Tax revenues* fell from 16% of GDP in 2007 to 12.8% in 2010, recovering to 13.5% in 2012. The decline from 2007 to 2011 was caused, among other things, by slackening demand following the international crisis, the progressive

dismantling of customs tariffs and fees under CAFTA-DR, and economic growth that was led by relatively lightly taxed sectors. Recovery in 2012 resulted in part from a tax package approved in 2011. *Tax expenditures* fell from 6.5% of GDP in 2007 to 5% in 2012. They remain high, however, with the persistence of numerous, mostly sectoral incentives (e.g. free-trade zones, tourism, electricity generation, public contractors) that curtail the efficiency of collections.

2. Objective 2: Make public spending more efficient

The Bank's program supported this objective through four lines of intervention:

a. Policies to support competitiveness

The Bank, through a programmatic policy-based series, aimed to boost the country's competitiveness through economic, institutional, and legal reforms across a wide and varied number of areas. Three operations of up to US\$60 million each (for a total of US\$180 million) were planned under the programmatic series, with five components: macroeconomic conditions; fiscal management, development planning, and public administration; institutions for competitiveness and trade; innovation, technological development, and quality control; and business climate reforms. The second operation in 2010 (a hybrid) also included a US\$10 million technical cooperation loan to continue support (initiated in 2003) for cluster development, by expanding and targeting the Fondo Nacional de Competitividad [National Competitiveness Fund] (FONDEC).

However, the programmatic series was not completed owing to a lack of progress on reforms. The third operation ultimately was not programmed or approved. Moreover, a number of the reforms included in the policy matrix under the first operation had already been implemented in 2006, such as the creation of the Departments of Finance, the Economy, Planning, and Development, and Public Administration. Other measures supported were the creation of the fiscal policy unit in Finance, the Innovation and Technological Development Council, and the network of business and enterprise incubators. Support was also provided for the creation of the financial administration system and the national public investment system, as well as preparation of the END and various strategic plans.³⁷ Only 1.6% of resources under the technical cooperation loan have been disbursed as a result of recurring counterpart funding problems.³⁸

b. Initial reforms in the fiscal area (emergency loan)

As part of the multilateral package of countercyclical financial support, in 2009 the Bank approved an emergency Fiscal Strengthening Program which provided financial liquidity and helped to launch the reform process in 2009 and 2010. Two disbursement tranches (US\$300 million and US\$200 million) were envisioned under the loan (DR-L1043), which had five components: macroeconomic stability, strengthening of

public finances, improved targeting of subsidies and financial efficiency in the electricity sector, protection of government social spending, and institutional strengthening for fiscal management. Disbursements under the loan were equivalent to 16% and 8% of the country's gross external financing needs in 2009 and 2010, respectively. Program targets relating to the fiscal deficit, central government spending, and protection of social spending were met.³⁹ In fiscal management, the Department of Finance hired specialists to staff the fiscal policy unit⁴⁰ and included medium-term programming in the 2010 budget law. Significant initial reforms were also implemented in the electricity sector (see Electricity Sector).

c. Public sector financial administration

The Bank continued to support financial administration through a second program for the modernization of public financial management (Integrated Financial Management Program [PAFI] II, US\$21 million). This program aimed to strengthen the institutional capacity of the Department of Finance to lead on fiscal policy and management; to consolidate the Sistema Integrado de Gestión Financiera [Integrated Financial Management System] (SIGEF) and expand it to decentralized and municipal agencies; create a procurement system; and implement an internal control system, including strengthening of the Comptroller General's Office.⁴¹ The program was approved in 2006 and reached eligibility in 2010. It has been characterized by slow execution, particularly in the Comptroller General and (to a lesser extent) procurement components. The program has made it possible to increase access to financial management data.⁴²

The impact on the institutional framework for fiscal management has been limited, however.⁴³ According to the 2012 Public Expenditure and Financial Accountability (PEFA) assessment, the performance and credibility of budget policy declined compared to 2007-2009. The most notable aspect was spending in excess of approved levels, particularly in 2012. There was also no significant progress in relation to financial and fiscal risk monitoring in public enterprises. Regarding the integration of multiyear planning into the formulation and monitoring of the budget, the most significant progress has been in the creation of the country system for strategic planning, as well as approval of the END.⁴⁴ However, the link between fiscal projections and medium-term programmatic allocations remains weak. Concerning monitoring of budget execution, a Single Treasury Account was implemented and SIGEF coverage was expanded from 30% to 80% of revenues, expenditure, and financing operations. However, SIGEF still operates only at the level of the central government.⁴⁵

In the area of procurement, the dimensioning of the proposed solution bore little relation to the magnitude of the identified problems. The procurement component sought to adapt the country procurement system to the SIGEF, with a view to covering all central government entities in the first instance, and the decentralized entities thereafter. However, once the project was launched, the need for a new IT system was

identified. Resources allocated to the component were insufficient for this purpose, and it was decided that the existing tool should be strengthened while the technical specifications for a new technological platform were prepared. These specifications were completed in 2012,⁴⁶ according to the 2013-2016 Institutional Strategic Plan of the Dirección General de Contrataciones Públicas [Public Procurement Department], but their implementation is not supported under the PAFI II. At the end of the evaluation period, the procurement system remains fragmented, and only 30% of public procurement contracts are published on the electronic portal. Although the procurement law stipulates that public contracts should be subject to competitive bidding, in practice many contracts are awarded based on single-source selection, outside the competitive system.

d. Ex ante financial coverage for natural disasters

The Bank was able to offer the country a series of complementary instruments in the areas of natural disaster prevention, management, and financial coverage. The Bank continued to execute a disaster prevention and risk management program approved in 2005 (DR-L1007, US\$5 million). One of the main outputs of this operation was support for the Programa Integral de Gestión de Riesgo de Desastres Naturales [Integrated Natural Disaster Risk Management Program] (PIGRDN), the satisfactory execution of which became a condition for the eligibility of a conditional credit line approved in 2009 (DR-X1003, up to US\$100 million).⁴⁷ The latter credit line finances any extraordinary expenditures during the *emergency* stage of a severe or catastrophic natural disaster.⁴⁸ This linkage has been beneficial, not only in terms of the complementarity between Bank instruments and divisions, but also because it connects mitigation and financial protection.⁴⁹ In 2011, the Bank also approved a loan facility (DR-L1045, US\$24 million) to finance the establishment of parametric insurance coverage (for up to US\$100 million), aimed at meeting any extraordinary expenditures stemming from major earthquakes and/or tropical cyclones.⁵⁰ The Bank also approved two TCs (US\$300,000) to improve registration, valuation, and monitoring systems for any fixed assets used to provide public services that could be affected in the case of a natural disaster (*rehabilitation phase*).

In summary, the evidence suggests that progress towards the objective of making spending more efficient was mixed. Although steps were taken on government fiscal and financial management with Bank support, consolidation of these improvements is unclear given the serious challenges that persist in the institutional framework for fiscal management (as demonstrated by the loss of fiscal discipline in 2012). Progress was made in relation to the targeting of subsidies and social spending, as well as in ex ante financial coverage for natural disasters. Lastly, transfers to the electricity sector—one of the main fiscal liabilities—declined modestly, but ultimately exceeded projections (see Electricity Sector).

B. ELECTRICITY SECTOR

1. Objective: Promote operational and financial sustainability of the electricity sector

Compared to the 2004-2008 period, the Bank played an important role in setting sector policies at the beginning of the period under evaluation. In 2009, at the government's request, the IDB and the World Bank prepared the "Action Plan for Modernization of the Electricity Sector," with the aim of supporting comprehensive sector reform. The plan served as a basis for the government's own plan ("Action Plan for the Electricity Sector, 2010-2015), presented in December 2009. The plan proposed the adoption of a series of corrective measures in seven main areas (rates, subsidies, losses, management, trust funds, institutional framework, and investments) to be addressed simultaneously and comprehensively (Box 1, Annex).

In 2009 and 2010, significant measures contained in the policy matrix for the emergency Fiscal Strengthening Program (DR-L1043) were implemented. The geographical subsidy to areas belonging to the Programa de Reducción de Apagones [Program to Reduce Blackouts] (PRA) was eliminated and replaced by a targeted subsidy (BONOLUZ). BONOLUZ recipients were registered in the Sistema Único de Beneficiarios [Single Beneficiary System] (SIUBEN).⁵¹ Operational and financial audits of the Corporación Dominicana de Empresas Eléctricas Estatales [Dominican Corporation of State Electricity Companies] (CDEEE) and the Empresas Regionales de Distribución Eléctricas [Regional Electricity Distribution Companies] (EDEs) were also carried out, providing consolidated auditing statements,⁵² specialized administrators were recruited to the upper management levels of the EDEs, and the balance of current nonfinancial public sector debt to the generation companies was reduced. The average electricity rate was increased by a cumulative 12.5% between June and July 2009 (having been frozen since 2006), and the rate structure was simplified, with a reduction in the number of residential rate categories.

In November 2011, the first (and to date the only) loan in a programmatic policy-based series of three operations was approved in support of the sustainability and efficiency of the sector. Three operations were envisioned under the series between 2011 and 2013. The operation that was approved supported the initiation of reforms, including the preparation by the CDEEE of an "indicative plan for the expansion of generation and transmission (2011-2025)" to meet demand, and a proposal to modify the rate structure and make it more flexible.⁵³ Subsequent operations were to concentrate on the implementation and evaluation of the mechanisms, such as the implementation of the new rate regime and planning measures for the expansion of generation and transmission, and the evaluation of progress with respect to EDE operational and management performance.

The Bank also supported the rehabilitation of distribution networks through a sovereign guaranteed investment loan, and it sought to support investment in alternative energies through the private sector. The network rehabilitation project (DR-L1026, US\$40 million) was supported by cofinancing from the OPEC Fund for International Development (OFID) (US\$30 million) and a complementary World Bank loan (US\$34 million). It formed part of the EDE investment plan 2008-2010 (US\$275.5 million).⁵⁴ The objective of the project was to increase the cash recovery index, requiring a reduction in technical losses and an increase in billing.⁵⁵ Meanwhile, the NSG loans have still not been disbursed (Box 2).

BOX 2: PRIVATE SECTOR PARTICIPATION IN THE ELECTRICITY SECTOR

The Bank's private sector approved two operations that have yet to disburse. Although the operations are relevant, they could have financial implications for the sector. In 2011, SCF approved two loans for the design, construction, operation, and maintenance of two wind farms with a total capacity of 80.6 MW: Bani (DR-L1049, US\$27.6 million) and Pecasa (DR-L1051, US\$50.7 million). The projects will sell their output directly to the CDEEE under 20-year purchase agreements,⁵⁶ and as the first wind farms in the country they are expected to have a demonstration effect. The projects have not yet begun to disburse as the direct agreement between the borrowers, generators, and the CDEEE was only recently (July 2013) approved by the latter. Their guarantee schemes for private sector participation (base price fixed by law, CDEEE guarantee in the event of nonpayment, suspension mechanism), although in line with international standards, could become a liability for the CDEEE in the fiscal context of the country that should have been analyzed more closely not only from the standpoint of the project sponsors, but also from that of the country's public finances. In 2011, the IIC approved a loan (US\$5 million) for the construction of a combined cycle thermal plant using natural gas, with a capacity of 78 MW. Delays have been experienced in negotiations over the purchase agreement—in this case, with a private firm.

Results in terms of policy implementation have been modest. During the period under evaluation, only the first operation under the programmatic series (DR-L1050, US\$200 million) was approved, due to changes made by the country in the direction of the sector. A failure to adopt the proposed rate regime (a condition for the second operation) was one of the reasons that the second loan was not approved. Moreover, in 2012, the new government reversed a number of measures included in the Action Plan (change of administrators in the EDEs, postponement of international bidding for power contracts to expand supply). In March 2013, a new sector plan was presented that did not initially provide for rate measures (Box 2, Annex).⁵⁷ In hindsight, the Bank underestimated the opportunities for structural reforms in a politically complex and dynamic sector. The first operation was approved six months before the presidential elections, and the second operation, planned for 2012, envisioned the implementation of reforms that in some cases would carry a high political cost



(e.g., the introduction of the rate structure). A second investment loan for network rehabilitation (DR-L1034, US\$78 million) was postponed by Management owing to the policy changes.⁵⁸ The World Bank had also planned a second operation, which has not been approved.⁵⁹

Operational and financial results were less than expected. In operational terms, the Action Plan expected losses to be reduced by at least 10% between 2009 and 2011 as a result of the rehabilitation projects, and that in 2013, losses and collection would be 12% and 97%, respectively—in line with efficient companies in the region. In practice, average power losses at the EDEs declined, from 36.2% in 2009 to 32.9% in **2011**.⁶⁰ The collection rate remained relatively constant over the same period. As a result, the cash recovery index rose from 58.4% in 2009 to 59.9% in **2011** (60% in the first seven months of 2012) (Figure 9, Annex). This is partly explained by the fact that only half of EDEs budgeted investments were carried out in 2009-2011 (Figure 11, Annex), owing to delays in disbursements of multilateral⁶¹ and government counterpart funds. In addition, investments were focused primarily on network rehabilitation (technical losses), minimizing the measurement of losses to detect and avoid electricity theft (nontechnical losses). In financial terms, after an improvement in 2009, transfers to the sector rose sharply from 2009 to 2011 (Figure 10, Annex). This resulted mainly from a rise in oil prices, which caused the authorities to increase transfers, through the Electricity Rate Stabilization Fund (FETE) in order to avoid significant rate increases.⁶²

In practice, average power losses at the EDEs declined, from 36.2% in 2009 to 32.9% in 2011. The collection rate remained relatively constant over the same period. As a result, the cash recovery index rose from 58.4% in 2009 to 59.9% in 2011 (60% in the first seven months of 2012).

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In conclusion, progress towards the objective of *promoting the operational and financial sustainability* of the sector was limited compared to expectations. As part of a coordinated approach with the IMF and the World Bank, the Bank contributed significantly to the definition of a comprehensive policy of intervention aimed at modernizing the sector. Although long-postponed measures were implemented (elimination of the PRA, introduction of BONOLUZ, and rate increases between June 2009 and May 2011), the results in terms of policy implementation have been modest compared to the agreed Action Plan. Moreover, the sustainability of a number of the reforms is questionable, and the current level of policy dialogue cannot be compared to that seen at the beginning of the period.⁶³ Although there was progress on loss reduction, it was less than expected and, at the financial level, the sector remains a fiscal burden for the government. In hindsight, it can be concluded that the Bank's program proposed far-reaching structural reforms that would require politically costly decisions for their consolidation.

C. TRANSPORTATION

1. Objective 1: Improve the quality and management of the road system

The Bank's program focused on the rehabilitation of highways and rural roads, and on promoting a change in management policies to ensure road maintenance, in response to the sector's priority issues. The program included the approval of two NSG loans: the Boulevard Turístico del Atlántico (BTA) Toll Road (DR-L1030) and the Viadom Toll Road Project (DR-L1052). It also included a sovereign guaranteed multiphase loan (DR-L1008) approved in 2007, but execution of this loan did not occur in the period under evaluation. TCs and economic and sector work were also financed in areas of importance for the country (transportation and logistics services, and sector institutional framework); the government's adoption of these has been slow, but has improved recently.

The Bank's approach was relevant, although its participation in the sector was marginal. The Bank's program sought to address problems of a lack of maintenance that have traditionally affected the quality of the road network. Although the country's road density is adequate, around 65% of roads were in fair or poor condition at the end of 2012. However, the Bank's participation in the sector was marginal in terms of financing. The Bank approved a total of US\$174.8 million, which contrasted with substantial government spending on road infrastructure supported by bilateral financing agreements—particularly with Brazil, which provided US\$670 million in 2012 alone.

NSG loans financed toll road concession projects, the justification and designs for which emphasized considerations regarding additionality and the financial viability of the projects, carried out based on assumptions that were not very realistic given the country context. In the Boulevard Turístico del Atlántico project,⁶⁴ for instance, the

guarantee of a minimum revenue to the concessionaire was a key element for ensuring the operation's financial viability and repayment of the loan. However, the demand projections that were used to determine the financial structure and the minimum revenue were too optimistic, as they assumed that the average number of vehicles per day would increase by 31% in 2012, 24% in 2013, and 3% thereafter, resulting in an 80% increase (from 4,040 to 7,280) from 2011 to 2015 and a 56% rise (from 7,280 to 11,370) from 2015 to 2030. Those projections contrast with the scenario put forward by the Bank's Transport Division (INE/TSP) of a 0% increase from 2011 to 2012; 1.2% from 2013 to 2015, and 2.67% thereafter and with the actual average traffic volume, which according to data from the concessionaire, was 2,797 vehicles per day at the end of 2012. Although the scenario outlined by INE/TSP was included in the BTA loan document, it does not appear to have been used to bring demand projections more in line with the reality and context in the country. The same happened with the debt coverage analysis, which based on INE/TSP projections indicated that the portfolio would generate sufficient income to cover the debt only in one year—2022.

The demand projections included assumptions that were not duly analyzed. In the case of the BTA, the assumption of a 25% increase in traffic volume was used, that would result from the greater connectivity between Samaná-Santo Domingo-Punta Cana. INE/TSP projected a 0% increase. The toll rates established under the concession were high both for the country (US\$12 for individual vehicles; US\$13 for buses) and compared to other countries⁶⁵ and were in addition to the toll on the Northeast Highway. Although they were based on international parameters, they did not take into account socioeconomic factors such as the population's ability to pay. At present, the toll collects from only 10% of vehicle traffic as a result of the relocation of the toll booth requested by the government in 2012.⁶⁶

The risk analysis for the NSG operations did not adequately take into account the possible fiscal consequences for the country of the proposed schemes. In the BTA project, the operation's risks did not include the fiscal risk to the country. This is analyzed from the standpoint of the risk for the lenders that the country would not comply, in a timely manner, "with its financial obligations under the minimum revenue guarantee" and therefore the government pledged to provide additional guarantees in the form of reserve accounts and complementary letters of credit. The contingent liability generated by an arrangement in which the government assumed all of the project's commercial risks, including any adverse event that was not the direct responsibility of the concessionaire, plus a fixed real return of 16.9% in dollars,⁶⁷ runs contrary to the efforts being made, in parallel, by the Bank's public sector window to strengthen State public finances. The estimated amount of the liability that the project could generate for the minimum revenue guarantee was estimated at between US\$2.6 million and US\$14.5 million per year, but the results as of 2013 reveal numbers of a different magnitude.

The outcomes of the NSG loans raise question marks regarding the timeliness and appropriateness of the proposed schemes. The BTA project was approved in 2009, when the country was experiencing economic difficulties as a result of the international financial crisis. The project, based on a 30-year concession, was completed within the expected time and on budget, and began operations in 2012 (an election year). The minimum revenue guarantee has been activated since the highway began operating. The cost to the government is estimated at US\$39 million for 2013, adding to an estimated US\$28 million annual payment under the Northeastern Highway project guarantee. For its part, the Bank approved the Viadom Toll Road Project (DR-L1052) in January 2012, with similar design characteristics to those of the BTA project, but with a shadow toll instead of a minimum revenue guarantee. The Viadom operation was canceled in June 2013, after the government rescinded the relevant concession contract in light of the size of the contingent liability that the agreement represented for the government.

The Road Infrastructure Program, Phase I (DR-L1008), the only sovereign guaranteed operation during the period, has suffered execution delays. Six years after its approval, and as a result of both changes to execution arrangements⁶⁸ (which delayed the start-up of activities) and the limited availability of counterpart funds, only 36% of funds have been disbursed. The greatest progress has been achieved with respect to the rehabilitation of roads affected by Tropical Storm Noel (which were completed in 2009) and in rural roads. Execution of the institutional strengthening component has been particularly slow, as the pilot scheme for the introduction of a measurement and weight and freight control system has still not been launched.

The multiphase operation included measures that were relevant but insufficient to promote a change in road maintenance management policy. The project envisioned the rehabilitation of roads according to a work contract modality that would include standards-based maintenance. In rural areas, the project focused on the rehabilitation and maintenance of rehabilitated roads using contracts with local microentrepreneurs. Both of these approaches constitute important design elements for ensuring the quality of the road network, yet they seem insufficient to promote a change in policy that would ensure financing for these works once the loan is exhausted. Moreover, design of the operation did not include any mechanisms to ensure that maintenance budget commitments are gradually shifted to the government. In the absence of a change in policy, the sustainability of these investments is questionable.

In conclusion, the Bank's support has contributed only marginally to the objective of *improving the quality and management of the road system*. In relation to promoting a change in management that would ensure the maintenance and sustainability of the investments, the Bank's actions have also been of limited impact. The NSG projects reflect a lack of internal coherence in the approach put forward by the Bank, through its different windows, which has meant that the fiscal implications of the proposed arrangements were not sufficiently analyzed taking into account the macroeconomic context in the country.

2. Objective 2: Improve the management of urban transportation in Santo Domingo

The Bank's approach was inadequate in light of the proposed objective. The Bank sought to develop and implement a system of feeder routes for Metro Line 1, with a view to facilitating the integrated operation of the system and taking full advantage of the investment made by the country.⁶⁹ In 2009, the Bank approved a TC (DR-L1065, US\$1 million) to finance the design and implementation of the system of feeder routes (Portal del Norte), as well as the gradual implementation of the scheme throughout the whole of Line 1, the definition of a management and financial model, the development of a strategy for negotiating with transport operators, and the preparation of a master plan for the city's transportation system. Although the expected studies were completed, the system was not implemented as the required government investments have not materialized to date.⁷⁰

D. WATER AND SANITATION

1. Objective: Improve the coverage and management of water and sanitation services in low-income rural and periurban areas

The Bank's activities concentrated on completing an operation approved in 1999, which originally aimed to promote comprehensive sector reform. The Water and Sanitation Reform and Modernization Program (DR-0123, US\$71 million) was reformulated twice and part of its funds were canceled (US\$40 million). This resulted in a reduced project scope, focused on reform of the Corporación de Acueducto y Alcantarillados de Santo Domingo [Water and Sewer Corporation of Santo Domingo] (CAASD). Among the principal outputs of the project, which is expected to be concluded in 2013, are the CAASD Corporate Management Plan (completed in 2012 but not yet implemented) and the Sewerage Master Plan for the Santo Domingo metropolitan area (implementation of which depends on the government obtaining financing). Works were carried out for the provision of water and sanitation services in low-income periurban areas, but these were more limited than had originally been planned.

Results are scant with respect to the strengthening of technical and commercial capacities at the CAASD and the expansion of water and sewerage coverage in low-income areas. From 2010 to 2012, water service coverage in the city rose by 4%, while that of sewerage did not show any significant increase. The ratio of unaccounted-for-water (UFW) dropped 11%; this was due to a reduction in the volume of water produced and not to any effective reduction in UFW. Over the same period, the number of clients registered as active users rose by almost 6% and the proportion of users with water meters fell by 7%.⁷¹

In 2010, the Bank approved a water and sanitation investment program with the Instituto Nacional de Aguas Potables y Alcantarillados [National Water and Sanitation Institute] (INAPA), which, after a number of setbacks, has begun to execute at a faster pace. The program (DR-L1041, US\$35 million) is focused on seven of the provinces with the highest poverty rates, and it replicates a model of INAPA service deconcentration that was successfully piloted by the Spanish Agency for International Development Cooperation (AECID) in San Juan province. It aims to strengthen INAPA's service model in rural areas based on the transfer of the management, administration, operation, and maintenance of rural water systems to community associations. Execution has improved with the consolidation of the executing unit and the completion of designs for the bidding process for construction works. At the government's request, funds were used to mitigate the spread of cholera, through the rehabilitation of rural chlorinators (particularly along the border with Haiti) and chlorination posts. At the end of 2012, the Bank approved a program to improve water services in Santiago (DR-L1057, US\$25 million); this project is currently awaiting congressional ratification. Both operations were accompanied by TCs to support the design and formulation of investment plans to be financed under the loans.

The Bank's approach under these new interventions was relevant, although it is too early to measure their results. Bank actions were focused on addressing critical sector issues within the context of the existing legal framework. Comprehensive sector reform thus became a desirable aim but not a prerequisite for carrying out critical investments. Nonetheless, the Bank did provide parallel support for dialogue and consultation initiatives such as the Water Roundtable under the Participatory Anticorruption Initiative, which aimed to bring legislators, civil society and private sector representatives, and sector specialists into the dialogue. The Bank also developed opportunities to work with new counterparts, such as Santiago, which have better levels of performance and are thus more likely to provide leadership in change processes. The outcome of this work will therefore be of considerable importance in orienting the Bank's activities in the sector.

E. SOCIAL PROTECTION

1. Objective: Make the social safety net more effective and efficient

In 2009, the government undertook a restructuring of the transfer program for low-income households. The program, which was created in 2005, was converted into a fully fledged conditional cash transfer program, with a view to boosting its efficiency and efficacy in promoting improvements to health, nutrition, and education among the poorest households.

The Bank's program, similar to that of the World Bank, supported the government's reform efforts using a programmatic approach. The Bank approved five investment loans—one each year—for a total of US\$480 million. These were

accompanied by three TCs (US\$2.14 million). The loans had two main parts: (i) the majority of funds (53%-96%) financed cash transfers; and (ii) the remaining amounts financed investments to support reforms, strengthen relevant institutions and the delivery of related services, and introduce a system of continuous evaluation (Table 9, Annex). An important aspect of the Bank's program was its focus on strengthening coordination with the supply of services, particularly in relation to primary health care. In this way, the second, third, and fourth loan included a total of US\$60 million for investments aimed at improving the delivery of health services.

The TCs provided an effective complement to the loans. The TCs financed baseline design and the initial baseline survey, as well as data collection for an impact evaluation and several studies related to the baseline. The loans and TCs helped to introduce a culture and system of evaluation into the Solidaridad program, both at the level of processes and of impact. The relevance of the studies financed by the TCs varied, however, and not all of them had the clear interest and ownership of the counterparts.

Loan design underestimated the complexity of implementation of some reforms. Reforms such as the introduction of an electronic system to verify beneficiary co-responsibilities in health and education, as well as the introduction of a unified information system for the three agencies involved in program administration (the Sistema Único de Beneficiarios [Single Beneficiary System], or SIUBEN; Solidaridad; and the Administradora de Subsidios Sociales [Social Subsidy Administration] (ADESS)), have taken longer than expected. The complexity and political economy surrounding the approval and ownership of reforms to improve primary health care provision were also underestimated.

The annual programming process and pressure to disburse led to the approval of new operations even when progress on key parts of previous operations remained limited. The emphasis on approving a new operation each year has led to a situation in which as many as four loans have been under execution at the same time. Disbursements linked to transfers have typically been completed in 12 to 18 months, while disbursements linked to institutional reforms and to improving the delivery of health care services have been delayed (Table 10, Annex).

The Bank continues to disburse funds for cash transfers until such resources are exhausted, even where the rates of compliance are substantially below the established targets. Disbursements for transfers were contingent on beneficiary compliance with co-responsibilities in health and education. However, delays in the implementation of an electronic verification system have made it difficult to verify with certainty. Consequently, the Bank based its disbursements on the results of recurrent, sample-based audits. When these found that the targets had not been met by the sampled beneficiaries, disbursement amounts for transfers were pro-rated in accordance with



Bank support has helped to gradually transform Solidaridad into an effective conditional cash transfer program. Regarding the payment of benefits, the number of stores accepting the Solidaridad debit card increased from less than 2,000 to more than 4,900, and the quality of their service is monitored.

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the rate of compliance (a process used in the third and four loans), and the balance was retained to finance the subsequent disbursement for transfers. When the next audit showed a much lower level of compliance, the subsequent disbursements under the third loan were pro-rated once more; two months later the same pro-rated percentage was applied to disbursements for transfers under the fourth loan, even when funds still remained for transfers from the third loan.⁷²

In addition to financing nearly 30% of annual transfers, the Bank's ongoing support has helped to protect and streamline social spending and has provided technical support and legitimacy to the government's social assistance reform program. Bank support has helped to gradually transform Solidaridad into an effective conditional cash transfer program. Since the reform process began, important steps have been taken to strengthen program management and administration. The Single Beneficiary System has been strengthened as the sole agency responsible for determining program eligibility, although its capacity to keep updated information regarding beneficiaries still needs to be improved. Regarding the payment of benefits, the number of stores accepting the Solidaridad debit card increased from less than 2,000 to more than 4,900, and the quality of their service is monitored. Beneficiary access to account information has also improved. Co-responsibilities have been consolidated in the areas of preventive health services for children 0 to 5 and pregnant women, as well as school attendance. The Bank also made a significant contribution to the piloting, evaluation, and subsequent national introduction of a program of differentiated payments in education, aimed at providing incentives for families to keep their children in secondary or vocational education. Delays in the introduction of the automated verification system (which is currently paper-based) mean that verification is incomplete. The results of the recurrent audits suggest that compliance with co-responsibilities is below the targets set out in the operations (85%) and appears to have declined significantly in 2012.⁷³

The Bank's program has begun to strengthen the supply of primary health care services in response to the increase in demand created by the conditional cash transfer program.

The projects have supported the rehabilitation and provision of equipment to more than 250 primary health care centers, the preparation of clinical treatment guidelines for maternal and infant health, the training of approximately 350 doctors and nurses, and development of a distance learning program. However, the effectiveness of the training program is still unclear. The government recently suspended the distance learning program for primary care service providers in favor of a lengthier training process leading to a diploma and certification. The introduction of a clinical information system for primary health care faced difficulties and its usage is limited.⁷⁴ Meanwhile, plans to strengthen management of the provider system through the creation of an independent management entity have not materialized.

Results in health and education show progress, although there is still much to do, particularly in health. Preliminary results of the impact evaluation show that the conditional cash transfer program has had a positive effect on the use of preventive health care services and school attendance in beneficiary households. The main improvements in comparison with the control group were seen in pregnant women, who received prenatal and postnatal check-ups, and children, who went to periodic health check-ups and completed vaccination protocols. In education, beneficiary households also showed improvements in relation to school enrollment and attendance when compared with the control group.⁷⁵ However, there is still work to be done: The 2011 sample-based beneficiary survey found that only 28% of children under 5 in beneficiary households had received the full range of vaccinations. Almost 30% of pregnant women had not attended check-ups during their first trimester, and less than half of 14-18 year-olds were enrolled in secondary education (Table 11, Annex).

In summary, progress has been made towards the objective of *making the social safety net for effective and efficient*, although there is still work to be done. The Bank's involvement helped to gradually convert Solidaridad into an effective conditional cash transfer program and to strengthen its link with delivery of related services, particularly in health. However, the Bank has systematically underestimated the complexity and the time required to implement reforms to strengthen the program and its link to health services, proceeding rapidly with new and successive operations even where substantial undisbursed amounts remained in areas other than cash transfers under the initial operations.

F. WORKFORCE INTEGRATION

1. Objective: Improve labor market inclusion among young people in low- income areas

The Bank pursued this strategic objective through training programs and the creation of employment services. The Bank approved a loan in 2005 (DR-L1006, Labor Markets and Social Transfers), for which over 50% of project funds were disbursed after 2009,

and also a TC to support the operation (DR-T1049). In 2011, the Bank approved a successor operation (DR-L1036, Program to Support the National Employment System), which also had a supporting TC (DR-T1061).⁷⁶

Although the objective is relevant given high youth unemployment, the selected approach—based on the creation of an employment service—is questionable. Various evaluations indicate that job search assistance through this kind of service can improve both employment and income, but only where sufficient vacancies are available. Job search assistance is weaker in countries where the majority of workers are self-employed.⁷⁷ In general, given fiscal restrictions and the limited number of positions created in the formal sector, it is questionable whether labor market intermediation is an efficient and effective mechanism for resolving employment problems in the context of the country.

Although the Bank's support (DR-L1006) was essential in the creation of the Observatorio del Mercado Laboral [Labor Market Observatory] and the Servicio Nacional de Empleo [National Employment Service] (SENAE), the effectiveness of the latter, to date, has been limited.⁷⁸ From 2009 to 2011, SENAE opened 15 regional offices. Its effectiveness in integrating candidates into the workforce has been limited, however, owing to (i) low growth in employment and the number of vacancies in the formal sector; (ii) the low number of firms registering vacancies with SENAE (2,124 in 2011 and 1,103 in the first eight months of 2012); and (iii) the low proportion of registered vacancies that are filled by SENAE candidates, given that the latter do not generally possess the qualifications required for the vacancies (7% in 2010, 25% in 2011, and 16% in 2012). The program received a low allocation of funds in 2013, limiting SENAE's ability to reach new employers, and activities such as job fairs have almost come to a halt.

The operation approved in 2011 (DR-L1036) has experienced slow execution. The program seeks to expand SENAE's services to include not only labor market intermediation, but also career guidance to enhance the likelihood that candidates will find employment. The first disbursement (June 2012) mainly financed salaries for the staff of SENAE offices and the Observatory. Although these salaries were included in the budget for 2013, the limited private sector interest in SENAE services, doubts as to whether to proceed with project implementation, and the limited budget allocation in 2013 raise question marks as to whether the program remains a priority for the government. The TC to support the operation has not yet begun.

The results of the Youth and Employment Program have been limited. The loan (DR-L1036) financed more than 340 training courses for 6,100 young people, most of them prior to 2009 as a result of reduced funding during the period under evaluation. An evaluation of the training program in 2011 found no impact on the rate of employment among the young people participating, although the program did have a positive impact on "soft" skills and reducing rates of teenage pregnancy.

Among the male participants who found work at the end of the program, there was an increase in job wages and formality. A qualitative analysis undertaken by the Bank (IDB-TN-240) indicated that the majority of the employers that recruited young people trained under the scheme did so because they saw the program as a means of contributing socially (and, in some cases, as a cheaper way of taking on temporary staff). Few saw it as a real resource for hiring the labor force that they needed. Given this scenario, it is unsurprising that three months after completing their training, less than one-third of the young people were still employed at the company where they were trained.⁷⁹

The evidence suggests that modest progress has been made towards the objective of *improving the positioning in the labor market of young people in low-income areas*. The current and potential effectiveness of employment services first needs to be evaluated in the context of the country. Given high levels of informality and low employment elasticity, addressing the main problems of the labor market in the country clearly goes beyond active policies such as training programs and employment services. Further analytic work to identify the main causes of low levels of job creation, and to support the dialogue regarding the ways in which these causes can be addressed, could facilitate the development of a strategy for job creation based on growth.

G. EDUCATION

1. Objective: Improve the quality of basic and secondary education in low-income areas

The Bank pursued this objective through two projects and three TCs. In the case of the first project (DR0125), approved in 2002, 40% of funds were disbursed during the period under evaluation. In 2010, the Bank adopted a programmatic approach based on a CCLIP to support the Ten-year Plan. Some 86% of resources have been disbursed under the first loan in this series (DR-L1032), while the second (DR-L1056), approved in 2012, has not yet reached eligibility. One TC (DR-T1053) supported design of an impact evaluation and the strengthening of a number of training institutes for initial teacher training. In addition, two other TCs were approved, and have disbursed less than half of their resources: one TC to support the Ministry of Education in result-oriented management (DR-T1076) and one to support innovate initiatives in education quality (DR-T1084).

The project DR0125 supported the introduction of two innovative models aimed at improving the quality of education—Escuelas Multigrados Innovadoras [Innovative multigrade schools] (EMIs) and the Programa de Apoyo a la Calidad Educativa [Program to Support Quality in Education] (PACE). The project comfortably met its physical targets for providing teaching materials to EMI and PACE schools, as well as training teachers and principals, but it did not meet targets for classroom rehabilitation, particularly in rural areas. Although approximately 5,200 teachers

from 133 centers have been trained,⁸⁰ an evaluation of teaching practices shows that this training has been largely ineffective, and that many teachers continue to use traditional and rote teaching practices. Weak ongoing support and high levels of teacher mobility were identified as limiting factors. Moreover, the project did not succeed in creating a system for monitoring student performance. As a result, it is not known whether learning, effective graduation rates, and dropout rates have improved. Owing to a change in teaching approach by the Ministry of Education in 2011, the programs were no longer considered a priority and a considerable number of teaching materials financed by the project were not used.

The Bank shifted its approach in the first operation under the CCLIP (DR-L1032) to supporting larger schools. The change of approach sought to improve learning outcomes in reading, writing, and math in the first cycle of basic education, as well as reduce overcrowding and extend actual teaching hours. To date, 14,168 teachers, 1,198 district technical staff, and 1,150 principals have been trained, and 3,000 classroom libraries have been provided. A system for evaluating student learning was also developed. The construction and rehabilitation of classrooms has progressed more slowly than expected (143 built and 161 rehabilitated at the secondary level).

Under the TC (DR-T1053), the Bank helped to develop and introduce a fourth-grade test. The test sought to provide measurement information as an input to efforts to improve the quality of education. However, due to the change of approach in teaching in 2011, it was found that the data collected in the 2010 tests was invalid as a baseline to evaluate project impact and therefore, to date, it has not been possible to measure the impact of the program. In May 2012, with resources from operation DR-L1032, a new baseline was established not only for the program, but also for a diagnostic assessment of learning in reading, writing, and mathematics in 3rd and 4th grade nationwide. It was repeated in May 2013, but the data are not yet available.

In summary, there is little evidence to date that the investments have managed to *improve the quality of basic and secondary education in low-income areas*. The Bank has invested substantial amounts in teacher training and teaching materials. It has also helped to alleviate overcrowding in classrooms, although it has been difficult to attain targets for classroom construction. Accordingly, a system should be established for the continuous monitoring of the effectiveness of these interventions. The lack of a monitoring and evaluation system means that the effectiveness of these interventions cannot be confirmed. With the creation of EMIs, the annual monitoring of basic indicators (for example, actual rates of progression, repetition, drop-out, and graduation) should be feasible, both in beneficiary schools and at the national level. The effectiveness of investments in continuous teacher training and student learning should also be evaluated.

H. AGRICULTURE

1. Objective: Increase productivity in the agricultural sector

The Bank continued to focus on direct support to small producers, and improvements to agrifood health and safety services. The Bank approved three loans (2010, 2011, 2012), the first two of which built on the components of the PATCA program (2002),⁸¹ and the third of which incorporated a new and related line of activity. The loan for the 2009 Program in Support of Subsidies for Innovation in Agricultural Technology (DR-L1031, US\$30 million) continues to support the adoption of agricultural technologies, although with some design differences—in particular, the random selection of beneficiaries, which aims to support a rigorous evaluation of program impact (financed through TC DR-T1074). Insufficient counterpart funding has meant that 12% of project funds have been disbursed, limiting the implementation of technologies to date to two of the eight provinces planned. The 2011 Agrifood Health and Safety Program (DR-L1048, US\$10 million) seeks to improve access to national and international markets. It has also experienced problems with counterpart funding (5% disbursed). The Agricultural Research and Development loan (DR-L1054, US\$22 million), approved in late 2012, aims to strengthen the capacity to generate and transfer technologies, but it has not yet been ratified by Congress.⁸²

As a result of the low level of project implementation, there is no evidence, to date, of progress in relation to the objective. The Bank's efforts in terms of design are notable. Each project approved was framed within a programmatic line of activity that incorporated identified good practices and the strategic use of TCs.⁸³ Recurrent counterpart funding problems have slowed execution of the operations, making the Bank's support to the sector through successive annual approvals without substantial progress in the implementation of previous operations questionable.

I. TOURISM

1. Objective: Support diversification of the tourism sector

The evidence required to measure progress in relation to the strategic objective is still unavailable. The Bank's program in the sector was focused on developing tourism in the Santo Domingo Colonial City (DR-L1035, US\$30 million). The program, which was approved in 2011, was prepared with the support of a TC (DR-T1075). It seeks to increase tourism earnings and employment in the Colonial City, mainly through financing for works, goods, and services to improve urban public spaces.⁸⁴ It also envisions activities to strengthen the Ministry of Tourism. The program has disbursed 9.1% of its resources.

J. COUNTRY SYSTEMS

1. Objective1: Use the SIGEF for Bank-financed operations, by way of the financial administration and control system for Unidades Ejecutoras de Proyectos con Fondos Externos [Execution Units of External Loans] (UEPEX)

Bank support was successful in achieving the proposed strategic objective. In addition to the activities financed under PAFI II (see Public Finances), the Bank supported the strengthening of financial management systems through (i) implementation of the management module for externally financed projects (UEPEX), (ii) support for the adoption of international public sector accounting standards, and (iii) strengthening of the Office of the Auditor and the Comptroller General's Office. To date, 100% of Bank operations use UEPEX, and this should facilitate integration of financial management and administration with the budget, accounting, treasury, and public investment subsystems.

2. Objective2: Strengthen and gradually use the country public procurement system based on international practices for efficiency and transparency

Significant progress has been made on this objective, but there is still work to be done. In addition to the activities included in PAFI II to strengthen procurement management (see Public Finances), the Bank financed the following activities with administrative resources: (i) an evaluation of the OECD-DAC Country Procurement System, in collaboration with the United States Agency for International Development (USAID); (ii) training of the technical team in charge of *comprasdominicana*—the transactional procurement portal—and its technological platform; and (iii) preparation of a strategic plan for the Department of Public Procurement (DGCP). The Bank is currently in the process of validating the information system and the subsystems for quotations and individual consultants as part of the public procurement system. Less progress has been seen in relation to the use of standard bidding documents and the publication via the electronic portal of Bank-financed procurement transactions, even though preparatory activities were conducted (updating the documents).

K. MAIN INITIATIVES OUTSIDE THE COUNTRY STRATEGY AREAS OF INTERVENTION

In foreign trade, the Bank focused on completing execution of a Trade Facility loan approved in 2003.⁸⁵ The project (DR0148, US\$5 million) sought to improve the management of international trade. At the beginning of 2009, 51% of its funds remained undisbursed. Execution delays were related to political transition (2003-2004) and coordination problems among executing units as a result of the fragmented institutional framework for foreign trade.⁸⁶ The project financed studies

and seminars to support treaty negotiation and administration (United States and European Union), a research unit (Ministry of Foreign Relations), the Investment Promotion Strategy, a single-window system that centralizes information on export processes, and a directory and manual for exporters. At the level of outcomes, the logical framework was reformulated in 2009. The indicators were not monitored and cannot really be attributed to the project (e.g. exports to countries with agreements, investment as a result of agreements). The Bank did not approve any new operations in this area from 2009 to 2013, and its actions consisted of a TC (DR-T1025) that financed activities and outputs to support bilateral trade and investment with Italy,⁸⁷ as well as two operations under the Trade Finance Facilitation Program with Banco de Reservas.

In the institutional sphere, the Bank continued to execute the 2005 program to strengthen the country statistical system. At the beginning of 2009, 95% of funds under the project (DR-L1003, US\$10 million) were undisbursed. The project sought to support the institutional strengthening of the Oficina Nacional de Estadísticas [National Statistics Office] (ONE), as well as its ability to produce statistics on a regular basis. The program also supported the Sistema Estadístico Nacional [National Statistical System] (SNE), for which the ONE would be the regulatory body. In 2010, at the government's request, activities to support preparation and implementation of the Ninth Population and Housing Census—not included in the original design—were added. Given the urgency and relevance of the census as a basis for generating statistics and decision-making, these activities became the main output of the loan (44% of the approved amount).⁸⁸ A critical aspect of the program was its assumption that a law granting autonomous status to the ONE would be approved. However, this law has not been approved by Congress, and as a result the ONE does not currently have the authority to coordinate the institutions belonging to the National Statistical System. Its institutional weakness has led to a dispersion of country statistical information.⁸⁹

The Bank also completed execution of a property title registration program. The project (DR-L1010, US\$10 million) was approved in 2006; at beginning of 2009, 89% of its funds were undisbursed. It sought to deepen the process of modernization of the Jurisdicción Inmobiliaria [Property Jurisdiction] with a view to securing property rights.⁹⁰ Although the project suffered initial delays, it was completed in 2011 and supported significant progress in the control and reduction of *constancias anotadas* [annotated affidavits],⁹¹ the provision of collateral for financial transactions through the use of property titles, and the narrowing of time frames for property registration and surveys.



4

One of the problems experienced in program implementation is the emphasis on annual approvals in social protection and agriculture, irrespective of progress under previous operations.

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4 Conclusions and Recommendations

The country strategy was relevant to the extent that the strategic objectives the Bank set for itself addressed priority development problems and were aligned with the national objectives set out in the National Development Strategy. The program as implemented was characterized by an emphasis on approvals, aimed at ensuring positive financial flows over the period and supporting the introduction of structural reforms in key sectors, using programmatic approaches. Approved amounts were concentrated mainly in public finances, social protection, and the electricity sector. The program as implemented included greater participation by the Bank's private sector, mainly in road infrastructure and the electricity sector.

The program provided a substantial infusion of financial resources through the use of emergency and policy-based loans, with the particular aim of responding swiftly to the country's financing needs during the initial years of the period under evaluation. In addition, the cash transfer components in social protection investment loans served, in practice, as earmarked budget support. Nonetheless, the implementation of reforms that accompanied the budget support was delayed and, in some cases, cut short.

The following positive aspects of program implementation should be highlighted: (i) coordination among donors, particularly in response to the financial crisis; and (ii) the more strategic use of technical cooperation and analytic work to support the design, implementation, and evaluation of loans approved during the period under evaluation, as well as to define policy options and lines of intervention in some sectors.

One of the phases of the Support for the Social Protection Program involves the Bank directly in improving the quality of the health services that the program *Solidaridad* is promoting.

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Among the main problems experienced in program implementation were the following: (i) the emphasis on annual approvals in a given sector, irrespective of progress under previous operations (for example, in social protection and agriculture); and (ii) weak coordination between the public and private sector windows in the area of infrastructure, which affected the coherence of the Bank's approach and resulted in inadequate analysis of the fiscal implications of this type of intervention.

Although there were advances in a number of sectors, in general, progress towards attaining most of the strategic objectives proposed by the Bank was limited. In addition, in some of the areas in which progress was initially seen the reforms have not been sustained. This situation is largely explained by delays to the implementation of reforms that accompanied budget support, and to the execution of investment loans, mainly during the latter part of the program.

Based on the findings of this evaluation report, OVE recommends that the Bank:

1. **Redefine the *programmatic approach for sector support*, so as to maintain a medium-term perspective but approving new loans only once all components of loans under execution have been substantially disbursed. The aim should be to ensure that there are no more than two active loans under a program at any one time.** In *social protection* in particular, a new loan should only be approved when the components that are not related to cash transfers in the four operations approved from 2010 to 2013 have been substantially disbursed, and new operations should be structured so that all the components can move forward and be substantially completed before another operation is approved. Implementation of this recommendation requires greater flexibility in the

country programming process to help establish a medium-term commitment, instead of proceeding with annual loan approvals. In the absence of such flexibility, annual operations under the medium-term support program should be designed so that all aspects of an operation can be substantially completed within the year leading up to the approval of a new operation.

2. **Continue with the strengthening of *public finances*.** The main challenge faced by the current government is to deepen the process of consolidation of the public finances with a view to ensuring fiscal sustainability and creating the fiscal space necessary to meet social needs. Given the value placed by the country on technical expertise, and the Bank's ability to promote policy changes in this area, the Bank can play an important role by supporting the government in its efforts to improve tax revenue levels and spending efficiency.
3. **Promote a reactivation of the policy dialogue in the *electricity sector*, with the aim of promoting the reform agenda required as a complement to investment programs.** The operational and financial sustainability of the sector remains a critical issue for the country's competitiveness and development. The Bank should promote a sector dialogue aimed at creating the necessary policy conditions for simultaneous progress on both investment programs and other pending comprehensive reform measures, within a framework of close coordination with key sector stakeholders.
4. **Approve *nonsovereign guaranteed infrastructure* loans in the country once the fiscal risks and implications have been analyzed jointly by the relevant units in VPC, VPS, and VPP, and discussed with the Ministry of Finance.**

ANNEX 1

FIGURES Y TABLES

FIGURE I
Real GDP growth (1991-2012)

Source: Central Bank of the Dominican Republic.

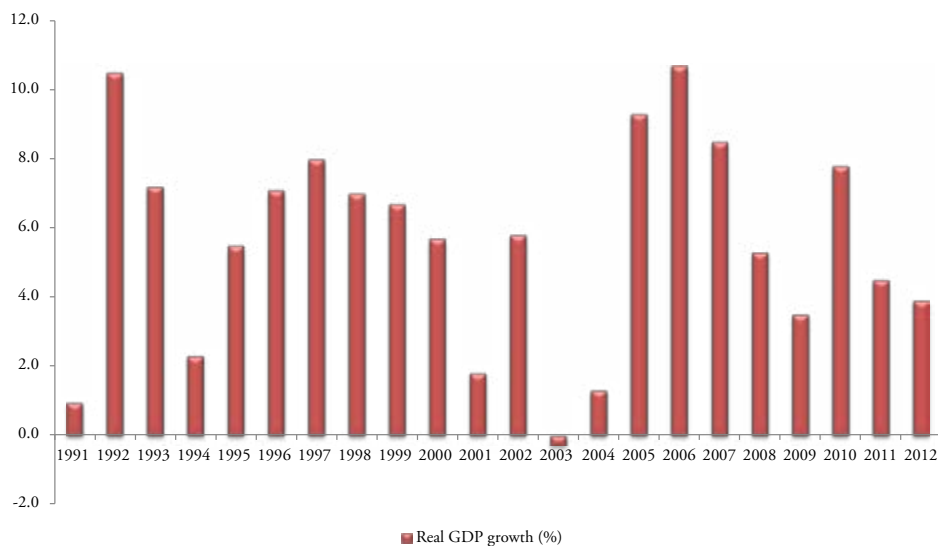
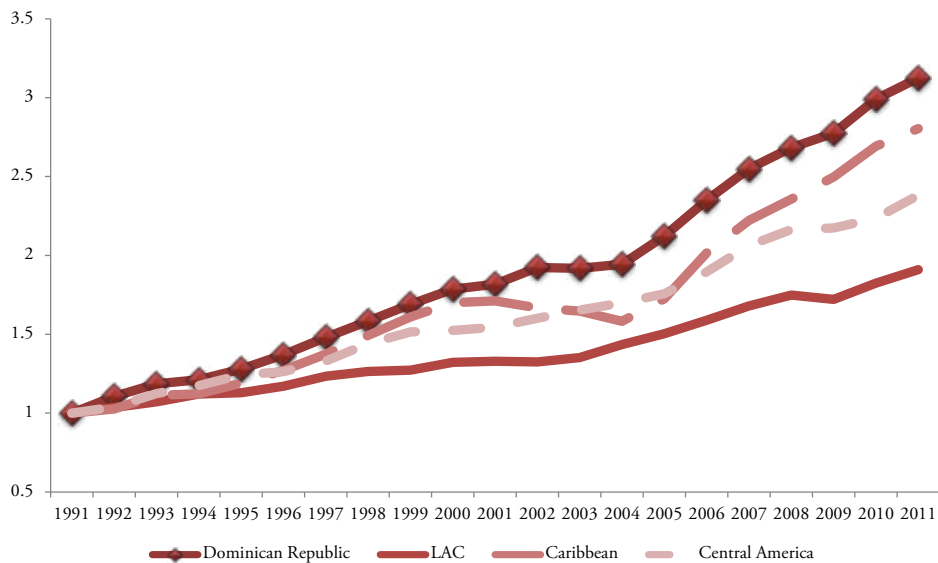


FIGURE 2
Comparison of real GDP growth (1990-2012)

Real GDP (constant 2000 US\$, 1991=1)

Source: World Development Indicators (World Bank).



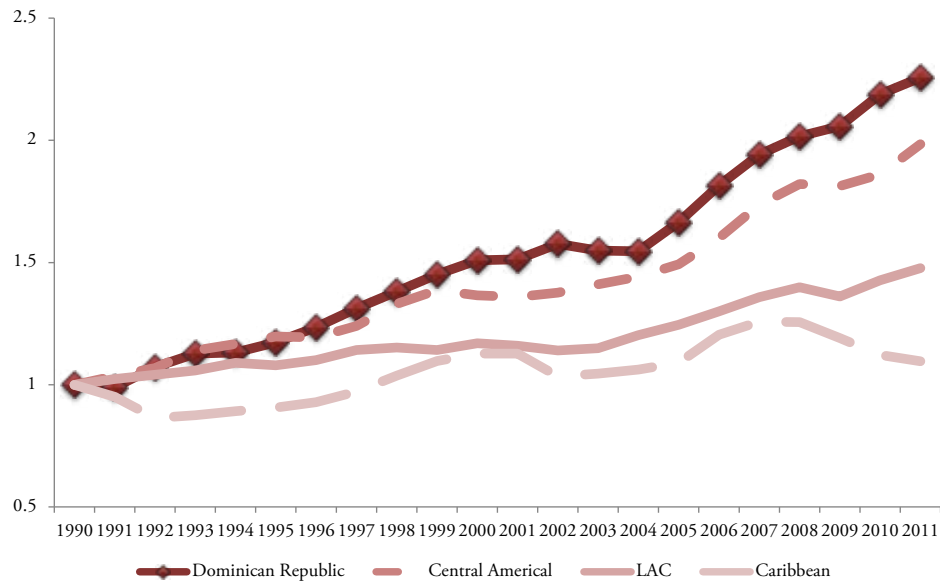


FIGURE 3
Comparison of real per capita GDP growth (1990-2011)

Real GDP per capita
(constant 2000 US\$, 1990=1)

Source: World Development Indicators
(World Bank).

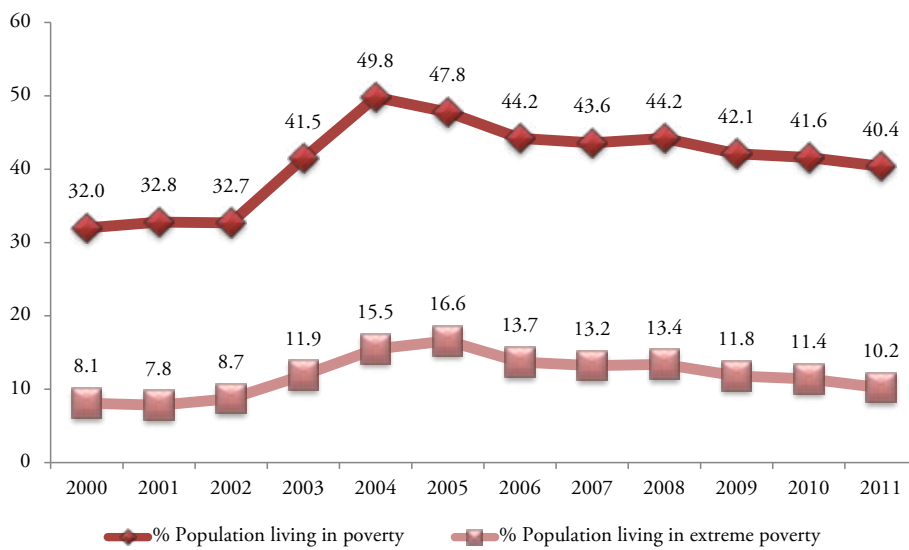


FIGURE 4
Evolution of official monetary poverty (2000-2011)

Source: UAAES/MEYPyD

FIGURE 5
Official annual incidence of
monetary poverty by residence area
(2000-2011)

Source: UAAAES/MEYPyD

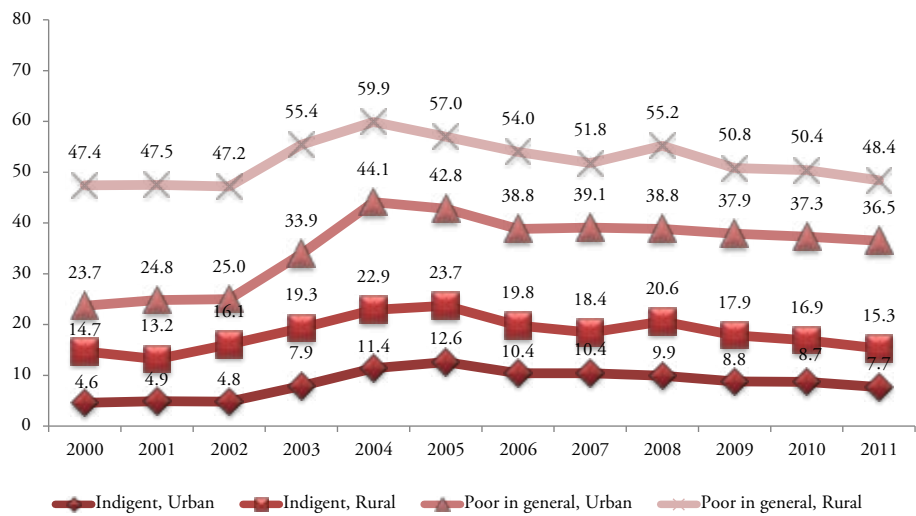
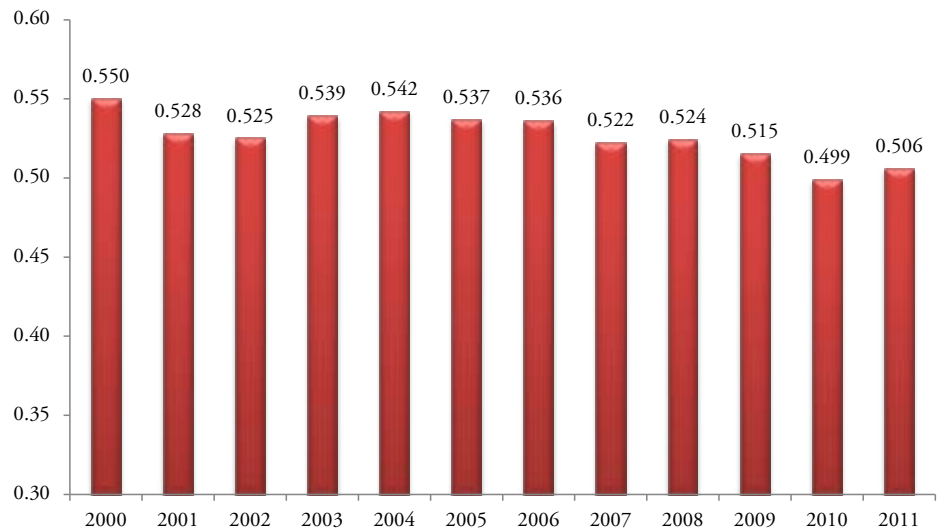


FIGURE 6
Gini coefficient (2000-2011)

Notes: Coefficient calculated at the household level with World Bank-IDB methodology

Source: UAAES/MEPyD



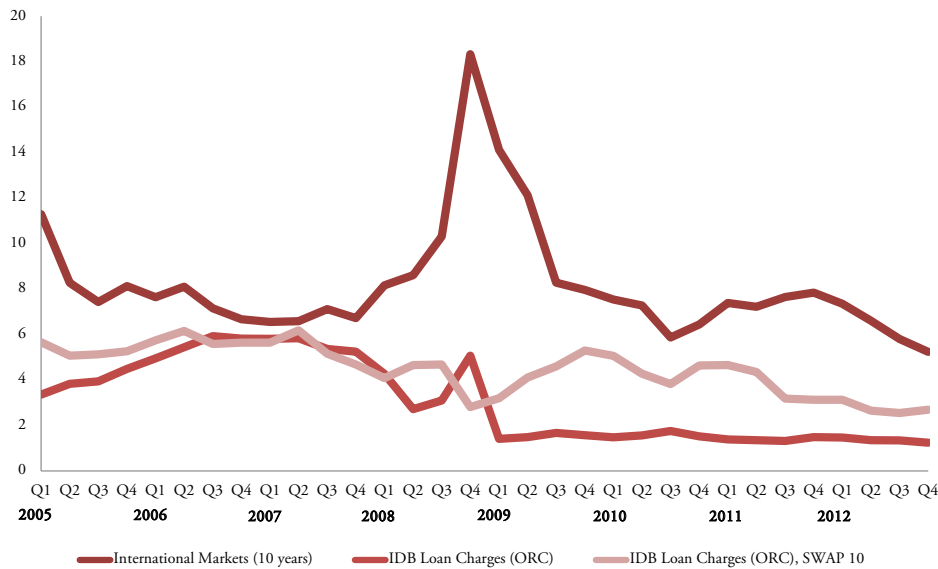


FIGURE 7
Financial costs (IDB vis-à-vis average international lending rates)

Note: The figure plots a proxy of the average international lending rates vis-à-vis IDB financial costs (adjusted for interest rate risk hedging). International rate (10Y TBill + EMBI). A similar exercise, considering 30 years maturity financing, yielded similar results.

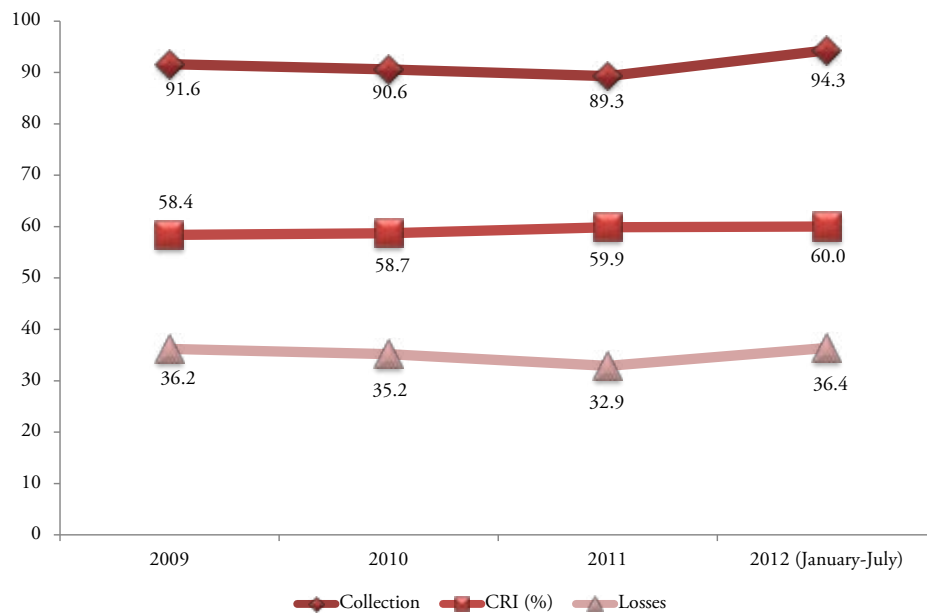


FIGURE 8
Collection, Cash recovery index (CRI), Power losses

Note: 2012 values are the average between January and July. Data comparability is complicated by new revisions to the commercial database for the EDEs, which have raised the average level of losses following the identification of 500,000 unregistered clients.

Fuente: CDEEE

FIGURE 9
EDEs investments

Source: CDEEE

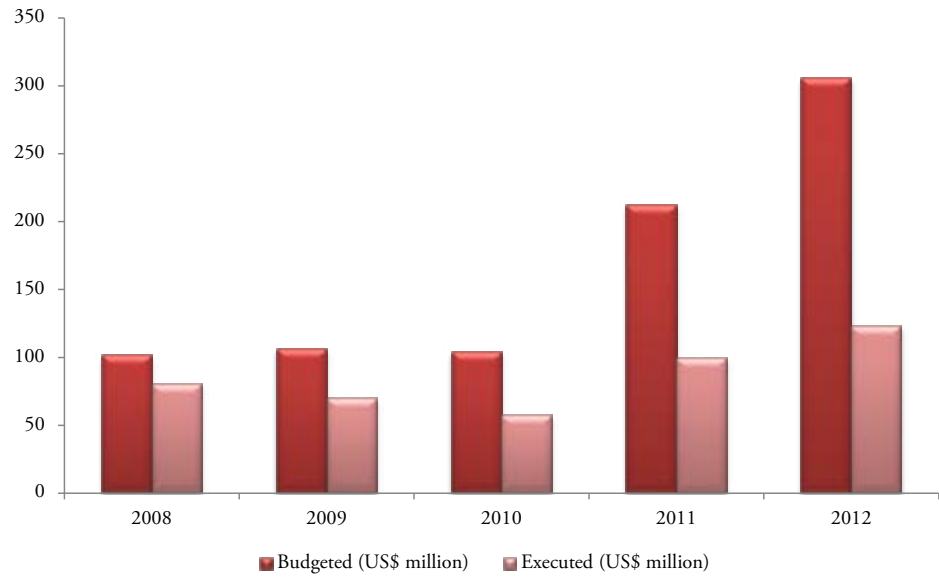


FIGURE 10
Transfers to electricity sectorn
(% of GDP)

Notes: 1/ 2012 value is budgeted amount

Source: IMF, CDEEE

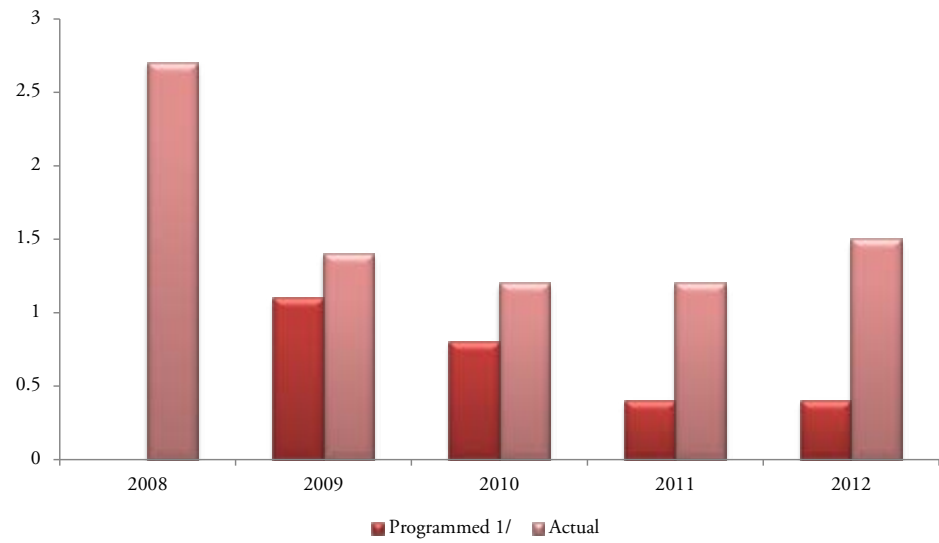


TABLE 1: SECTOR DISTRIBUTION, ACTIVE PORTFOLIO (DECEMBER 31, 2008)

Sector	US\$ million	%
Social investments	54.7	22
Reform and modernization of the State	42.4	17
Energy	40.0	16
Transportation	40.0	16
Education	27.1	11
Water and sanitation	21.7	9
Agriculture and rural development	14.9	6
Environment and natural disasters	5.4	2
Commerce	2.2	1
Private firms and SME development	0.5	0
Total - Sovereign guaranteed	248.8	100
Energy (1 guarantee)	144.0	83
Commerce (2 TFFPs)	30.0	17
Total - Non-sovereign guaranteed	174.0	100

Source: PISTA

TABLE 2: RESULTS MATRIX– COUNTRY STRATEGY 2010-2013

Sector	IDB strategic objectives	Projected outcomes of the country strategy	Indicators	Source	Baseline (value)	Baseline (year)	Indicative target (value)	Indicative target (year)	Progress	Comments		
A.Public finances	To increase tax revenue levels	Increased tax revenues	Income tax revenues as % of GDP	SEH	4,1%	2009	4.6% or greater	2013	4% (2012)	Income taxes (DGII): Personal income taxes, corporate income taxes, other income taxes		
			Sales tax revenues on goods and services as % of GDP	SEH	4,3%	2009	4.8% or greater	2013	4% (2012)	Tax on the transfer of industrialized goods and services (DGII)		
		Reduced tax exemptions and incentives (tax expenditures)	Gastos tributarios como % del PIB	SEH	6%	2009	4%	2013	5% (2012)			
	To make public spending more efficient	Reduced transfers to electricity sector	Transfers to electricity sector as % of GDP		SEH	2,7% GDP	2008	0.5% or less	2013	1,5% (2012)		
				Targeting of electricity subsidy	% of beneficiary families receiving targeted electricity subsidy through SIUBEN-Solidaridad	GCPS	Electricity = 0%	2009	Electricity =100	2013		
				More efficient coordination of institutions for productive development (competitiveness, science and technology, professional development)	Indicator of cluster development (prevalence of well-developed clusters)	WEF	3.5 (1 =none; 7 = extensive)	2009	3,9	2013	3.6 (2012)	State of cluster development (Gobal Competitiveness Report 2012-2013)
		Indicator of industry/ academia collaboration on research and development (extent to which businesses and universities are collaborating in R&D)	WEF		3.3 (1=no collaboration; 7 =extensive collaboration)	2009	3,7	2013	2,8 (2012)	University-industry collaboration in R&D (Gobal Competitiveness Report 2012-2013)		
		Increased ex ante financial and fiscal coverage of risks of emergencies caused by natural disasters	Total amounts covered by: Reserve fund (RF) Contingency instrument (CI) Insurance facility (IF)		SEH	RF: = US\$95 mill. CI = US\$ 0 IF= US\$ 0	2008	RF: US\$135 mill. CI: US\$100 mill. IF: US\$100 mill.	2013	CI=US\$100 million; IF=US\$100 million (2012)		

TABLE 2: RESULTS MATRIX– COUNTRY STRATEGY 2010-2013

Sector	IDB strategic objectives	Projected outcomes of the country strategy	Indicators	Source	Baseline (value)	Baseline (year)	Indicative target (value)	Indicative target (year)	Progress	Comments
B. Social protection	To make the social safety net more effective and efficient	Improved levels of nutrition, health, and education among children in the poorest families	Prevalence of chronic malnutrition among children 0-2 years of age among SIUBEN-1 households	ENDESA 2007	11,6%	2007	10,5%	2013	10,1 (2011)	
			Percentage of fully vaccinated children 18-24 months of age in SIUBEN-1 households	EEPS	26,1	2010			28,5 (2011)	% of children 18-60 months with complete vaccination. The baseline was revised (26.1) based on the EEPS 2010
			Percentage of children 14-16 years of age completing at least 6 years of basic education	ENDESA 2007	38,9%	2007	49%	2013	32,9 (2011)	
		Reduce administrative costs of the social safety net	Administrative costs of the Solidaridad program as a percentage of the total Solidaridad budget	GCPS	19%	2008	12%	2013	14,7 (2012)	
C. Education	To improve the quality of basic and secondary education in lowincome areas	Reduced overcrowding of school infrastructure in basic and secondary education	Average number of students per section in the 150 most crowded basic and secondary schools out of the universe of schools with 500 students or more	SEE	47.1 basic students 45 secondary students	2008	43 basic students 40 secondary students	2013		
			Effective promotion rates in the first cycle of basic education at schools where interventions occur	SEE	1st 70%; 2nd 68%; 3rd 67%	2008	1st 73.5%; 2nd 71.4%; 3rd 70.3%	2013		
		Improved effective promotion rates in basic and secondary education	Average effective promotion rates in secondary education at the 150 most crowded schools out of the universe of schools with 500 students or more	SEE	80,1%	2008	84,1%	2013		
			Improved learning in reading, writing, and math in 4th grade	Results of national tests on 4th grade reading, writing, and math in schools where interventions occur	SEE	to be determined at the start of the intervention	2010	positive change in achievement of students in 4th grade reading, writing, and math in schools where interventions occur	2013	

TABLE 2: RESULTS MATRIX– COUNTRY STRATEGY 2010-2013

Sector	IDB strategic objectives	Projected outcomes of the country strategy	Indicators	Source	Baseline (value)	Baseline (year)	Indicative target (value)	Indicative target (year)	Progress	Comments
D. Workforce integration	To improve the positioning in the labor market of young people in low-income areas	Increased probability of finding a job for young people	Percentage of young people trained by the Bank's intervention employed at a rate that is 10% higher than the control group, 6 to 12 months after completing training	SET	to be determined at the start of the intervention	2010	to be determined during design of intervention	2013		
			Percentage of young people trained by the Bank's intervention who have a job 6 months after completing their training and who work in the field in which they were trained	SET	to be determined at the start of the intervention	2010	to be determined during design of intervention	2013		
E. Energy	To promote the operational and financial sustainability of the electricity sector	Reduced energy losses and improved collection rates at the three public distribution companies	Percentage of energy losses Percentage of collections out of amounts billed	CDEEE	28,1% 94,8%	2009 2009	12% 97,3%	2013	Losses: 32.9% Collections: 89.3% (2011)	In 2009 (baseline) the losses were 36.2%. In 2011, the losses were 32.9%. In 2012, data comparability is complicated by new revisions to the commercial database for the EDEs, which have raised the average level of losses following the identification of 500,000 unregistered clients.
		Strengthened corporate management and internal efficiency at the three public electricity distribution companies	Number of customers per employee at distribution companies (total customers/total employees)	CDEEE	221	2009	300 or greater	2013	273.1 (2012) *	* Billed costumers / total employees EDEs (Source: CDEEE)
			Electricity sold per employee at distribution companies (billed MWh/total employees)	CDEEE	1105	2009	1500 or greater	2013		

TABLE 2: RESULTS MATRIX– COUNTRY STRATEGY 2010-2013

Sector	IDB strategic objectives	Projected outcomes of the country strategy	Indicators	Source	Baseline (value)	Baseline (year)	Indicative target (value)	Indicative target (year)	Progress	Comments
E. Transportation	To improve the quality and management of the road system and the urban transportation system in Santo Domingo	Improved systems for reconditioning and maintaining the road system on circuits where interventions occur	Kilometers of highways under a reconditioning and maintenance plan to ensure an average international roughness index of 2.5 or less on circuits where interventions occur	SEOPC	0	2008	180-200 km under a rehabilitation and maintenance plan that ensures an average IRI of 2.5 or less on circuits where interventions occur	2012		
		Increased number of passengers using the subway as a result of the integration of feeder routes	Percentage of subway passengers using feeder routes, according to OPRET statistics	OPRET	0	2009	20	2013	0 (2012)	Even though the planned studies were completed, the system implantation did not occur
G. Water and sanitation	To improve the coverage and management of water and sanitation services in lowincome rural and periurban areas	Increased coverage of uninterrupted water service in areas served by INAPA	Percentage coverage of uninterrupted water service users registered by INAPA	INAPA	36%	2009	42%	2013		The DR-L1048 project was approved in 2010 and has disbursed 13% . The targets of the program are in 2013 (CPD 2013)
		Increased coverage of sewer and/or sanitation service in areas served by INAPA	Percentage coverage of users of sewer and/or sanitation services registered by INAPA	INAPA	5%	2008	8%	2013		
		Strengthened technical and business capacity of the Santo Domingo Aqueduct and Sewerage Corporation (CAASD)	Percentage of registered customers in CAASD business systems	CAASD	60%	2009	70%	2013		
			Percentage of registered CAASD customers with customer metering	CAASD	27%	2009	40%	2013		
			Percentage of water unaccounted for by CAASD	CAASD	63%	2009	50%	2013	62,3 (2011)	Source: CAASD
		Increased coverage of uninterrupted water service in areas served by CAASD	Percentage coverage of users of CAASD uninterrupted water service	CAASD	89%	2009	91%	2013	72,37 (2011) *	* Service coverage in Santo Domingo. Fuente: CAASD
		Increased coverage of sewer service in areas served by CAASD	Percentage coverage of users of CAASD sewer service	CAASD	19%	2009	40%	2013	19,47 (2011)	Source: CAASD

TABLE 2: RESULTS MATRIX– COUNTRY STRATEGY 2010-2013

Sector	IDB strategic objectives	Projected outcomes of the country strategy	Indicators	Source	Baseline (value)	Baseline (year)	Indicative target (value)	Indicative target (year)	Progress	Comments
H. Agriculture	To increase productivity in the agricultural sector	Increased output of production units through incentives for agricultural innovation	Percentage output of participating units of production receiving incentives, compared to control group	SEA	to be determined in design of intervention	2009	to be determined in design of intervention	2013		The DR-L1031 project was approved in 2010 and has disbursed 8%. The targets of the program are in 2016. The project has a TC to evaluate the impact of the program (DR-T1074)
		Reduced rejection rate of exports due to agricultural safety problems	Percentage of rejected exports of fresh produce due to pesticide residues (rejected containers as % of total exported containers)	SEA	1%	2008	0.5% or less	2013		The DR-L1048 project was approved in 2011 and has disbursed 5%. The targets of the program are in 2016 (CPD 2013)
I. Turismo	To support diversification of the tourism sector	Increased capacity of the sector to offer tourism products in the colonial area of Santo Domingo	Percentage of tourist attractions in the colonial area conditioned for tourism with access services, safety, basic services, facilities, signage and interpretation, etc. (tourist attractions where interventions occur/total attractions selected in the colonial area)	SECTUR	to be determined in design of intervention	2009	to be determined in design of intervention	2013		The DR-L1035 project was approved in 2011 y has disbursed 9,1%. The targets of the program are in 2016 (CPD 2013)

Note: Most of the progress information has been collected by OVE. In the last CPD available (2013), the only reported outcome indicators were chronic malnutrition, loss of energy, electricity sold.

TABLE 3: CPDs ANTICIPATION (2011-2013)

Project Number	Name	Type of borrower	Year in CPD	Approval year	Programmed amount (CPD)	Approval amount
DR-L1035	Tourism Development Program - Colonial City of Santo Domingo	SG	2011	2011	30	30
DR-L1036	Program to Support the National Employment System	SG	2011	2011	20	20
DR-L1045	Insurance Facility for Emergencies Caused by Catastrophic Natural Disasters	SG	2011	2011	24	24
DR-L1047	Support to the Social Protection Program - Third Fase	SG	2011	2011	130	80
DR-L1048	Agrifood Health and Safety Program	SG	2011	2011	10	10
DR-L1050	Power Sector Sustainability and Efficiency Program	SG	2011	2011	150	200
DR-L1042	Petrox North Coast Terminal	NSG	2011	X	19.6	X
DR-L1049	Bani Wind Power Project	NSG	2011	2011	30	27.6
DR-L1051	PECASA Wind Power Project	NSG	2011	2011	30	50.7
DR-L1055	SCB TFFP Loan Banreservas	NSG	X	2011	X	22.5
DR-L1053	Support for Consolidation of the Social Protection System	SG	2012	2012	130	130
DR-L1054	Research and Agricultural Development Program	SG	2012	2012	30	22
DR-L1056	Second Individual Loan to Support the 10-year Education Plan	SG	2012	2012	50	50
DR-L1057	Santiago Water Supply Service Improvement Program	SG	2012	2012	25	25
DR-L1058	Power Sector Sustainability and Efficiency Program II	SG	2012	X	70	X
DR-L1052	Viadom Toll Road Project	NSG	2012	2012	130	130
DR-L1059	Support for the program “progressing with Solidarity”	SG	2013	2013	66	100
DR-L1061	Program for fiscal Management and improvement targeting social assistance spending	SG	2013	pipeline B	100	100 (pipeline B)
DR-L1064	Fiscal Strengthen Support Program	SG	2013	pipeline B	100	100 (pipeline B)
DR-L1065	Support Program to MIPYMES	SG	X	pipeline A	X	30 (pipeline A)
DR-L1034	Support for the distribution network improvement and electricity losses reduction	SG	X	pipeline B	X	78 (pipeline B)
DR-L1067	Strengthening of the Management for Results of the Sector Health in Dominican Republic	SG	X	2013	X	146
DR-L1068	Business Development & Competitiveness in the Province of San Juan de la Maguana	SG	X	pipeline A	X	35 (pipeline A)

Note: Considers originally approved amounts and pipeline as of 30 September 2013.

Source: CPDs 2011, 2012, 2013, OVEDA using the Bank's data warehouse

TABLE 4: ALIGNMENT BETWEEN IDB STRATEGIC OBJECTIVES AND NATIONAL DEVELOPMENT STRATEGY OBJECTIVES (2010-2030)

Intervention area	Strategic objectives (GN-2581)	National Development Strategy objectives (2010-2030)
Public finance	To increase tax revenue levels	(3.1.2) To strengthen the sustainable management of public finances, allocating resources according to national development priorities and equitably distributing national revenue
	To make public spending more efficient	(4.2.1) To develop an effective national system for comprehensive risk management with active community participation
Social protection	To make the social safety net more effective and efficient	(2.3.3) To reduce and alleviate extreme poverty through an effective, efficient social protection system
Education	To improve the quality of basic and secondary education in low-income areas	(2.1.1) To implement a quality education system that teaches continuous learning, promotes human development, and fosters a responsible citizenry
Workforce integration	To improve the positioning in the labor market of young people in low-income areas	(3.4.2) To strengthen the Continuing Vocational Training and Development System
Energy	To promote the operational and financial sustainability of the electricity sector	(3.2.1) To ensure a reliable supply of electricity at competitive prices under financially and environmentally sustainable conditions
Transportation	To improve the quality and management of the road system in Santo Domingo	(3.3.5) To expand coverage and improve the quality and competitiveness of transportation and logistics infrastructure and services
	To improve the quality 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 peri-urban areas	(2.5.3) To ensure universal access to clean drinking water and sanitation services
Agriculture	To increase productivity in the agricultural sector	(3.5.2) To improve the productivity, competitiveness, and environmental and financial sustainability of agricultural productive chains, thereby contributing to food security, jobs, and income for rural residents
Tourism	To support diversification of the tourism sector	(3.5.4) To support the competitiveness, diversification, and sustainability of the tourism sector

TABLE 5: LOAN APPROVALS (SG AND NSG), BY SECTOR (2009-2013)

Intervention area	Number	Number (%)	Amount (US\$ million)	Amount (%)
Public finances	5	17.9	804	36.5
<i>Fiscal strengthening</i>	1	3.6	500	22.7
<i>Competitiveness support policies</i>	2	7.1	180	8.2
<i>Financial insurance against natural disasters</i>	2	7.1	124	5.6
Social protection	5	17.9	480	21.8
Electricity sector	3	10.7	278.3	12.6
Transportation	2	7.1	174.8	7.9
Health	1	3.6	146	6.6
Education	2	7.1	100	4.5
Agriculture	3	10.7	62	2.8
Water and sanitation	2	7.1	60	2.7
Commerce	2	7.1	52.5	2.4
Tourism	1	3.6	30	1.4
Workforce integration	1	3.6	20%	0
Financial markets /a	1	3.6	17.5	0.8
Total	28	100	2205	100

Notes: Considers originally approved amounts (SG and NSG) as of 30 September 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 6: APPROVALS (COUNTRY STRATEGY, CPE, AND EFFECTIVE APPROVALS) (2009-2013)

Sovereign guaranteed approvals					
	2009 /a	2010	2011	2012	2013
Country Strategy (Base scenario)	730	309	160	446	530
Country Strategy (High scenario)	730	309	295	646	650
Country Program Documents (CPD)			364	305	266
Approvals (as of September 30, 2013)	730	335	364	227	246
Non-Sovereign guaranteed approvals (SCF)					
	2009 /a	2010	2011	2012	2013
Country Program Documents (CPD)			79,6	130	-
Approvals (as of September 30, 2013)	92.3	-	100.8	130	-

Notes: Considers amounts originally approved as of 31 September 2013.

/a: 2009 approvals, the current country strategy was approved in October 2010.

Source: GN-2581, CPDs 2011, 2012, 2013, OVEDA using the Bank's data warehouse.

TABLE 7: MIF OPERATIONS APPROVED, BY SECTOR (2009-2013)

Sector	Number	Number (%)	Original amount approved (US\$ million)	Original amount 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	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.

**TABLE 8: APPROVALS OF NONREIMBURSABLE TECHNICAL-COOPERATION FUNDING, BY SECTOR
(2009-2013)**

Sector	Number	Number (%)	Original amount approved (US\$ million)	Original amount approved (%)
Reform and modernization of the State	10	23.8	3.30	21.3
<i>Public finances</i>	3	7.1	0.65	4.2
<i>Other reform and modernization of the State</i>	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
Energy	3	7.1	1.36	8.8
Transportation	1	2.4	1	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
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 9: STRUCTURE OF SOCIAL PROTECTION LOANS (US\$ MILLION)

	Approval Year	Cash transfers (\$)	Information Systems and institutional strengthening (\$)	PHC strengthening (\$)	Evaluation (\$)	Total loan	% Cash transfers
First phase	2009	65.5	4	0	0.5	70	94
Second phase	2010	69	11.6	14.2	1.2	100	69
Third phase	2011	42.7	2.2	32.1	1.2	80	53
Fourth loan	2012	93	13.9	14.1	3.9	130	72
Fifth loan	2013	96	0	0	1.7	100	96
Total		366.2	31.7	60.4	8.5	480	76

Source: Loan documents

TABLE 10: DISBURSEMENT STATUS OF SOCIAL PROTECTION LOANS

	Approval Year	Cash transfers (\$)	Cash transfers (% disbursed)	Information Systems and institutional strengthening (% disbursed)	PHC strengthening (% disbursed)	Evaluation (% disbursed)	Total (% disbursed)
First phase	2009	70	100	99	N/A	86	99
Second phase	2010	100	97	56	38	98	89
Third phase	2011	80	89	0	0	0	54
Fourth loan	2012	130	43	0	0	0	35
<i>Total</i>		<i>380</i>	<i>76</i>	<i>35</i>	<i>9</i>	<i>31</i>	<i>62</i>

Source: IDB OPS System Data as of July 16, 2013

TABLE 11: SOCIAL PROTECTION PROGRAM – RESULTS INDICATORS

Objective	Indicator	Baseline	Baseline (revised based on 2010 EEPS)	Target (2013)	Actual (mostly 2011 data)
Improved nutrition and health outcomes of families and youth from poor families	Prevalence of chronic malnutrition in children 0-2 (CP indicator)	11.6	10.6	10.5	10.1
	% of children 18-60 months with complete vaccination (CP indicator)		26.1		28.5
	Pregnant women who have received prenatal checks in first 3 months of pregnancy	91.7	68.3	79.45	71.2
Improved education access of children from Solidaridad households	% of children 14-16 years who finish at least 6 years of basic education (CP indicator)	38.9	18.4		32.9
	% of children enrolled in early childhood education (5 yr olds)	14.1			35.6
	% of children enrolled in basic education (6-13 year olds)	95.2			95.9
	% of children who are enrolled in secondary school (14-18 year olds)	42.2			47.5
Improved service delivery and expanded coverage	Number of affiliate establishments in RAS	1988			4904
	Number of households receiving transfers	402,128			655,394 (2013)
Reduced administrative costs of social protection system	Administrative costs of Solidaridad as % of Solidaridad budget (CP indicator)	19% (2008)		12	14.7(2012)

Notes: (1) Original baseline data based on 2007 ENDESA, except for data on service delivery and administrative costs, which are administrative data.

(2) Revised baseline based on 2010 EEPS

(3) Actuals based on 2011 EEPS except for coverage and cost data.

(4) Administrative costs as a share of CCT transfers includes full administrative costs for Solidaridad and prorated administrative costs for SIUBEN and ADESS, given that the latter also administer other targeted transfers like bono gas or bono luz etc. 2008 data is from Country Strategy Results Matrix, basis of calculation is unknown.

ENDNOTES

- ¹ GDP and GDP per capita for 2011 adjusted for purchasing power parity (current US dollars), World Development Indicators, World Bank.
- ² Source: Central Bank. As further context for the rapid growth in these sectors, it should be noted that free-trade zone exports in 1983 stood at US\$175 million, and from 2010 to 2012 they grew by 18.2%. With respect to tourism earnings, these stood at approximately US\$320.5 million in 1983. They declined slightly in the 2000 to 2002 period and in 2009.
- ³ From 1991 to 2012, the agriculture sector grew at an average annual rate of 3.5%, below the average rate of economic growth for the period (5.8%)
- ⁴ See also Sánchez-Ancochea (2012).
- ⁵ In 2010, 60% of the workforce was employed in agriculture, trade, and the category denominated “other services” in the national accounts. These sectors rank among those with the lowest levels of productivity in the country. See Sánchez-Ancochea (2012).
- ⁶ For more information on the relationship between growth and employment in the Dominican Republic, see Abdullaev and Estevão (2012).
- ⁷ Net enrollment for basic education is 90%. However, for secondary education it stands at 50% (Ministry of Education Statistical Bulletins). The rate of progression to secondary education is 89% (World Development Indicators, World Bank).
- ⁸ The mortality rate for children under 5 stands at 24.7 per 1,000 live births (19.1 in LAC), and the infant mortality rate is 20.9 per 1,000 live births (16.1 in LAC). The maternal mortality rate is 150 per 100,000 per live births (80.1 in LAC). (World Development Indicators, World Bank).
- ⁹ Drinking water and sanitation coverage is low compared to other countries in LAC. Some 40.7% of households have an in-home connection. In rural areas, drinking water coverage reaches only 52.2%. Sewerage coverage in the country is 21%. In rural areas, almost one third of the population uses either private or shared latrines, with or without slab. Sewage treatment is limited, covering only 35% of the urban population (Source: Household Survey, National Statistics Office, 2009-2010. One of the most pressing problems is water quality. According to the most recent data (2009), drinking water coverage at the national level was 28.3%, with an average chlorination rate of 26.5%. Only 30.5% of systems have implemented mechanisms to monitor water quality.
- ¹⁰ Health in the Americas, Dominican Republic, Pan American Health Organization/World Health Organization, 2013; National Plan for the Elimination of Cholera in the Dominican Republic, Proposal for Activities, 2013-2015, January 2013.
- ¹¹ Losses reached 35.6% in 2012, of which 12% were technical losses (theft) and 23.6% were nontechnical losses (linked to the condition of networks and equipment). As a result, the recovery ratio (the proportion of energy that is billed compared to that supplied or purchased) stood at 61.3%. (Source: Corporación Dominicana de Empresas Eléctricas Estatales).
- ¹² Tax expenditures stood at 5% of GDP in 2012 (Budget Division, Ministry of Finance).

- ¹³ “Public Administration Assessment,” studies and background documents for the National Development Strategy, 2010-2030, Volume I, Ministry for the Economy, Planning, and Development (August 2012).
- ¹⁴ For a detailed analysis of the economic context for 2009-2013, see the Annex.
- ¹⁵ For an analysis of the economic context in the region (Central America and the Dominican Republic) in the wake of the international financial crisis, see “The World Has Changed: Will Growth in Central America Change Too?” 2011, IDB, Alejandro Izquierdo and Osmel Manzano.
- ¹⁶ Increase in central government capital spending from 2011 to 2012 (Source: Budget Division).
- ¹⁷ For a detailed analysis of trends in the economy and reform progress in the context of the standby arrangement, see Annex 1.
- ¹⁸ In May 2013, the government announced a preliminary agreement with Barrick Gold Corporation to modify the terms of the development contract for the Pueblo Viejo gold mine. The changes are expected to generate additional revenues of US\$1.8 billion over the 2013 to 2016 period, based on a gold price of US\$1,600 per ounce.
- ¹⁹ There were also four NSG operations for US\$174 million (two under the Trade Finance Facilitation Program for US\$434 million and one guarantee for US\$140 million).
- ²⁰ Approvals totaled US\$730 million in 2009. Thus, for the 2010-2013 period, approvals of between US\$1.445 billion and US\$1.9 billion were projected under the country strategy.
- ²¹ Approvals were US\$337 million in 2004, and the 2004-2008 strategy (document GN-2379-1, approved in August 2005) envisioned approvals of between US\$611 and US\$941 million for the 2005-2008 period. The central objective of this strategy was to “*support the government in its efforts to reduce poverty,*” to which end the Bank planned actions across three pillars (competitiveness, governance, social).
- ²² In 2009, Management developed a new country strategy model, to give the Bank an effective instrument for sharpening country focus and ensuring the flexibility envisaged in the realignment process. New guidelines were drafted that reformulated country strategies, “emphasizing the need for programming that is results focused, risk based, and uses a programmatic and flexible approach to respond to country priorities.” Beyond those general principles, the most significant practical effects were: (i) separating the country strategy (to be prepared every four years) and actual programming (which would be annual); (ii) the new emphasis placed on sector notes; and (iii) strengthening the results matrix with specific indicators.
- ²³ The sector notes were also used as inputs for preparation of the book “The path towards sustainable growth in the Dominican Republic.”
- ²⁴ The tourism sector was added as a new area of intervention in the current strategy, while public finances, considered a crosscutting area, also included a broad set of potential interventions, such as: tax administration and policy, transfers and subsidies for the electricity sector, institutional coordination for productive development (competitiveness, science and technology), fiscal programming, and ex ante financial coverage for natural disasters. Moreover, sectors such as foreign trade and the financial system, found in the previous strategy, were not included in the current one.

- ²⁵ According to the strategy, approvals in the areas of support for competitiveness (US\$180 million) and mechanisms for ex ante financial coverage for natural disasters (contingent line of credit and financial insurance, up to a maximum of US\$124 million) are included in the category of public finances.
- ²⁶ Between 2011 and 2013, Management prepared three Country Programming Documents (CPDs) as part of the Bank's operating program (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 operating program as preparation of the country strategy was underway (document GN-2576, p. 2).
- ²⁷ The MIF approved 14 operations for US\$8.5 million, mainly in support of financial markets (46%) and small- and medium-sized enterprises (42%) (Table 7, Annex). The IIC approved nine operations (loans and equity investments) for US\$45.6 million, mainly in the areas of financial services (41.6%), manufacturing (26.3%), and energy (16.4%).
- ²⁸ Paragraph 2.6 and Annex V of the country strategy (document GN-2581).
- ²⁹ Within modernization of the State, 4.2% of approved amounts are linked to public finances.
- ³⁰ At the beginning of 2009, the spread between the cost of Bank financing and the average cost of external financing to the country was 1,552 basis points. More recently, although the country has been able to return to the international market, the Bank remains a competitive source of financing in terms of cost and maturities. In May 2010, the country issued a US\$750 million bond—the first part of an approved issue totaling US\$1.5 billion. In July 2011 and November 2011, it issued the second and third stages for US\$500 million and US\$250 million, respectively. All three bonds are subject to a 10-year term and a 7.5% interest rate. More recently, in April 2013 the country issued a US\$1 billion, 10-year bond at a 5.875% interest rate.
- ³¹ In December 2008, the country's sovereign risk premium (as measured by the Emerging Markets Bond Index) reached a maximum of 1,750 basis points.
- ³² The government requested that the loan be canceled as the financial system (in contrast to the 2003 banking crisis) had not shown any signs of weakening.
- ³³ Procurement, Civil Service, Financial Management, Access to Information, Infrastructure, Health, Education, Energy, Water, and Oversight Bodies.
- ³⁴ The Boulevard Turístico del Atlántico Toll Road (DR-L1030) had US\$151 million in cofinancing from Proparco, the Andean Development Corporation, and the European Investment Bank. The other three operations in road infrastructure and wind power (DR-L1052, DR-L1059, DR-L1051) mobilized cofinancing (US\$260 million) from Proparco, the International Finance Corporation, the Dutch development bank (FMO), and the German Investment and Development Corporation (DEG).
- ³⁵ As of 30 June 2013, three projects approved in November 2012 (for a total of US\$97 million) were pending congressional ratification.
- ³⁶ Disbursements as a percentage of annual funds available in year t are calculated as follows: $\text{disbursements}(t) / (\text{available balance}(t-1) + \text{approvals}(t))$.
- ³⁷ For example, the plans for science, technology, and innovation, and small- and medium-sized enterprises.

- ³⁸ The Bank authorized a special allocation to finance National Competitiveness Fund (FONDEC) administration and the executing unit, thus allowing project execution to continue from 2011 to 2012.
- ³⁹ For example, the nonfinancial public sector deficit did not exceed 3.1% of GDP in 2009, while central government spending did not exceed 17.2% of GDP. In relation to the protection of social expenditure, spending on education, health and the Solidarity program rose in 2009 as a proportion of GDP compared to 2008, and the share of these expenditures in the 2010 budget rose by 5% compared to the amount executed in 2009.
- ⁴⁰ In addition, a TC to support the institutional strengthening of public finances (DR-T1047) helped create and strengthen the fiscal policy unit, which is responsible for fiscal policy formulation, monitoring and evaluation, and the preparation of fiscal studies.
- ⁴¹ The main long-term effects were to be a reduction in discretionary allocations of public funds; an increase in government effectiveness (to be measured, among other things, by means of budget projections and outturns); enhanced process transparency, based on an efficient system of internal controls and the publication of budget, financial, and debt statements; increased fiscal discipline; and improvements in accountability to the populace.
- ⁴² The program has supported implementation of the citizens' portal, web-based access to the SIGEF, and development of the module for multiyear budgeting and capturing budget execution.
- ⁴³ The comparison between the PEFA 2012 and the PEFA 2010 for the 28 indicators considered shows an improvement in 9 indicators, backsliding in 5, and 14 indicators yielding the same score.
- ⁴⁴ In this area, the Bank approved two PRODEV operations to support the Ministry of Education in results-based management (DR-T1076) and for results-based local fiscal management to promote tourism (DR-T1081), which have disbursed 45% and 16% of their resources, respectively.
- ⁴⁵ With respect to internal control, reform of the legal framework for the Comptroller General's Office has not been completed to date, owing to delays in planning. Few public institutions are audited annually. Internal audit units also issue reports identifying payment irregularities and administrative improprieties, but their coercive role is still weak. The proposed amendments to the Comptroller General Law include the power to determine and apply administrative sanctions for violations of internal control laws and regulations. The Public Expenditure and Financial Accountability Assessment reported a qualitative improvement in external audit management, but audit reports still have scant impact.
- ⁴⁶ This design allows: (i) the process of budget approval to be linked with the procurement process and the payment phase, so that the procurement processes of public entities are linked to specific budget allocations that include payments for the life of the contracts concerned; (ii) electronic bids, thus enhancing system transparency; and (iii) an electronic purchasing module that facilitates the use of framework agreements for the bulk purchase of goods and services, which could create substantial cost and time savings for the public administration.

- ⁴⁷ Eligibility for the credit line has been maintained to date, owing to the fulfillment of the monitoring indicators for the Integrated Natural Disaster Risk Management Program.
- ⁴⁸ In the event of such a disaster, three phases can be identified in terms of the response: emergency, rehabilitation, and reconstruction. The funding may be drawn from these loan resources or from undisbursed balances under existing investment loans.
- ⁴⁹ There is a negative monotonic correlation between the level of damage caused by a natural disaster and its probability of occurring. The probability of an extreme disaster is small, but not insignificant. The Bank's strategy is based upon this fact, and it is used to determine the type of response to a natural disaster. In the case of recurring, low-impact events, specific budget allocations; for events with greater impact, risk-retention instruments; for extreme events, risk transfer instruments. If an event occurs that entails significantly high and unexpected losses, this response structure mitigates the impact.
- ⁵⁰ Specifically, the loan resources will support the creation of a captive insurance firm dedicated exclusively to risk management, which will sign an insurance policy with the State for the amount covered. This firm will be located in Barbados and it will transfer risk to the international markets through reinsurance. The Bank transfers the resources to the Ministry of Finance, which under an agreement then passes them on to the executing agency, Seguros Banreservas S.A.
- ⁵¹ The PRA, created in 2001, supplied free electricity to poor geographic locations. However, this geographic targeting was ineffective. It is estimated that of the 450,000 households that benefited from the program, in reality less than half were poor.
- ⁵² With the Bank's support, audited financial statements have been issued for 2009, 2010, and 2011. Discussion of the 2012 audit report is currently under way, together with the selection of firms for the financial audits for 2013-2015.
- ⁵³ The specific objectives of the program were to (i) strengthen institutional and supervision capacity in the sector; (ii) strengthen sector planning and the regulatory framework; and (iii) support management and operational improvements in the electricity companies. Expected conditionalities were consistent with the targets set out in the standby arrangement with the IMF.
- ⁵⁴ At the beginning of 2010, the government also launched a "Program for Loss Reduction and Commercial Improvements" (PRPMC), which envisioned investments by the EDEs over the following five years.
- ⁵⁵ To achieve this objective, the project planned investment in network rehabilitation (100 circuits supplying 35% of power, excluding PRA areas) and agreements with consumers in the rehabilitated areas ("social compacts") to raise the level of payments and energy efficiency.
- ⁵⁶ The projects were approved under the provisions of the 2007 law (No. 57-07) governing development incentives for renewable energy sources. The law provides, among other things, for guaranteed prices for energy generated using renewable sources, as well as priority dispatch.
- ⁵⁷ The "Comprehensive Plan for the Electricity Sector" rests on three pillars: (i) adjustment of the generation matrix, (ii) intensification of loss reduction, and (iii) improvements to management efficiency in sector firms.

- ⁵⁸ As of 30 June 2013, the operation was in the “B” pipeline for 2014.
- ⁵⁹ As mentioned previously, the World Bank participated in the sector alongside the IDB during the period, through constant analytic support for reforms and the network rehabilitation investment loan that it had approved in 2008. During the previous period, the World Bank had approved a three-tranche development policy loan for the sector, the third tranche of which was never disbursed as a result of waivers granted under the initial tranches in the area of rates.
- ⁶⁰ Losses have averaged 36.4% from January to July 2012. Data comparability is complicated by new revisions to the commercial database for the EDEs, which have raised the average level of losses following the identification of 500,000 unregistered clients.
- ⁶¹ Delays to the fulfillment of the conditions precedent were experienced under the IDB project as a result of the restructuring of the executing unit, baseline revisions, slow bidding processes, and the delayed supply of materials by the contractor.
- ⁶² FETE transfers represented 30% of total transfers to the sector in 2009 and nearly 60% in the first half of 2012.
- ⁶³ Recently, the Bank promoted the exchange of experiences in best management practices between the CDEEE and Empresas Públicas de Medellín (DR-T1112), and some studies are under way (inventory of populations and needs for the Rural Electrification Plan, Generation Expansion Plan).
- ⁶⁴ The BTA Project involved repairing 99 km of highway and building 24 km of road, for a total of US\$178.2 million. The BTA contract, as such, was not bid out, since it was part of a potential extension of the concession contract for the Northeast Highway, put to tender in 2001, which did not involve IDB financing. The BTA included a construction contract for US\$103 million for the concessionaire, plus a maintenance and operation contract for an annual fixed amount, with 10% for contingencies and 20% for price escalation, and a minimum real return guaranteed by the State to the concessionary of 16.9% in dollars.
- ⁶⁵ In Chile, to cite one example, the toll on the four-lane Pan American Highway is 5 cents per kilometer.
- ⁶⁶ The concessionaire and the government are in talks to look for alternatives that make it possible to charge the toll.
- ⁶⁷ BTA Administrative Concession Contract, Official Gazette, 14 August 2009, Resolution 487-08.
- ⁶⁸ The operation as originally designed envisioned the hiring of a management agency. Details of the changes in execution arrangements can be found in the annexes (Transportation).
- ⁶⁹ In 2008, Metro Line 1 accounted for 2% of daily journeys.
- ⁷⁰ The government did purchase 100 buses, which are in storage pending implementation of the system.
- ⁷¹ Data from the CAASD Planning Department, June 2013.

- ⁷² At the beginning of 2013, only 47.2% of the US\$85 million originally available for cash transfers were used, as the concurrent audits showed compliance in education had declined to 68% and in health to 43%.
- ⁷³ Six recurrent audits were carried out to verify compliance with conditions in health and education. They were conducted using a sample of approximately 1,000 households in each round, in 2011 and 2012. The audits found that the apparent rate of compliance ranged from 60% to 80% in health, based on individuals with obligations, and 60% to 81% in education (also based on individuals with obligations). The results of subsequent audits in 2012 suggest that compliance has fallen below 68% in education and below 43.7% in health.
- ⁷⁴ A recurrent audit conducted in early 2012 found that only around 31% of primary health care centers visited by the audit team kept electronic records for patients.
- ⁷⁵ Office of Social Policy Coordination, *Solidaridad: Report and Achievements 2006-2011*, Santo Domingo, 2012.
- ⁷⁶ The Bank also carried out two pieces of related economic and sector work: “The Dominican Republic’s Youth and Employment Program: Analysis of employer perceptions regarding internships and the prospects for labor market inclusion among young people” (IDB-TN-240); and “Skills, Employability and Training for Disadvantaged Youth: Evidence from a Randomized Evaluation Design” (IDB-WP-342).
- ⁷⁷ “World Development Report 2013: Jobs,” World Bank (2012), Washington D.C.
- ⁷⁸ The observatory carried out analyses and studies in relation to labor market trends in order to support policy formulation and provide information to the population at large. SENAE’s mission is to facilitate workforce integration.
- ⁷⁹ Based on these results, the training programs supported under DR-L1036 are being redesigned.
- ⁸⁰ Executive Brief, Closing Workshop.
- ⁸¹ The Program of Support for the Transition to Competitive Agriculture (PATCA) was approved in 2002, and consisted of three components: (i) the adoption of technologies; (ii) agrifood health and safety; and (iii) technical assistance for commercial and institutional reforms. Ultimately, however, the focus shifted mainly to the technological component. For an analysis of outcomes, see, for example, the Country Program Evaluation, 2004-2008 (OVE).
- ⁸² Loan preparation was supported by a TC (DR-T1089, US\$200,000) which financed consultancies to create the mechanisms to be used for technology transfer, research management, natural resources management, and support for the preparation of profiles for strategic projects. Consultancies were also financed to establish indicators for the project, carry out social and environmental impact analyses, and to develop a plan and cost estimates for the impact evaluation.
- ⁸³ Both DR-L1031 and DR-L1048 are the result of a TC approved in 2009 (DR-T1055, US\$500,000). This TC also financed a study of public spending in the agricultural sector, and this may open up new lines of activity for the Bank in the future.

- ⁸⁴ The TC (DR-T1075, US\$288,000) financed demand studies in Santo Domingo, an institutional evaluation, and the technical and economic analysis.
- ⁸⁵ With a view to increasing the competitiveness of those sectors most likely to gain a foothold in international markets, the Bank had included foreign trade activities in its 2004-2008 strategy, such as modernization of trade policies, improvements to capacities for the management and coordination of export policy, and export promotion.
- ⁸⁶ The 2003 to 2004 political transition caused delays to compliance with the conditions precedent, as well as changes in the staffing of the executing unit. In relation to the institutional framework for the management of foreign trade policy, the Ministry of Foreign Relations formulates policy and conducts trade negotiations. The Ministry of Industry and Trade administers commercial treaties through its International Trade Division. The Center for Exports and Investment is responsible for promoting exports and investment. These three institutions were directly involved in the project through the execution of the different components.
- ⁸⁷ The TC (DR-T1025, US\$76,000) supported activities and outputs such as sector and export product guides, as well as technical assistance for promotion activities (e.g. investor visits and promotion fairs).
- ⁸⁸ Other program outputs have been the remodeling of ONE's offices and the upgrading of its information systems.
- ⁸⁹ For example, the Central Bank has begun to produce economic surveys, the national accounts, and balance of payments data.
- ⁹⁰ The Jurisdicción Inmobiliaria has exclusive authority over the recognition of property rights and their registration in the Dominican Republic, from the moment survey authorization is applied for and for the rest of the property's useful life (except in those exceptional cases provided for under law) (Source: www.ji.gov.do). The project sought to deepen and extend the actions initiated under the Land Jurisdiction Modernization Program, supported by the IDB in 1998 (DR0118, US\$32 million). These actions encompassed improvements to legal and institutional frameworks, technological modernization, adaptation of infrastructure and furnishings, and training of human resources.
- ⁹¹ A *constancia anotada*, or "annotated affidavit" is a document issued by the Property Registry to confirm the existence of property rights over a plot of land, even though neither a survey number nor an approved individual survey map can be provided.

