

Country Program Evaluation

Dominican Republic

2013-2016

Country Program Evaluation:

Dominican Republic

2013-2016

Office of Evaluation and Oversight (OVE)

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ACRONYMS AND ABBREVIATIONS

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ACRONYMS AND ABBREVIATIONS

AECID	Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation]
CAF	Andean Development Corporation
CCLIP	Conditional credit line for investment projects
CID	Country Department Central America, Mexico, Panama, and the Dominican Republic
CPE	Country Program Evaluation
EIU	Economist Intelligence Unit
EME	Financial Emergency Operation
GCR	Global Competitiveness Report
IIC	Inter-American Investment Corporation
MEPyD	Ministry of Economy, Planning, and Development
MIF	Multilateral Investment Fund
MINERD	Ministry of Education of the Dominican Republic
MSMEs	Micro, small, and medium-sized enterprises
NSG	Nonsovereign guaranteed
OVE	Office of Evaluation and Oversight
OVEDA	Office of Evaluation and Oversight Data Analyzer
PAFI	Programa de Administración Financiera Integrada [Integrated Financial Administration Program]
PATCA	Proyecto de Apoyo a la Transición Competitiva Agroalimentaria [Program to provide support for the transition to competitive agriculture]
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project completion report
PMR	Performance monitoring report
PROSOLI	Public-private partnership; and purchasing power parity
PPP	Progresando con Solidaridad [progressing with solidarity]
PSR	Project supervision report
RBF	Results-based funding
SCF	Structured and Corporate Financing Department
SG	Sovereign guaranteed
SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
SME	Small and medium-sized enterprise
TC	Technical cooperation
UNDP	United Nations Development Programme
XPSR	Expanded Project Supervision Report

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As part of its 2016-2017 annual work plan, the Office of Evaluation and Oversight (OVE) prepared the Country Program Evaluation (CPE) for the Dominican Republic for the period 2013-2016. This will be the fourth independent evaluation by OVE of the IDB's country program with the Dominican Republic, and the first to cover the work of the entire IDB Group in the country. This CPE covers the IDB Group's program over the period 2013-2016, which was guided by the Bank's country strategy with the Dominican Republic 2013-2016 (document GN-2748). The previous evaluations covered the periods 1991-2003 (document RE-306), 2004-2008 (document RE-371), and 2009-2013 (document RE-453).

According to the Protocol for Country Program Evaluation (document RE-348-3), the main goal of the 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."

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

In 2009, the IDB's Management developed a new country strategy document model to equip the Bank with an effective tool to sharpen the country focus while ensuring the flexibility envisaged during the realignment process. In this framework, new guidelines were drafted to "recast the Country Strategy, emphasizing the need for programming that is results-focused, risk-based, and uses a programmatic and flexible approach to respond to country priorities." Apart from these general principles, the most significant practical effects were: (i) decoupling of the country strategy, which is prepared every four years, and the actual programming, which is annual; (ii) a new emphasis on sector notes; and (iii) strengthening of the results matrix with specific indicators.

The evaluation follows the methodological guidelines set forth in the Protocol for Country Program Evaluation (document RE-348-3). The evaluation draws upon a diverse range of sources of information. These include interviews with key respondents: current and former government civil servants, project executing agencies, IDB Group sector specialists, international cooperation partners, members of academia and civil society familiar with the country's development challenges and individuals from the various sectors in which the Bank works. The Bank's programming, supervision (PMR, PSR) and evaluation (PCR and XPSR) documents were also analyzed. OVE backed up its documentary review with an analysis of internal and external databases.



The Bank's strategy and program were relevant and consistent with the medium- and long-term priorities of the Government of the Dominican Republic. They focused on fiscal management and support to the electricity sector, investment in human capital, with emphasis on health, education, and social protection, and productive development.

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Executive Summary

CONTEXT

The Bank's support to the Dominican Republic is set in the context of rapid economic growth and improvements in competitiveness and the business climate thanks to buoyant investment, the recovery of the U.S. economy, increased tourism and remittances, and falling oil prices. Growth led to a marked reduction in poverty in 2014 and 2015, but major regional differences persist and the impact of growth has been uneven. Locking in these gains demands continuing improvement to delivering basic infrastructure based on private sector involvement, addressing management and regulatory issues in the energy sector, increasing tax revenues and reducing the fiscal deficit, addressing institutional and regulatory shortcomings that affect the business climate, and making spending more efficient, particularly in the case of social spending, to enhance the impact of growth on poverty, social inclusion and the population's productivity. The most urgent challenges include concluding the national dialogue to achieve consensus on reforms in the electricity sector to reach an "electricity pact" that serves as an input to the subsequent "fiscal pact" entailing an increase in tax collection and better quality and more efficient spending.

THE BANK'S PROGRAM

The Bank's strategy and program were relevant and consistent with the medium- and long-term priorities of the Government of the Dominican Republic. They focused on fiscal management and support to the electricity sector, investment in human capital, with emphasis on health, education, and social protection, and productive development, aiming to improve the business climate and specifically supporting the agricultural sector and micro, small, and medium-sized enterprises. The gender perspective was added to these priorities as a crosscutting area in the human capital pillar; climate change adaptation and mitigation and vulnerability reduction were added as a crosscutting area for interventions supporting the productive and energy sectors.

The Bank gave priority to a programmatic policy-based approach in the Dominican Republic, which was stepped up during the evaluation period, in terms of both loan approvals and execution. During the evaluation period, programmatic policy-based loans (PBP) replaced financial emergency loans as the main source of quick-disbursing funds. They accounted for the bulk of approved and disbursed funding and were used across all the strategy's sectors. A significant share of investment loans, particularly in the social sector, were also geared towards providing budgetary support.

The policy conditions supported by the programmatic series were deeper than the average for the IDB's Country Department Central America, Mexico, Panama and Dominican Republic (CID) and for the Bank as a whole. However, the reform process supported by these series has progressed slowly; of the five series begun since 2009, only one was completed (three were truncated, and one is still active). The interruption of the programmatic series, resulting from changes in government priorities and delays in reaching consensus on the electricity pact and fiscal pact, impacted the effectiveness of the program in supporting key reform processes in the country.

The portfolio of sovereign guaranteed loans in the Dominican Republic improved in terms of efficiency, with a reduction in preparation and execution costs. During the evaluation period the Bank's Country Office made an effort to cancel, in whole or in part, a series of approved investment loans that ceased to be a priority for the government, delaying their eligibility or slowing their rate of execution. Although the cancellation of the investment loans helped improve the pace of program implementation, it also reduced the relevance and effectiveness of the program implemented.

EFFECTIVENESS

Macroeconomic stability and fiscal management conducive to sustainable economic growth

The macroeconomic stability and fiscal management pillar of the country strategy sought to strengthen the efficiency of tax administration and increase the quality and transparency of public spending. As these challenges largely depend on the performance

of the electricity sector, the country strategy also called for resources to improve this sector's efficiency and financial sustainability. The series of programmatic policy-based loans for fiscal strengthening aimed to bolster public finances by reducing the government deficit in a framework of medium-term fiscal sustainability. The reforms were relevant and supported an increase in tax revenue collection and enhancement of tax quality, accompanied by a rationalization of public investment. They also pursued the stabilization of current transfers to the electricity sector and improvements to financial management control, particularly in the case of non-tax income and central government payroll. Unfortunately, the programmatic series was interrupted after the first disbursement. The programmatic series was complemented by investment loans geared towards strengthening the financial management of public resources, but one of these loans was canceled.

The Bank's program in energy centered on rehabilitating distribution networks to reduce technical and non-technical losses from the distribution system through two sovereign-guaranteed investment loans. The first project obtained mixed results, with progress on network refurbishment, but less progress on the electricity distribution utilities' financial goals. The second loan, which is still in execution, has made satisfactory progress on supporting improvements to the quality of the services provided by the distribution utilities, but progress on improving their operational efficiency has been slow. Support for electricity sector reform during the period was minimal as the programmatic series for the sustainability and efficiency of the electricity sector was interrupted following approval of the first operation in 2011. During the evaluation period, no support was provided for diversifying the generation matrix in favor of renewable sources. Support for achieving the government's goal to diversify the energy mix, set forth in national development plans and international commitments, needs to be a priority for the Bank in the medium and long term.

Investment in human capital

In the human capital pillar, the country strategy sought to consolidate the effectiveness of the social safety net by creating incentives for investment in health and education, while increasing the quality of the supply of social services. The Bank's social protection operations accomplished significant results in terms of improving social assistance coverage. Progress on institutional strengthening and improvements to monitoring and evaluation systems have been moderate relative to the targets, and there has been a decline in financial support. The Bank's support for education centered on the construction, upgrading, and equipping of school infrastructure, and support for improving quality by training teachers and technical staff. In the health and social security area, the Bank supported sector reform through policy-based loans focusing on reforming the Social Security Law and promoting the separation and strengthening of the healthcare governance and delivery roles. Policy-based loans were complemented by investment loans to support the delivery of health services, applying a results-based financing model.

Productive development policies that promote productivity and competitiveness

The country strategy sought to promote productive development and competitiveness by linking different sectors; improving the productivity of micro, small, and medium-sized enterprises (MSMEs); strengthening value chains and improving market access; and giving priority to job creation in areas with the highest incidence of poverty. The implemented program's objectives were more ambitious than those of the country strategy and combined programmatic policy-based loans with investment loans and technical cooperation. However, it achieved mixed results as it lost relevance due to the cancellation of operations and the interruption of one of the programmatic series. Additionally, the cancellation of the MSME support program and partial cancellation of the Program in Support of Subsidies for Technological Innovation in Agriculture (PATCA II) limited the scope of the Bank's program to support productivity gains among small business owners and farmers.

The IDB Group's support for the private sector was primarily channeled through credit lines for financial intermediaries. Although the country strategy called for support for the private sector to be focused on developing infrastructure, human capital, and productive sectors, partly as a result of the difficulties with concession support loans during the period 2009-2013, the bulk of nonsovereign guaranteed loan approvals were channeled through credit lines for financial intermediaries in order to facilitate trade and support small and medium-sized enterprises and housing.

SUSTAINABILITY

The sustainability of the results achieved during the evaluation period and the period prior to the strategy was undermined by the frequent cancellation or interruption of operations and the changing priorities of ministries and the Dominican government. The lasting impact of changes in policies and processes supported by the PBP program will largely depend on their implementation, which has been slow to date and subject to interruptions. The interruption of programmatic series also weakened some of the institutions these instruments were supporting, and the associated technical cooperation. Problems in the regulatory framework and rate structure in the electricity sector are affecting the sustainability of the investments under the Bank's program, as the sustainability of the refurbished networks will depend on the capacity of electricity distribution utilities to maintain them in good condition.

RECOMMENDATIONS

To make the Bank's program in the country more effective, OVE recommends that Management:

1. Give priority in the IDB Group's policy dialogue and its financial and nonfinancial product offerings to supporting reforms in the electricity and fiscal sectors. A significant part of the reforms supported by the PBP's that were interrupted was left incomplete due to slow progress on the reform process. Accomplishment of a large number of development objectives supported by the Bank's program depends on the reforms in those sectors being effectively implemented.
2. Tailor the supply of loan modalities (PBP, loans based on results, investment, and NSG) to the country with the aim of achieving the necessary balance between budgetary support and achieving the development objectives of the IDB Group's strategy. Specifically:
 - a. Given the delays in implementing the reforms stipulated in the PBP's and their interruption, this instrument should be used cautiously, ensuring that the first phase includes high structural depth.
 - b. The Bank's offerings should also consider the use of instruments such as loans based on results, which other donors use in the Dominican Republic.
 - c. Given limited fiscal leeway, new investment loans must be carefully dimensioned, prioritizing offerings in areas where the country has a greater commitment to advancing its development strategy as well as those in which the Bank has invested in a medium-to-long-term relationship with the country.
3. Increase emphasis on components aiming to make public spending more efficient and improve quality in operations to support human capital accumulation and the provision of basic services. The Dominican Republic's public social spending remains relatively low, particularly in the health sector. This makes the need to improve spending efficiency and management more pressing, particularly as regards human resources. Likewise, in social protection there is still a high percentage of social assistance delivered without official targeting mechanisms that could be optimized. In education, extending the school day has created an opportunity for the extra hours to help boost educational performance.
4. Step up efforts to promote private sector participation in the provision of basic infrastructure, renewable power generation, and rural electrification. OVE recommends support to strengthen the regulatory framework for public-private partnerships (PPPs) and institutional capacity to implement them, as well as a redoubling of efforts to take advantage of the synergies between the IDB Group's public and private sector windows in developing PPP projects.



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The country's economy has grown rapidly over the past decade, posting one of the highest growth rates in the region. Growth has been underpinned by robust investment, the U.S. economic recovery, rising tourism and remittances, and falling oil prices.

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1 Country Context and Development Challenges

The Dominican Republic, one of the largest middle-income countries in Central America and the Caribbean, has experienced strong economic growth over the last decade and improvements in the business climate and competitiveness (Annex I, Table 1). With a population of around 10 million, the country's GDP tops US\$69 billion,¹ and its GDP per capita was US\$14,188 (purchasing power parity) in 2015. The country's economy has grown rapidly over the past decade, posting one of the highest growth rates in the region. Its GDP grew at an average annual rate of 5.1% between 1990 and 2013, reaching 7.6% and 7% in 2014 and 2015, respectively. The International Monetary Fund is forecasting growth of 5.9% and 4.5% in 2016 and 2017, respectively (World Economic Outlook, October 2016).

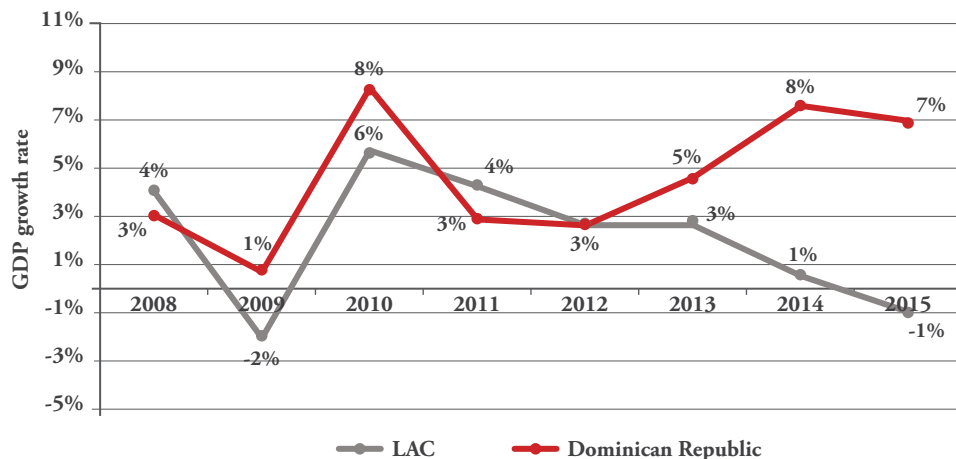


FIGURE 1.1
Growth in the Dominican Republic, Latin America and the Caribbean

Source: Central Bank of the Dominican Republic (2016) and World Development Indicators (2016).

Growth has been underpinned by robust investment, the U.S. economic recovery, rising tourism and remittances, and falling oil prices. Manufacturing industry and agriculture have declined in importance relative to other productive sectors such as tourism. In 2013, manufacturing and agriculture accounted for 20% and 8% of GDP, respectively. Integration with the global economy and changes in the export basket, with a shift towards higher value-added products, have been important drivers of the Dominican Republic's growth. In 2013, 24.6% of exported goods were high-tech and 34.1% medium-tech. Traditional exports have become less important and the Dominican Republic's dependence on the performance of the U.S. economy increased with the signing of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) in 2007, tourism and the creation of free trade zones specializing in maquila.² Mineral exports (gold) have also increased in importance and presently account for 14.2% of total exports. Productivity (in terms of GDP per worker and total factor productivity) has also risen rapidly in manufacturing, communications, and financial services, but remains low in sectors lagging behind, such as micro, small, and medium-sized enterprises (MSMEs), which employ 54.4% of the labor force and generate 38.6% of GDP.³ Low labor productivity in backward sectors is accompanied by high rates of informality (70% of wage earners do not contribute to social security⁴ and 90% of companies are estimated to be informal⁵).

As the country's economy has grown, there has been a sustained fiscal deficit and a gradual reduction in the deficit in the balance-of-payments current account (Annex 1, Table 1). In 2013 and 2014, the fiscal deficit of the nonfinancial public sector was 4.1% and 3.2% of GDP, respectively, considerably smaller than in 2012 (6.9% of GDP), but larger than the 2009-2011 average (3% of GDP). Although the deficit came in at just 0.2% of GDP in 2015,⁶ deficits in excess of 2% of GDP are expected for 2016 and 2017 (EIU). Fiscal imbalances contributed to raising public debt from 18% of GDP in 2007 to 37.9% in 2013 (one of the biggest increases in the region). Thanks to economic growth and prepayment of debt to Petrocaribe,⁷ public debt dropped to 35.4% of GDP in 2015, but increased to 37.4% in 2016. Between 2008 and 2015 the Dominican Republic was one of the countries with the biggest increase in the share of foreign public debt (8.6% of GDP, only behind Honduras, 12%, and El Salvador, 9%). The Dominican Republic was the second of 17 countries in the region for paying most debt service interest as a percentage of GDP in 2015.⁸ Rising tourism and remittances and falling oil prices enabled the deficit in the current account of the balance of payments to shrink from 6.6% of GDP in 2012 to 2.4% of GDP in 2015.

Poverty fell sharply in 2014 and 2015 after a period of low sensitivity to economic growth.⁹ The banking crisis put nearly half the population into poverty in 2004, the highest rate in recent times. Between 2004 and 2009, the rate dropped to 42.1% but then stalled until 2013, despite a period of strong economic growth. Poverty has since fallen sharply, to 32.1% in 2015 (similar to levels prior to the 2004 crisis). The extreme poverty rate followed a similar path but has fallen even more sharply in percentage terms in recent years (Annex I, Table 2).

Despite improvements in recent years, the Dominican Republic still faces challenges in terms of the population's social and productive inclusion and inequality. In 2014 the country's Human Development Index (HDI) was 0.715, ranking it in the category of countries with a high level of human development (101st of 188 countries).¹⁰ Nevertheless, the Dominican Republic has a high degree of inequality between regions—five provinces (15.6%) have low human development; 14 provinces (43.8%) have medium-low human development—in both cases primarily along the border with Haiti;¹¹ 12 provinces (37.5%) have medium-high development and one province (3.1%) has high human development. As regards income inequality, although the Gini coefficient has dropped, it has done so less than in the rest of Latin America (-0.95% in the Dominican Republic vs. 1.13% in Latin America between 2003 and 2013).¹² The Dominican Republic also has high rates of gender inequality.¹³ Women suffer high rates of maternal mortality, teen pregnancies, and violence. The Dominican Republic is among the 10 countries in the region with the highest maternal mortality. In the labor market, women earn an average of 21.3% less than men and their labor market participation rate is also lower (46.1% for women vs. 68.7% for men).

In recent years the Government of the Dominican Republic has made a considerable effort to increase social spending. The 2012 fiscal consolidation program redirected a portion of public spending to the social sectors in order to improve services, but coverage and quality challenges continue to impair well-being and human capital accumulation in the country. Health spending remains well below what would be expected given the country's per capita income level, at 4.3% of GDP in 2014 compared with a regional average of 7.2%.¹⁴ The allocation of resources by level of complexity and for prevention is weak, and there are challenges related to quality (Annex I, Table 2). This translates into poor national health indicators, with higher mortality rates, and shorter life expectancy than the regional average. Spending on education has risen significantly since 2013, when the country undertook to devote 4% of GDP to education. However, the education system still faces problems with coverage (the net enrollment rate for preschool, at around 40%, was the lowest in the Central America and Dominican Republic region in 2012, and for primary school was just 86.5%), internal efficiency (repetition, dropout, and over age for grade rates), and quality (e.g., ranking 125th among 140 countries in terms of quality of primary education, and 138th of 140 countries in math and science in the World Economic Forum ranking) (Annex I, Table 2).

Although the Dominican Republic made progress on the World Economic Forum Global Competitiveness Ranking, rising from 105th position in 2012-2013 to 98th in 2015-2016 (of a total of 140 countries), challenges still need to be overcome to improve competitiveness in the sectors lagging farthest behind. The Dominican Republic is still below the average for Latin America and the Caribbean and for Central America, and challenges persist in terms of strengthening institutions, enhancing labor market efficiency, infrastructure endowment, and the delivery of basic social services. The macroeconomic environment pillar made the biggest

contribution to pushing up the country's ranking. Institutional capacity, meanwhile, represents the weakest pillar, followed by innovation, labor market efficiency, and health and primary education.

One of the main challenges the productive sector faces is limited access to finance for small and medium-sized enterprises (SMEs). Just over 20% of the country's SMEs have limited access to credit. The financial gap is estimated at around US\$3.8 billion (Banco BHD León, 2016), and 30% of small businesses and 19% of medium-sized enterprises identify access to financing as a major constraint. This proportion is higher in the overall Latin American and Caribbean region, where 32% of small businesses and 27% of medium-sized enterprises identify access to finance as a major constraint (Enterprise Surveys, 2014). It is nevertheless worth pointing out that repayment periods are still short, ranging between nine and 12 months, which limits the availability of funds for capital investments (FondoMicro MSME Survey, 2013).

Infrastructure quality is another factor directly affecting competitiveness and productivity, as well as tourism and the free-trade zones. Despite the progress reflected in the Global Competitiveness Report (GCR) transportation infrastructure quality ranking, where the country went from 62nd position in 2013 (of 140 countries) to 53rd in 2016 (of 138) (GCR, 2013; GCR, 2016), some challenges remain as regards preventive maintenance of roads and highways, increased road safety, and greater competition in freight transportation.

The Dominican Republic faces serious deficiencies in terms of the legal and regulatory framework for promoting PPPs in infrastructure. In terms of capacity for preparing PPPs, the country is in 15th position out of the 19 economies of the region evaluated in the Multilateral Investment Fund (MIF) Infrascopes (MIF, 2014), and there has been no progress in recent years. The Dominican Republic is below the Latin American and Caribbean average on all the dimensions considered in Infrascopes to measure the capacity to prepare PPPs (regulatory framework, institutional framework, operational maturity, investment climate, financing facilities, and subnational adjustments) and suffered a deterioration in the institutional framework and investment climate between 2009 and 2014. The country lacks specific legislation on PPPs.¹⁵ Any public institution can formulate them, but they must be approved by Congress, making the process lengthy. The government is currently working on a new PPP bill with technical support from the World Bank that is expected to provide a general framework for a wide range of public-private partnerships, not just those in the infrastructure sector.

Regulatory, institutional, and management problems in the energy sector consume public resources and make the economy less competitive. The challenges the sector faces include reducing distribution losses, improving the management of distribution companies, improving the rate structure, and increasing the percentage of power generated using renewable technologies (EIU, June 2016). The sector's operating deficits required a fiscal effort of 0.8% of GDP in 2015 (Central Bank of the

Dominican Republic), only lower than in previous years because of the drop in the price of oil.¹⁶ The country's electricity generation mix is mainly based on hydrocarbons, which has made the sector vulnerable to rising oil prices. Conventional thermal power generation represents 81% of the system's total capacity (58% using oil-based fuels, 15% natural gas, and 8% coal). Generation from renewable sources represents 18% of total generation capacity (16% hydroelectric and 2% wind). The Dominican Republic is 121st out of 125 countries on the Energy Trilemma Index energy security ranking (World Energy Council, 2016) and last of the 20 Latin American and Caribbean countries on the ranking due to the concentration of supply and dependency on imported fuels.

A low tax burden, tax exemptions, low efficiency of public spending, and management problems in the electricity sector hinder the public sector's capacity to provide basic infrastructure and social services or mitigate and respond to the risk of natural disasters. Both revenues and current expenses rose with the 2012 Fiscal Consolidation Law, but remain among the lowest in the region. Although the Dominican Republic has tax rates similar to regional averages, its tax collection as a share of GDP is much smaller. Total nonfinancial public sector revenue came to 14.6% of GDP in 2015, nearly 2% of GDP above the average level for 2009-2011 (12.9% of GDP). Current expenses have remained over 14% in recent years (2014-2015), compared with 13.6% in 2012 and 12.3% in the period 2009-2011. Capital expenditure in 2015 returned to the vicinity of the 2009-2011 average (3.5%) following a sharp increase to 6.4% of GDP in 2012 due to increased infrastructure investment, particularly in roads. Significant shortcomings in spending efficiency persist, particularly in the management of human resources. Central government payroll has grown by 54% in real terms (from 21% of total government spending in 2007 to 24% in 2013),¹⁷ largely due to growth in public sector employment (79% between 2008 and 2013) rather than to increased pay. The education sector employs 1.4 non-teaching staff for each teacher in the classroom (compared with 0.2 non-teaching staff per teacher in other countries). If the Dominican Republic were to reduce the ratio of non-teaching staff to teaching staff to levels in other Central American countries, it would save between 0.5% and 0.6% of GDP (IDB study).

In 2015 the Dominican Republic launched a national dialogue to achieve consensus on reforms to address the problems in the electricity sector so as to reach an electricity pact that serves as an input to the subsequent fiscal pact enabling an increase in tax collection and better quality and more efficient spending. The mandate to achieve consensus on the electricity pact and the fiscal pact is included in the National Development Strategy 2030. The electricity pact, which is still being debated, seeks a social consensus on reforms to the sector, and it is important to have the social consensus necessary on which to build the structural reforms needed to ensure the sector's financial sustainability and to support the medium-term fiscal strategy. The fiscal pact aims to lay the foundations for a comprehensive fiscal restructuring and a Fiscal Responsibility Law.



The Bank stepped up its support for the education and productive development sectors, while it scaled back support for social protection. Between 2013 and 2016 the Bank doubled the amount approved for investments in education, focusing on early childhood.

2 The Bank's Program 2013-2015

The IDB Group is the Dominican Republic's main multilateral development partner. In 2013-2016, the Dominican Republic received a net flow of IDB Group financing (excluding interest and fee payments) of US\$753 million. The balance of the Dominican Republic's debt (SG and NSG) with the IDB Group came to US\$2.601 billion as of 30 September 2016, representing 10% of the debt of countries in the Central America region with the Bank and 3.29% of all countries' debt with the Bank.¹⁸ The IDB Group is the Dominican Republic's largest multilateral creditor (65% of the country's multilateral debt in December 2015).¹⁹ This debt balance was equivalent to 3.97% of GDP and represented 16.9% of the country's total external debt on that date.

A. THE BANK'S COUNTRY STRATEGY WITH THE DOMINICAN REPUBLIC

The country program for 2013-2016 was guided by the Bank's country strategy with the Dominican Republic 2013-2016. The country strategy established three pillars of action: (i) macroeconomic stability and fiscal management conducive to sustainable economic growth; (ii) investment in human capital; and (iii) productive development policies that promote productivity and business competitiveness (Table 2.1). The country strategy identified gender as a crosscutting area of action in the human capital pillar, and climate change adaptation and mitigation and vulnerability reduction as a crosscutting area in interventions to support the productive and energy sectors, with an emphasis on the design of logistics and road infrastructure and distribution networks. The strategy also called for support for the private sector windows to focus on promoting infrastructure development, human capital, and the productive sectors.

The areas identified as priorities in the country strategy were relevant and continued to address the major areas for medium-term support by the IDB Group in the country. The strategy included actions in areas with the biggest development challenges and was consistent with the government's priorities. The strategy is aligned with pillars 1 (institutional development), 2 (social development), and 3 (productive development) of the National Development Strategy 2030 and with the National Multiyear Public Sector Plan (PNPSP) 2013-2016. The institutional development pillar includes the objective of achieving efficient, transparent, and results-oriented public administration. The social development pillar includes the objectives of quality education, comprehensive health and social security, and equal rights and opportunities. The productive development pillar includes the strategic objectives of macroeconomic sustainability; efficient and sustainable energy; competitiveness and innovation in an environment conducive to cooperation and social responsibility; decent jobs and an articulated and integrated productive sector.

The strategy identified the most significant risks as vulnerability to external shocks, inasmuch as the economy is relatively small, open, and heavily dependent on the U.S. economy; vulnerability to natural disasters; and weak executing capacity by local counterparts. To mitigate these risks, the strategy called for the provision of technical assistance, financial and contingent credit instruments, the adaptation of programs to local conditions, and the strengthening of country systems.

TABLE 2.1: COUNTRY STRATEGY 2013-2016: STRATEGIC PILLARS, SECTORS, AND TARGETS BY SECTOR

Strategic Pillars	Sectors	Expected outcomes
Macroeconomic stability and fiscal management conducive to sustainable economic growth	Fiscal management	<ul style="list-style-type: none"> Reduction in tax expenditure due to tax incentives in corporate income tax Increase in percentage of government expenditure under the supervision of SIGEF and Single Treasury Account Increased budget predictability
	Energy	<ul style="list-style-type: none"> Increase in the cash recovery index (CRI) Reduction in % total losses during distribution
Investment in human capital	Social protection	<ul style="list-style-type: none"> Alleviation of poverty conditions of poor families Improved levels of health and education among children and young people in the poorest families More efficient social assistance spending
	Education	<ul style="list-style-type: none"> Improved effective promotion rates in basic and secondary education Improved learning in reading, writing, and math in 3rd and 4th grade of primary education Consolidation of national system of integral care and protection in early childhood
	Health	<ul style="list-style-type: none"> Improved access to preventive services Better quality of maternal and infant care services Increased coverage of population's health insurance
Productive development policies that promote productivity and business competitiveness	Productive development and competitiveness	<ul style="list-style-type: none"> Better innovation performance by companies Improved access to credit for MSMEs More MSMEs access export markets in various sectors and the economy as a whole, and they do so more efficiently

Source: IDB country strategy with Dominican Republic 2013-2016.

The OVE evaluation of the Bank's country program for 2009-2013 described the strategy as relevant and noted that the Bank's program emphasized support for structural reforms in key sectors of the economy, through a programmatic approach, but with mixed results. Box 2.1 shows the recommendations from the Country Program Evaluation (CPE) 2009-2013.

Box 2.1: Recommendations from the evaluation of the Bank's program with the Dominican Republic 2009-2013, Management's response, and actions taken during the evaluation period.

1. **Redefine the programmatic approach** so as to maintain the medium-term perspective but approving new loans only once all components of loans under execution have been substantially disbursed.
 - Management **disagreed** with this recommendation as the execution of programmatic loans depends on the annual budget allocation and whether operations should be executed in parallel has to be evaluated on a case-by-case basis. The Bank's Board of Executive Directors did not endorse the recommendation. Over the period 2013-2016, no parallel programmatic operations were approved.
2. **Continue with the strengthening of public finances.**
 - Management **agreed** with this recommendation, which was also endorsed by the Board. The fiscal management area was included in the Country Strategy, and execution of loan DR-L1005 for the Program to Modernize Public Resource Management was completed, but loan DR-L1070 for Modernization of the Dominican Republic's Budget and Financial Management was cancelled. A PBP series for fiscal strengthening was also approved, but was interrupted after approval of the first loan (DR-L1064).
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.
 - Management **agreed** with this recommendation, which was also endorsed by the Board. During the evaluation period, execution of the Electricity Distribution Network Rehabilitation Project (DR-L1026) was completed and a further investment loan to support the Power Distribution Network Upgrade and Loss Reduction Support Program (DR-L1070) was approved, but the PBP series to support the sector's reforms begun in 2011 with loan DR-L1050 was interrupted.
4. **Approve nonsovereign guaranteed infrastructure loans in the country** once the fiscal risks and implications have been analyzed jointly.
 - Management **disagreed** with this recommendation, which also was not endorsed by the Board. Management highlighted that the Bank already had the review mechanisms to take into account where and how to emphasize technical and fiscal elements. During the evaluation period, no new nonsovereign guaranteed infrastructure loans were approved, and three of the four infrastructure operations approved in the previous period were cancelled.

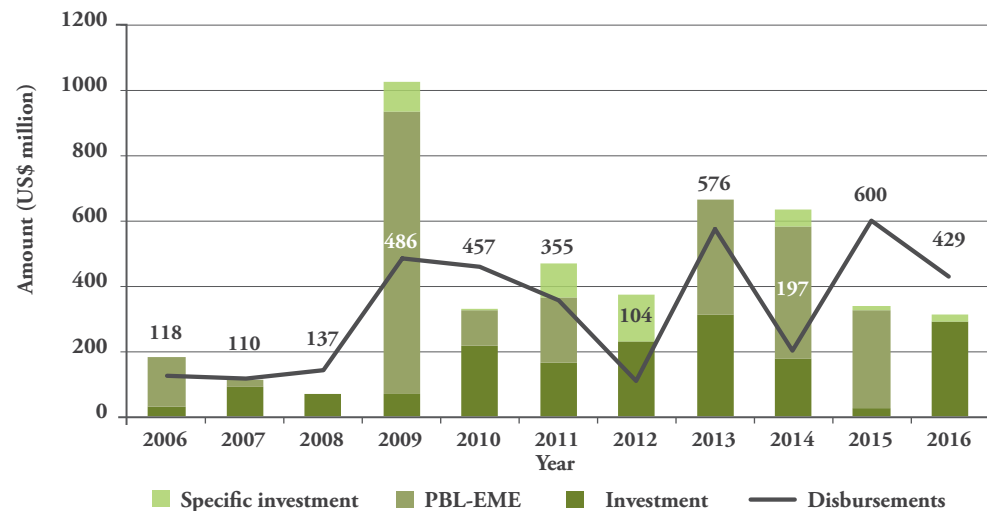
Source: OVE Country Program Evaluation, Dominican Republic 2009-2013.

B. THE PROGRAM IMPLEMENTED IN 2013-2016

Between January 2013 and December 2016, the IDB Group approved US\$1.854 billion in 13 new sovereign guaranteed loan operations. The total amount of approvals was consistent with the country strategy and slightly higher than its lending framework (US\$1.528 billion between 2013 and 2016) and lower than the amount approved in the previous evaluation period (29 loans for US\$2.188 billion approved between 2009 and 2012, Figure 2.1). Since 2013, the approved portfolio has focused on the three strategic pillars identified in the country strategy: strengthening of human capital (54% of total approvals); macroeconomic stability and spending efficiency (24%); and productive development and competitiveness (22%, Annex I, Table 3). In addition, direct support was provided to the private sector (US\$87.1 million). The legacy portfolio²⁰ includes 13 sovereign guaranteed operations originally approved for US\$603 million, with US\$486 million pending disbursement at the start of the evaluation period. The legacy portfolio also includes seven private sector support operations with an original approved amount of US\$271 million.

FIGURE 2.1
Annual loan approvals
by type of instrument
2006-2016²¹

Source: OVE based on the
Office of Evaluation and
Oversight Data Analyzer
(OVEDA).



More than 50% of sovereign guaranteed financing was channeled through programmatic policy-based loans (Figure 2.2). The Bank has taken a programmatic approach in the Dominican Republic since around 2006. This became more pronounced following the country strategy approved in 2010 (document GN 2581). At that time the Bank established that it would give priority to operations framed in medium-term programs over individual projects, so that initiatives would last beyond changes in administration. Between 2009-2012 programmatic policy-based loans represented almost 40% of the total approved sovereign guaranteed amount.²² Since 2013 almost 62% of the total approved sovereign guaranteed amount and 82% of the disbursed amount also corresponded to programmatic modalities. Nevertheless, unlike the previous period, and with the exception of a project under the conditional credit line for investment projects (CCLIP) modality, all the programmatic loans were part of PBP series (57% of the total approved between 2013 and 2016).

The Bank also approved 31 nonreimbursable technical cooperation operations totaling US\$10.3 million, a sizeable reduction from the previous period (40 technical-cooperation operations for US\$15.3 million). The technical cooperation program approved since 2013 was not limited to the pillars targeted by the loan portfolio, but there was significant alignment. Specifically, 11 technical cooperation operations were approved in the human capital pillar, five in the productive development and competitiveness pillar, and seven in the macroeconomic stability and spending efficiency pillar. Four more TCs for Group C and D countries were approved.²³ The topics of the remaining TCs corresponded to direct requests from the Dominican government in the areas of transportation, road safety, and emerging cities (Annex I, Table 3).

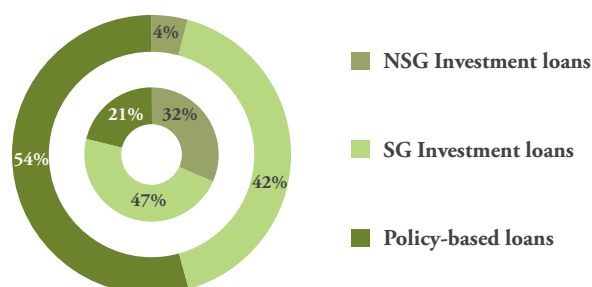


FIGURE 2.2
Portfolio of approved loans
by instrument, 2013-2016

Note: The outer circle reflects the percentage of funds approved; the inner circle represents the percentage of operations approved.

Source: OVE.

In addition, the IDB Group's private sector windows (excluding the MIF) approved seven loans—four loans from the Structured and Corporate Financing Department (SCF), the first loan for the Dominican Republic from the Opportunities for the Majority Sector (OMJ), and two loans from the Inter-American Investment Corporation (IIC)—for a total amount of approximately US\$87 million. All loans approved between 2013 and 2016, with one exception, were credit lines for financial intermediaries, which reduced the relevance of the implemented program. The bulk of these resources (nearly US\$70 million) are loans approved for Banco de Reservas de la República Dominicana (Banreservas) through the Trade Finance Facilitation Program (TFFP). The remaining lines of credit are with commercial banks that support small and medium-sized enterprises and finance home improvements. Moreover, one direct loan was approved for a company in the productive sector. Although the country strategy includes private sector approvals for infrastructure and human capital development, these did not materialize.

C. POLICY-BASED LOANS

During the evaluation period, PBPs replaced financial emergency loans as the main source of quick-disbursing funds (Table 2.2). In the previous evaluation period, US\$1.170 billion in three PBPs was approved (one of them under the hybrid modality) together with two financial emergency loans.²⁴ During the current evaluation period, all quick-disbursing funds (US\$1.050 billion) were in the form of PBPs.

Another difference from the preceding period is that since 2013 the use of PBP's has cut across the approved loan portfolio. Between 2009 and 2012, PBP's were only approved in fiscal management (including energy) and productive development. By contrast, in 2013 three programmatic series began which covered all priority sectors and areas identified in the country strategy (Annex I, Table 5). The presence of PBP's in social sectors (and the absence of multiphase investment loans) is a new feature of this evaluation period.

TABLE 2.2: BUDGETARY SUPPORT LOANS, 2009-2012 AND 2013-2016

Period	Name	Year of approval	Amount (US\$ million)
2009-2012	Program to Support Policies to Enhance Productivity and Competitiveness (DR-L1014, PBP)	2009	60
	Liquidity Program for Growth Sustainability (DR L1040, EME)	2009	300
	Fiscal Strengthening Program (DR-L1043, EME)	2009	500
	Program to Support Competitiveness Policy II (DR-L1046, Hybrid)	2010	110
	Power Sector Sustainability and Efficiency Program (DR-L1050, PBP)	2011	200
2013-2016	Fiscal Strengthening Support Program (DR L1064, PBP)	2013	350
	Support for Health Sector and Social Security Consolidation (DR-L1073, PBP)	2014	150
	Formalization and Productivity Improvement Program (DR-L1072, PBP)	2014	250
	Support for Health Sector and Social Security Consolidation III (DR-L1079, PBP)	2015	300

Source: OVE based on OVEDA.

The reform process supported by the PBP's has progressed slowly, and three of the five programs begun since 2009 were ultimately truncated.²⁵ Of the five programmatic series begun since 2009,²⁶ to date, only the Program of Support for Health Sector and Social Security Consolidation has been completed. The formalization and productivity PBP remains active (with a second operation in the pipeline for 2017) and the other three PBP's were truncated. Specifically, the fiscal PBP disbursed a first loan (DR-L1064) in 2013, but the second operation did not move forward, even though the government expected to have fulfilled the reforms for the second operation in June 2014;²⁷ the energy PBP disbursed a first loan in December 2011 (DR-L1050), but did not proceed with the next two phases stipulated in the policy matrix for 2012 and 2013;²⁸ and the PBP on competitiveness disbursed two loans in 2009 (DR-L1014) and 2010 (DR-L1046), but did not move forward with the third operation due, in part, to the fact that sector priorities had changed, and the development of clusters—a key element of the series—is not as much of a priority as before. This 60% interruption rate is slightly above the CID average (54%) and higher than the Bank average (44%).

According to interviews by OVE, interruption of these series is associated with three factors: changes in the political priorities of the Government of the Dominican Republic, given that two of the PBP series were approved during the previous administration's term and discontinued by the new administration; limited participation of the institutions responsible for meeting the conditions in defining triggers; and staff turnover at government institutions. These difficulties partly explain why the expected number of loans per programmatic series has dropped from three to two since 2013.

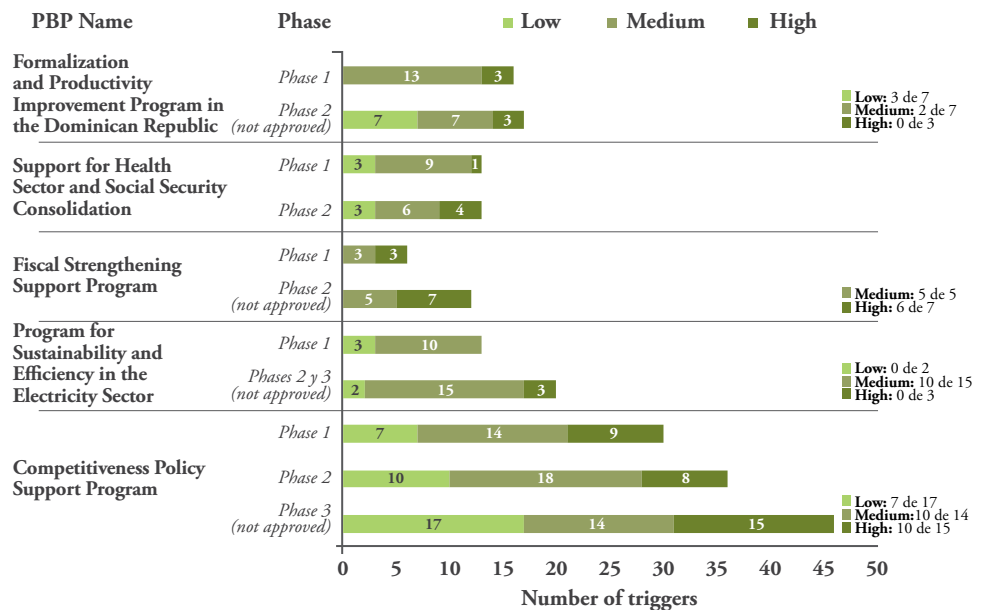
Despite the interruption of several programmatic series, in some sectors the country moved forward with the reforms stipulated in the programs. To date, the country has made progress on more than half of the reforms envisaged in the triggers of the five loans that were not approved (Figure 2.3). The area experiencing the most significant progress was fiscal strengthening, where progress was made on a significant portion of the stipulated triggers, even though the second phase was not approved. In this series all the triggers for the first loan had already been met prior to loan approval. In the case of competitiveness, progress was mixed: the country moved forward on institutional strengthening to promote competitiveness (Proindustria, the National Competitiveness Council, and the Regulatory Commission on Unfair Trade Practices), but approval and entry into force of a set of important legislation and the functioning of certain institutions, included in the triggers for the loans not approved, is still pending.²⁹ In energy, the reform agenda advanced slowly, and there was almost no progress on the most important institutional and regulatory changes the sector needs. What is more, the bulk of medium- and high-depth reforms were in the phases that ultimately were not approved. However, these changes are expected to materialize with the signing of the electricity pact, the date for which has not yet been set.³⁰

The depth of the policy conditions exceeded the CID and Bank averages (Figure 2.3). Considering the series begun since 2013, 23% and 65% of the conditions of the approved loans have had a high or medium depth, respectively. This exceeds the averages for the Bank and for other Central American countries (document RE-485-6).³¹ Several of the high depth conditions had already been met or were well advanced at the time the operations were negotiated (many as a result of Bank dialogue and technical support). For example, the Bank supported the development of the majority of conditions in the Fiscal Strengthening Support Program, such as the passing of a Tax Reform Law and implementing the single treasury account before the PBP was approved.

All the programmatic series were accompanied by technical-cooperation operations to support the policy dialogue, diagnostic study, and fulfillment of the conditions. The technical cooperation to Support for Health Sector and Social Security Reform (DR-T1098) is particularly important, as it finances consulting services to analyze the financial sustainability of the social security system and the adequacy of the pensions system; the funding model of the recently created National Health Service; and the new structure and regulations of the regional health services, *inter alia*.

FIGURE 2.3
Depth and fulfillment of PBP triggers

Note: OVE has classified the PBP triggers according to their depth, indicating the extent to which the trigger could prompt policy reforms or long-term institutional change. Since four of the five series examined were truncated, OVE also analyzed the extent to which the Government of the Dominican Republic had progressed with the reforms even though the series was not completed.
Source: OVE.



D. INVESTMENT LOANS

With a view to providing budgetary support a significant portion of the investment loans approved complemented policy-based loans. In all, 91% of the loan resources approved in the health and social protection sectors financed current expenses, in some cases retroactively.³² During the evaluation period, just under half the amount approved in investment loans was devoted to health, fiscal management, and energy. These were sectors that had not received interventions with this type of instrument since at least 2008. In the case of health (which represents 31% of the amount approved for investment loans), the Bank had not approved any loans since 1997.³³ In energy and fiscal management, the most recent investment loans were approved in 2008 and 2007, respectively (Table 2.3).

The Bank stepped up its support for the education and productive development sectors, while it scaled back support for social protection. Between 2013 and 2016 the Bank doubled the amount approved for investments in education, focusing on early childhood (DR-L1077). In productive development and competitiveness, the approved amount increased by 68%, focusing on MSMEs, tourism development, and San Juan province. The total approved for social protection (a sector in which one loan a year had been approved between 2009 and 2012 with a strong emphasis on conditional cash transfers) dropped by 75%. One explanation for this is that, as was recommended in the previous CPE, it was important to wait for operations to have substantially disbursed the components not associated with conditional cash transfers before approving new loans. The legacy portfolio of investment loans included operations in social protection, education, fiscal management, electricity, agriculture, tourism development, water supply and sanitation, and transportation (Table 2.3 and Annex I, Table I.3).

TABLE 2.3: INVESTMENT LOANS BY SECTOR, 2009-2012 AND 2013-2016

Approval period	Sector	Instrument type	Number of loans	Amount (US\$ million)
2009-2012	Social protection	Multiphase	3	250
		Specific investment	2	150
	Education	CCLIP	2	100
	Productive development and competitiveness	Specific investment	4	92
	Other sectors	Specific investment	3	84
	Total 2009-2012			14
2013-2016	Social protection	Specific investment	1	100
	Education	Specific investment	1	200
	Health	CCLIP	1	100
		Specific investment	1	146
	Productive development and competitiveness	Global	1	35
		Specific investment	2	120
	Fiscal management	Specific investment	1	25
	Electricity sector	Specific investment	1	78
Total 2013-2016			9	804

Source: OVE based on OVEDA.

During the evaluation period, the Bank's Country Office made an effort to cancel, wholly or partially, a series of approved investment loans that had ceased to be government priorities. This delayed their legal entry into effect (ratification by Congress) and eligibility, and reduced their budgetary frameworks in a context of public spending constraints.³⁴ This cancellation made it possible to focus program implementation on the priority loans. The Bank's Country Office also made a significant effort to ease bottlenecks affecting implementation, including justification of the annual implementation program with the Ministry of Finance.

Although the cancellation of the investment loans helped improve the pace of program implementation, it also reduced the relevance and effectiveness of its implementation in those areas where operations were cancelled. The cancellations affected lines of work the Bank has developed with the country over the medium term. These included support for innovation, research and development in agriculture (partial cancellation of PATCA and total cancellation of the Agricultural Research and Development Program) and support for modernization of budget management (PAFI II, DR-L1070).

E. LOAN PORTFOLIO PERFORMANCE (EFFICIENCY)

The efficiency of the portfolio of sovereign guaranteed loans improved, with a reduction in preparation and execution costs. Portfolio performance measured in terms of the pace of disbursements has improved substantially in recent years. However, challenges persist as regards estimating loan duration, particularly in the case of multiphase loans.

Loan preparation

The cost of preparing investment loans and PBLs has dropped by 66% and 67%, respectively, compared with the previous period, despite the slight increase in preparation times for sovereign guaranteed loans approved since 2013. Preparation costs (per million approved) for investment loans fell from US\$12,500 in 2009-2012 to US\$4,188 in 2013-2016—below the Bank’s average but above the CID average (Table 2.4). In the case of PBLs, average preparation costs in the Dominican Republic are below the CID average and that of the Bank overall. However, these costs vary widely from year to year, with averages above those for the rest of the region in 2005, 2006, and 2011 (Annex I, Figure 1). By contrast, preparation time from pipeline to approval has increased slightly, from 11.2 months between 2009-2012 to 13.5 months between 2013-2016.³⁵

The reduction in preparation costs is partly due to the increased amount and proportion of the portfolio approved using programmatic instruments. For programmatic loans approved in 2009-2012, the cost of preparing the second operation is just 40% of the cost of preparing the first (Table 2.5). For loans approved in 2013-2016, the cost of preparation of first operations has been found to be significantly lower than in the previous period, due to the large volume of funds approved via PBPs (breakdown in Annex I, Table 6).

TABLE 2.4: AVERAGE PREPARATION COSTS PER US\$ MILLION APPROVED

Instrument	Location	Approved between 2009-2012	Approved between 2013-2016	Percentage change
Investment loans	Dominican Republic	12,500	4,188	-66%
	CID	16,371	3,640	-78%
	IDB	15,007	6,329	-58%
PBL	Dominican Republic	1,684	555	-67%
	CID	2,647	1,074	-59%
	IDB	4,331	3,512	-19%

Source: OVE based on OVEDA.

TABLE 2.5: AVERAGE PREPARATION COST OF PROGRAMMATIC LOANS IN US\$, ACCORDING TO PROGRAM PHASE (PER US\$ MILLION APPROVED)

Program phase	Approved in 2009-2012	Approved in 2013-2016
1st operation	4,797	721
2nd operation	1,937	--

Note: The cost of the first operation corresponds to the average cost of preparing first operations in all programmatic loans approved in the corresponding period. The same criterion applies to the second operation. Table 6 in Annex I details each of the loans included. Between 2013 and 2016 only one second phase operation was approved (DR-L1079). No information is therefore reported in the table.

Source: OVE.

The four sovereign guaranteed loans cancelled between 2013 and 2016 had a total preparation cost of over US\$940,000. For the majority of cancelled projects, the time between approval and cancellation was more than a year. However, the loan for the Modernization of the Dominican Republic's Budget and Financial Management was cancelled four months after its date of approval. Additionally, three nonsovereign guaranteed loans were canceled, with a total preparation cost of US\$482,000 (Annex I, Table 7).

Loan execution

The pace of disbursements in the investment portfolio approved since 2000 has been slightly slower than the regional average (Annex I, Figure 2.4). However, the Bank's Country Office and the government have taken steps enabling a substantial improvement in the performance of loans approved since 2009 to be seen (Figure 2.4). The portfolio approved since 2009 outperformed the IDB and regional averages over the first two years (Annex I, Figure 2).

The portfolio's rate of disbursements varies significantly depending on the type of instrument. The fastest loans in terms of execution have been CCLIPs. Figure 2.5 shows the rate of disbursements by instrument type. CCLIPs³⁶ disbursed fastest and even managed to execute the complete loan more than a year in advance of the other instruments. Multiphase loans disbursed slightly faster than the country average during the first three years, but their pace then slowed, mainly as a result of execution problems affecting two loans: (i) a road infrastructure loan (DR L1008), the active portfolio's slowest project in terms of disbursements, reaching only 50% disbursement after four years; and (ii) loan for Support for the Social Protection Program—Third Phase (DR-L1047), execution of which has been extended by four years. The remainder of the investment loans (specific investments and other investments) had rates very similar to the national average.

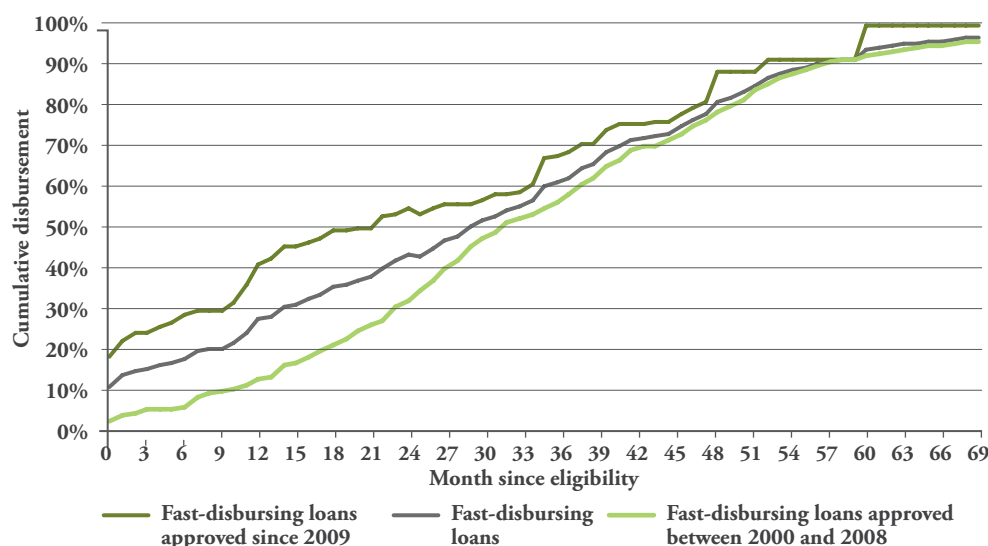
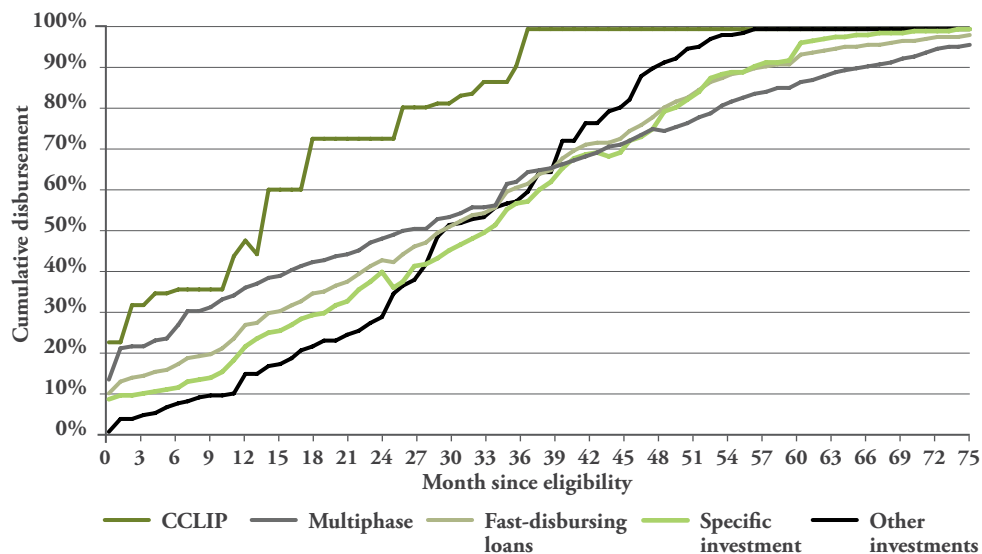


FIGURE 2.4
Rate of disbursement of SG investment loans - comparison between approvals in 2000-2008 vs. 2009-2016³⁷

Note: The vertical axis corresponds to each operation's average cumulative percentage disbursement.
Source: OVE

FIGURE 2.5
Rate of disbursement by type of instrument (SG investment loans approved 2000-2016)

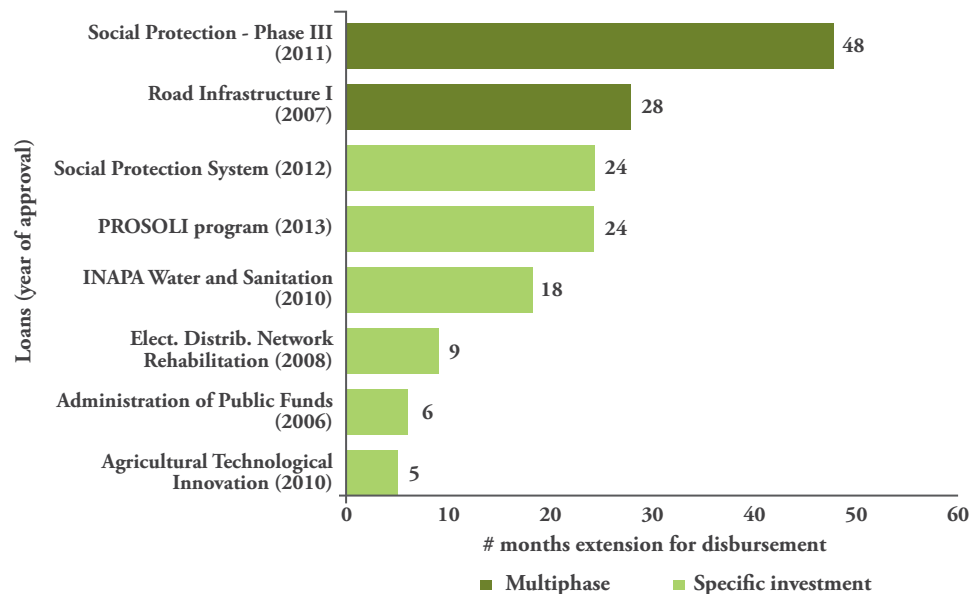
Note: The vertical axis corresponds to each operation's average cumulative percentage disbursement.
Source: OVE



Execution costs per million disbursed dropped by 27% for active loans between 2013 and 2016. This was accompanied by a reduction in the extension of execution periods. Execution costs per million disbursed for active sovereign guaranteed loans dropped from US\$19,081 in 2009-2012 to US\$13,921 in 2013-2016.³⁸ Extensions of execution periods were shortened from an average of 17 months for loans active between 2009-2012 to nine months for loans active between 2013-2016.³⁹ However, 47% of loans active between 2013-2016 still had extensions. The two projects with the longest extensions were the multiphase project Support for the Social Protection Program—Third Phase (DR-L1047) and the Multiphase Program for Road Infrastructure—Phase I (DR-L1008), with a difference between the initially scheduled completion date and the updated completion date of four years and just over two years, respectively (Figure 2.6).

FIGURE 2.6
Extension of disbursement period in active sovereign guaranteed loans (2013-2016)

Note: For brevity, a shortened version of the project names is shown.
Source: OVE.



F. USE OF COUNTRY SYSTEMS

Progress in terms of the use and strengthening of country systems during the evaluation period was mixed. Progress was made on supporting the government as it began the process of adopting International Public Sector Accounting Standards and progress was also made on the use of country procurement systems. In November 2016 the Bank's Board of Executive Directors approved the partial use of the Dominican Republic's procurement systems. The Bank supported the strengthening of the country's procurement management system with the implementation of the Program to Modernize Public Resource Management (DR L1005). Progress on the strengthening of external control and supporting the national internal control system and government audit system was slower, and the country strategy targets were not met in those areas (Annex I, Table 8).

G. ROLE AND COORDINATION WITH OTHER DONORS

Apart from the IDB, the main donors in the Dominican Republic include the World Bank, Spanish Agency for International Development Cooperation (AECID), the Andean Development Corporation (CAF), and the European Union (Annex I, Table 9). The net multilateral flow to the Dominican Republic between 2013 and 2015 was US\$643 million, of which US\$30.7 million was from the World Bank. Additionally, the World Bank included a financial envelope of US\$550 million in its 2015-2018 strategy, complemented with US\$200 million from the International Finance Corporation (IFC). AECID's 2013-2016 plan includes the Dominican Republic in the group of priority countries for Spanish cooperation. The CAF approved more than US\$130 million between 2013 and 2015, as well as ongoing renewal of the credit line for Banco BHD.⁴⁰ The European Union approved an indicative €71.8 million plan for the period 2014-2020. Donor coordination is satisfactory and is mainly carried out at the sector level and at the aggregate level through the Ministry of Finance and the Ministry of Economy, Planning, and Development (MEPyD). The Office of the Deputy Minister for International Cooperation at the MEPyD has implemented the National System of International Development Cooperation (SINACID) to improve the coordination and effectiveness of nonreimbursable international cooperation funding.

Other international donors have included direct budgetary support for specific sectors among their instruments. This support is linked to policy reforms and the accomplishment of sector development targets. For example, in education the European Union and AECID have channeled €45.5 million and €1 million, respectively, into the second phase of the Budgetary Support for the Education Sector Program (PAPSE II).



The Bank's program in energy centered on rehabilitating distribution networks, reducing technical and non-technical losses, and improving service quality through two sovereign-guaranteed investment loans.

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3 Effectiveness of the Bank's Program

A. MACROECONOMIC STABILITY AND FISCAL MANAGEMENT CONDUCTIVE TO SUSTAINABLE ECONOMIC GROWTH

The macroeconomic stability pillar of the country strategy sought to strengthen fiscal management by improving the efficiency of tax administration and increasing the quality and transparency of public spending. As these challenges largely depend on the performance of the electricity sector, the country strategy also set aside resources to improve this sector's efficiency and financial sustainability.

Fiscal management and reform

The Bank sought to support the strengthening and reform of fiscal management by combining PBPs, investment loans, and nonreimbursable technical cooperation with mainly satisfactory results. However, the interruption of the PBP series and cancellation of projects has diminished the program's effectiveness. The series of PBPs for fiscal strengthening aimed to support the public finances by reducing the government deficit in a framework of medium-term fiscal sustainability. The reforms supported an increase in tax revenue collection and enhancement of tax quality, accompanied by a rationalization of public investment. They also pursued the stabilization of current transfers to the electricity sector and improvements to financial management control, particularly in the case of non-tax income and central government payroll. The PBP series was complemented by investment loans (PAFI, DR-L1005, and PAFI II, DR-L1070, which was canceled) focused on the financial management of public resources. The investment loans sought to strengthen the institutional capacity of the Ministry of Finance; consolidate the Financial Management Information System (SIGEF), and support its roll out to the decentralized non-corporate public sector; promote economy, efficiency, and transparency in State procurement

and contracting, and implement an internal control system; and institutional strengthening of the Office of the Comptroller General so that it is able to act as the apex agency for the system.

Progress in terms of the country strategy's outcome indicators in the fiscal sector was mixed (Annex I, Table 10). Public investment prioritization and planning systems were strengthened, increasing budget predictability, but it was not possible to reduce fiscal expenditure in corporate income tax. Progress was also made on strengthening the single treasury account (CUT) and the civil servants administration system (SASP).

Although it is difficult to measure the Bank's contribution to changes in the country strategy's outcome and fiscal management indicators, it was important, although incomplete, as not all the targets were met. In general terms, the Dominican Republic's public finance management system showed it was performing better in 2016 than in 2012 and is partially aligned with international good practices (see Public Expenditure and Financial Accountability Review 2016). Implementation of the conditions of the first operation of the Fiscal Strengthening Support Program (DR-L1064) series and progress on implementing a significant share of the conditions for the phase that was not approved helped boost tax revenues and strengthen fiscal management, partially achieving the program's objectives (Annex II). In 2014 the government managed to reduce the fiscal deficit to 2.8% of GDP (achieving the target of a maximum of 3.2% of GDP required to trigger the second phase of the fiscal programmatic series) and increase tax revenues from 14.1% of GDP (above the 13.5% of GDP registered in 2012, but below the 14.6% target for triggering the fiscal programmatic series). The Program to Modernize Public Resource Management (DR-L1005) completed execution satisfactorily and achieved most of its targets (Annex II, Table 4).

Energy

The Bank's program in energy centered on rehabilitating distribution networks, reducing technical and non-technical losses, and improving service quality through two sovereign-guaranteed investment loans (DR-L1026 and DR-L1034). Support for the rehabilitation of distribution networks is based on the strategic plan of the Dominican Corporation of State-owned Electricity Companies (CDEEE), and the most recent loan (DR-L1034) includes an additional commercial and demand management component. During the period the strategic indicators set out in the country strategy were improved (Annex I, Table 11). The results of the first loss reduction project (DR-L1026) were mixed. The network refurbishment targets (in terms of kilometers refurbished) and customer social management plans were met, but not all the revenue index, percentage loss, cash recovery index (CRI), and hourly service quality indicators were achieved (Annex II, Tables 5 and 6). The second loan (DR-L1034) has made satisfactory progress on supporting improvements to the quality of the services provided by the electricity distribution utilities, but progress on

improving their operational efficiency has been slow. The improvement to the revenue and percentage loss indexes, and the cash recovery index, varied from one utility to another. Despite the improvements observed, the results achieved fell short of those planned for 2016 (Annex III, Table 7).

Support for electricity sector reform during the period was minimal as the programmatic series for the Sustainability and Efficiency of the Electricity Sector was interrupted following approval of the first operation in 2011 (DR L1050). The program sought to support reforms in the electricity sector and involved issues being discussed in the electricity pact. The first operation supported the government by building its capacity to implement the sector reforms and policies needed to drive financial sustainability and operational efficiency in the sector. The subsequent operations concentrated on legislative and policy changes, both in terms of the rate structure and to strengthen demand efficiency, as well as consolidate the use of the indicative approach to contracting new generation capacity and the process of financial and operational improvements at the electricity distribution utilities (Annex III). Despite the interruption of the PBP series in the sector, the Bank continued its support for policy dialogue by financing studies on the electricity market and rate structure, and consumer surveys.⁴¹

Support for diversifying the Dominican Republic's energy mix was very limited. Although the Dominican Republic has considerable potential for power generation from renewable technologies, the shortcomings in the sector's legal and institutional framework and regulatory insecurity limit private participation in promoting diversification of the energy mix (Annex III). There has been little development of private renewable energy projects due to shortcomings in the allocation of concessions, problems of bankability, lengthy bureaucratic processes, and changes in government priorities regarding the conditions of power purchase agreements. The slow pace of the reforms and the Bank's limited success with private sector projects supporting concessions explain the limited support to the development of renewable energy sources during the period. Meeting the Dominican government's targets for diversification of the energy mix (25% of power generation using renewable technologies in 2025) will suffer a setback with coal-fired power stations coming on stream, which will reduce the share of renewables in the energy mix from 19% to 16% of installed capacity. Support for achieving the government's objectives for diversifying the energy mix, as set forth in the national development plans and international commitments, need to be a priority for the Bank in the medium and long term.

B. INVESTMENT IN HUMAN CAPITAL

In the human capital pillar, the country strategy sought to consolidate the effectiveness of the social safety net by creating incentives for investments in health and education, while improving the quality of the supply of social services.

Social protection, health, and social security

Unlike the previous evaluation period, when one social protection loan per year was approved, between 2013 and 2016 only one social protection loan was approved. This resulted in the implemented program achieving some but not all of the strategic objectives. Two of the loans previously approved to support the consolidation of the social protection system (DR-L1047 and DR-L1053) continued in execution during the period.⁴² (Annex IV, Figure 1). The country strategy sought to increase the effectiveness and efficiency of the social safety net by: (i) improving the targeting of social assistance programs; (ii) strengthening the operational structure and providing technical support to adjustments to the system of coresponsibilities under the PROSOLI program; and (iii) improving the operational coordination with the education and health sectors, and institutions linked to employment intermediation and training services. As regards the first strategic objective, the only new components aiming to improve targeting were in the loan to support the PROSOLI program (DR-L1059) through the evaluation agenda, which includes a proposal to rationalize dispersed and overlapping programs. However, this component has not been completed to date. Progress was made thanks to operations approved in the previous period (DR-L1053 and DR-T1083) that contributed to improving the quality of life index used as a targeting and skills development instrument within the Master Beneficiary System (SIUBEN). As regards the second strategic objective, the program includes elements contributing to this objective (verification audits and mobile devices for monitoring) but progress has so far been moderate. The operations do not include any components addressing the third objective.

Progress on the country strategy's outcome indicators was positive in the case of most of the indicators for which information is available (expenditure efficiency, poverty gap, and vaccination coverage, Annex I, Table 13). The poverty gap has narrowed and the targeting of social assistance spending has improved, with an increase in the percentage allocated using official targeting instruments from 53% in 2011 to 59% in 2016. No information exists for the remainder of the indicators (specific to health and education). These were due to be measured in the Social Protection Assessment Survey (EEPS), which was used to draw up the 2011 baseline, but has not been conducted again since.

At the implemented program level, loans and TC operations are achieving significant results in improving social assistance coverage. The three loans have benefited 3.3 million people (756,000, 1,568,000, and 995,000 people, respectively). This has helped the PROSOLI program achieve a coverage of 81% of poor households (data from the Social Policy Coordination Bureau (GCPS)) and achieve 92% of the loan coverage target. Despite this progress, the program's fiscal impact poses a risk, as to increase coverage the target for the number of beneficiaries and the amount allocated to conditional cash transfer programs were increased without presenting any fiscal sustainability analysis.⁴³

Progress on institutional strengthening and improvements to monitoring and evaluation systems have been moderate relative to the targets and there has even been a decline in financial support (Annex IV, Figure 5). Despite the foregoing, progress has been made on strengthening the Master Beneficiary System. The quality of life index was amended to reduce the targeting errors (in terms of both inclusion and exclusion) and 30 government employees from all levels were trained. However, leakage and undercoverage errors can be reduced yet further. Two audits to verify coresponsibilities were conducted, although key outputs to make the PROSOLI program more effective have not materialized. These include the communication strategy to improve understanding of the coresponsibilities, mechanisms to verify progress, the family tie monitoring system (for which localities are responsible and make visits to beneficiaries' homes), and the ongoing updating of the program. Nor has there been an evaluation of the PROSOLI program (the design has been completed) or a social protection evaluation survey. The latter is the baseline survey for measuring many of the impact indicators identified in the strategy. Despite this, the Bank's assistance is rated positively by counterparts, not only in terms of financial support, but also the technical support provided by its specialists and its capacity to facilitate an exchange of experiences between countries facing similar problems.

Two of the social protection loans (DR-L1047 and DR-L1053) have major components to strengthen supply and improve the quality of health services. These have made progress toward their objectives, mainly by training staff at regional health services and primary care centers. However, progress still needs to be made on various indicators, particularly medical equipment, implementation of the primary health care model, the blood bank, and expansion of the clinical management system, all of which are outputs currently under execution.

In 2013-2016 the Bank approved four loans for the health and social security sectors, combining support for policy reforms via PBPs, support for results based funding (RBF) via a CCLIP, and an individual investment loan (Annex IV, Figure 3). These loans contributed to progress on all the country strategy's strategic objectives, which were: (i) strengthening primary healthcare, (ii) improving the quality of healthcare services at all levels of care; (iii) making healthcare spending more efficient; (iv) developing policies to improve the performance of human resources; and (v) consolidating key aspects of healthcare reform. The loans implemented contributed to fulfillment of these objectives. First, owing to their RBF component, the investment loans helped improve the efficiency of health spending and strengthen primary care, with over 90% of the resources being allocated to this component (Annex IV, Table 4). They also contained an institutional strengthening component aimed at the Ministry of Public Health, helping consolidate key elements of the reform. Second, the PBP included triggers that also contributed to these objectives. By way of example, quality policy is one of the PBP's conditions, thus contributing to objective (ii); the Health Career Law and its regulation, which were also included as conditions, contributed to objective (iv); and the separation of functions contributed to objective (v). However,

the PBP also supported social security reform, although this had not been identified as a priority in the country strategy. The lending program was complemented by TCs producing high quality strategic technical inputs for the design and implementation of sector reforms, generating Bank value added beyond financing.

The most significant progress on the country strategy outcome indicators was broader coverage of the subsidized regime. Progress on the other indicators for which information exists has been limited. Insurance has expanded over recent years, but has not yet reached universal coverage. In the case of preventive services, modest progress has been made on family planning and the treatment of high blood pressure (Annex I, Table 15).

The PBP series policy matrix reflects a relevant and appropriate selection of the measures necessary to make headway on sector reform, an effort that will require further gradual changes (beyond the achievement of the PBL conditions). The PBL has already disbursed both of the loans envisaged in the program. In social security, through the Support for Consolidation of the Social Security System to Improve Coverage and Efficiency component, the Bank has supported key elements of social security reform such as: reform of the Social Security Law so that the Dominican Social Security System can expand its coverage in an efficient and financially sustainable way; implementation of a subsidized pensions scheme and pay-as-you-go state pension system; and development of information and monitoring systems, etc. In health, through the Improved Efficiency of the National Health System component, the Bank is supporting the separation of the healthcare governance and service delivery roles, and strengthening them; developing the new model with primary healthcare as the gateway to the healthcare system; developing the new quality policy; strengthening healthcare careers; updating the health services plan; and strengthening the National Health Insurance (SENASA) in its actuarial role.

Implementation of the separation of the healthcare governance and service delivery roles is still pending, but progress has been made in important areas. The bodies involved in healthcare reform (Ministry of Public Health, Regional Health Services, and the National Health System) are facing changes to their structures and roles. Moreover, this process has been accompanied by negotiations with health unions and stoppages at hospitals, which has also affected progress. Although the separation of roles has not concluded, there has been concrete progress on various important elements, including the development of a new healthcare quality policy, the licensing of more than 2,000 health-sector facilities, and updating of the Health Services Plan (PDSS) catalogue. The latter was also supported by the TC on Support for the Social Protection Program Phase III (DR T1077). Implementation of the reform requires defining the functional and operational structure of the National Health System and the Regional Health Services, and the equipping of primary healthcare units. The referral and counter-referral systems are also not yet operating appropriately. This seriously impedes the implementation of the new healthcare model in which primary healthcare centers are to be the gateway.

Although investment loans have made progress on supporting implementation of RBFs and Mother and Childcare Centers of Excellence (CEMI), progress still needs to be made in other important areas. The target of paying for the resources (capita) using RBF for poor population segments belonging to the subsidized scheme has been fulfilled. There has also been significant progress on registration with primary healthcare centers and the training of health personnel in emergency obstetric care. However, progress still needs to be made on various elements of institutional strengthening of the governance role (updating the regulatory framework for the Medicines, Foods, and Medical Products Bureau; the preparation of a Ten-year Health Plan; or the installation of clinical management systems for the second and third level, etc.) and on the strengthening of public health services (human resources hiring model, conversion of health facilities according to the new classification, nine implementation plans for the new single public network (one for each Regional Health Service), etc. (Annex IV, Table 12).

Education

Execution of the second CCLIP loan (DR-L1056) supporting the Ten-year Education Plan continued during the evaluation period, and at the end of the country strategy period, a loan to Support Early Childhood Development (DR L1077) was approved, contributing to progress towards the strategic objectives. The country strategy's strategic objectives were to: (i) improve the quality of basic and secondary education; and (ii) support the expansion of early education coverage, targeted on the most vulnerable population segments. The CCLIP contributed to achieving the first objective, as it specifically sought to support Ministry of Education's (MINERD) efforts to improve performance and efficiency at basic and secondary education schools, consolidate the policy of improving reading, writing, and math in the first cycle of basic education, and expand school infrastructure. The early childhood development program contributed to the second objective by supporting expansion of quality early childhood services, but it is still too early to assess progress. The loans were complemented with TC and technical assistance in the sectors of early childhood, educational performance assessment, improving management, and teacher training and evaluation (Annex IV, Figure 2).

No information is available to evaluate the country strategy's strategic indicators for improvements in learning and consolidation of the early childhood care system, but there was an improvement in the effective promotion indicator in basic education (Annex I, Table 14). Promotion rates in the first cycle of basic education have improved, rising from 87.1% in 2011-2012 to 91.2% in 2014-2015. In the case of the results of national tests, the MINERD does not produce its results in the same form as the strategy indicator. Nonetheless, evaluations are available, the results of which are explained later in this section. There is no information on the strategic indicator of the percentage of children ages 3 to 5 in the first and second quintiles who attend care and childhood development services.

The main outcomes of the CCLIP to support the Ten-Year Education Plan were in the development of infrastructure to extend the school day, and support to improving quality through training for teachers and technical staff (Annex IV, Table 10). In the infrastructure component, the most significant progress was in the construction of six new basic education schools, the adaptation of 58 buildings for the extended school day, and the construction of 56 classrooms for secondary education. As regards improvements to the quality of basic education, the main advances have been in training over 8,450 teachers and technical staff on teaching and management aspects, and the delivery of 500 packages of teaching resources to beneficiary schools. Moreover, this component includes studies to measure the performance of schools with longer hours and the progress of learning outcomes.

Based on the MINERD evaluations of math and reading comprehension, positive – but limited – results were observed for 3rd and 4th grade students in the schools benefiting from the intervention. The schools supported by the Bank obtained better results on average than those not involved in the intervention in both mathematics and reading comprehension. Although the difference is significant, it is moderate (Annex IV, Figures 6 and 7). It is still too early to assess the impact of the extended school day, but an increase in the actual number of classroom hours has already been observed. Although MINERD established the baseline in 2015 and the impact evaluation is due to be conducted in 2017, the fact is that schools with longer school day have almost doubled the effective teaching time compared with those with half-day schedules (4.13 hours for the longer day vs. 2.33 for the half-day schedule).⁴⁴

C. PRODUCTIVE DEVELOPMENT POLICIES THAT PROMOTE PRODUCTIVITY AND BUSINESS COMPETITIVENESS

The country strategy sought to promote productive development and boost competitiveness by emphasizing the development of cross-sector supply chains; improving the productivity of MSMEs; strengthening value chains and improving market access; and giving priority to job creation in areas with the highest incidence of poverty. It is difficult to monitor outcome indicators in the strategy's results matrix and in some cases the results are not attributable to the program. Monitoring strategic targets based on the alternative indicators that can shed light on their achievement when there is no information, suggests that there was no progress on the strategic objectives (Annex I, Table 16).

The implemented program's objectives were more ambitious than those of the country strategy and combined PBP with investment loans and TCs. However, it achieved mixed results as it lost relevance as a result of operation cancellations. The Formalization and Productivity Improvement Program (DR L1072), approved in 2014, was the first of a series of PBPs intended to improve financial regulations, innovation for MSMEs, and stimulate social security system reform. The second loan is in the pipeline. The progress associated with the programmatic series to date was in the preparation of

legislation for the development of capital and insurance markets, improving export credit (creation of the Banco Dominicano de Exportación, BANDEX) and support for innovation, quality standards, formalization, and industrial property rights.

Four sovereign guaranteed loans and one TC were focused on improving connectivity and market access. The Multiphase Road Infrastructure Program (DR-L1008), which finished execution after multiple extensions during the evaluation period, is the only sovereign guaranteed program to address the objective of improving the country's connectivity. Three further programs sought to boost productivity and improve access for agricultural products to national and international markets (Agrifood Health and Safety Program, DR-L1048) and tourism development in the Colonial City of Santo Domingo (DR-1035 and DR L1084) to increase the competitiveness of the Dominican tourism sector. The first of these loans, approved in the previous period, has achieved largely positive results to date, but ran into implementation difficulties that affected the progress of some of its components (Annex V).

The Bank's program also included two operations to improve access to finance for MSMEs (DR-L1065 and DR-L1068), but cancellation of one of the operations reduced the scope of the program in the sector. The aim of the MSME Development Financing Program (DR-L1065) was to establish a financing fund and a guarantee fund for MSMEs to facilitate their access to medium- and long-term credit through financial intermediaries. This loan was cancelled in 2015. For its part, the loan for Productive Development and Competitiveness in the Province of San Juan (DR-L1068) includes two components: improved access to credit for SMEs and providing public goods enabling an environment conducive to production (for example, road refurbishment and irrigation management).

Disbursement of the Program in Support of Subsidies for Innovation in Agriculture - PATCA II (DR-L1031) was slow, and it was ultimately canceled. This meant that only 1,513 farmers benefited (compared with an original target of 9,400). The cancellation affected the cost-effectiveness of the intervention, given that initially it was planned to benefit – and investments were made in – eight regions, but in the end it was implemented in just two. A final impact evaluation (DR-T1074) measured the results obtained by PATCA among beneficiary farmers, finding positive impacts in farming income, productivity and technology adoption (Annex I, Table 17).

D. PROGRAM WITH THE PRIVATE SECTOR

The country strategy envisioned the IDB Group's private-sector windows focusing on supporting interventions in three areas: infrastructure, productive sectors and human capital. No new loans were approved in infrastructure, but there were four legacy loans that had been approved by SCF during the previous period. Three of these operations were canceled. In the productive sectors area seven loans for US\$87.1 million were approved, six of which were financial intermediation operations. Moreover, there were

three legacy loans that had been approved by the IIC during the previous period (two in telecommunications and one credit line to a financial intermediary aimed at SME support). No nonsovereign guaranteed (NSG) loans were approved for investments in human capital. The portfolio of approximately US\$340 million approved between 2009 and 2012 mainly comprised four infrastructure loans for US\$253 million. No new NSG infrastructure loans were approved during the analysis period. This explains the amount of the private sector portfolio of US\$87.1 million, primarily devoted to loans to small financial intermediaries. The IIC drew up a strategic selectivity document for the Dominican Republic in 2016 identifying the priority sectors on which it planned to focus its support. These corresponded to the needs of the country's private sector in a balanced way.

Legacy infrastructure loans envisioned financing two wind farms and two highway concessions. The energy operations and one of the highway concessions were canceled due to the lack of a favorable institutional and regulatory framework for concessions and PPPs. The OVE evaluation of the Bank's program with the country in the period 2009-2013 already highlighted that one of the highway concessions was generating significant fiscal consequences. Unless there is a change in the concession model, the fiscal impacts will continue to increase until the concession ends in 2031.

Operations with financial intermediaries were effective at supporting international trade but did not respond to companies' other needs for improved access to credit, particularly in the case of MSMEs. An IIC trade financing credit line mobilized more resources in the form of syndicated loans than expected. The operation was the IIC's largest ever syndication by number of participants and received an award as the year's best trade financing operation. The strategy's results matrix for the productive sectors (Annex I, Table 16) shows that MSMEs' access to credit improved by 0.4 percentage points. However, the majority of the credit offered locally consists of short-term credit lines (from nine to 12 months), which limits long-term productive investment (Fondomicro MSME survey, 2013). Operations to support financial intermediaries approved during the evaluation period were mainly devoted to financing foreign trade⁴⁵ offering only short-term export finance.

E. SUSTAINABILITY

The sustainability of the results achieved during the evaluation period and the period prior to the strategy was undermined by frequent cancellations of operations and the changing priorities of the Dominican government and ministries. The lasting impact of changes in policies and processes supported by the PBP program will largely depend on their implementation, which to date has been slow and subject to interruption. Interruption of the PBPs has also affected the development of some of the institutions that were supported by these instruments (see note 31 for more information) and the TCs associated with them. Investment loan cancellations in areas in which the Bank has built a long-term relationship also pose a risk to sustainability, particularly in

relation to fiscal management and support for agricultural innovation. Likewise, in the health area it is not clear that results-based funding will continue once the loan ceases to be executed as, according to interviews with various sector counterparts, there are no clear guidelines on continuing this system in the future.

Problems with the regulatory framework and rate structure in the electricity sector affect the sustainability of the investments in the Bank's program. The sustainability of refurbished networks will depend on the capacity of the distribution utilities to maintain the circuits in good condition. The distribution utilities remain weak in terms of their revenue and cash recovery indexes, which limits their capacity to sustain network improvement activities and provide a higher quality service over the long term. Charging rates for electricity that reflect generation, transmission, and distribution costs is also essential to the sustainability of the sector as a whole. The electricity sector continues to depend on fund transfers from the government and, apart from being a fiscal cost, the distribution utilities' unsustainable financial situation means they are unable to guarantee a reliable, quality power supply service that invests in distribution system improvements.



The Dominican Republic's public social spending remains relatively low, particularly in the health sector. This makes the need to improve spending efficiency and management more pressing, particularly as regards human resources.

4 Conclusions and Recommendations

The Bank placed priority on a programmatic approach to supporting policy reform in the Dominican Republic, and this was stepped up during the evaluation period, in terms of both loan approvals and the level of execution, but progress on the reforms has been slow and several PBPs have been interrupted. The policy conditions supported by the PBPs were deeper than the CID and Bank averages, but there was recurrent interruption of PBP series, at a rate slightly above the CID average and higher than the Bank average. Of the five programmatic series begun since 2009, only that supporting consolidation of the health sector and social security was completed. The progress of the reforms stipulated in the interrupted programs was mixed. Interruption of the programmatic series due to the government's changing policy priorities and delays in reaching consensus on the electricity pact and fiscal pact affected the effectiveness of the program to support key reform processes for the country.

The efficiency of the portfolio of the Dominican Republic's sovereign guaranteed loans improved, with a reduction in preparation and execution costs. During the evaluation period the Bank's Country Office made an effort to cancel, in whole or in part, a series of approved investment loans that ceased to be a priority for the government, delaying their eligibility or slowing their rate of execution. Although the cancellation of the investment loans helped improve the pace of program implementation, it also reduced the relevance, effectiveness, and sustainability of its implementation in the areas in which operations were canceled.

The IDB Group's support for the private sector was primarily channeled through credit lines for financial intermediaries. Although the country strategy included support for the private sector focused on developing infrastructure, human capital, and productive sectors, partly as a result of the difficulties with the concession support loans during the period 2009-2013, the bulk of nonsovereign guaranteed loan approvals were channeled through credit lines for financial intermediaries in order to facilitate trade and support SMEs and housing.

To make the Bank's program in the country more effective, OVE recommends that Management:

1. Give priority in the IDB Group's policy dialogue and its financial and nonfinancial product offerings to supporting reforms in the electricity and fiscal sectors. A significant part of the reforms supported by the PBP that were interrupted was left incomplete due to slow progress on the reform process. Accomplishment of a large number of development objectives supported by the Bank's program depends on the reforms in those sectors being effectively implemented.
2. Tailor the supply of loan modalities (PBP, loans based on results, investment, and NSG) to the country with the aim of achieving the necessary balance between budgetary support and achieving the development objectives of the IDB Group's strategy. Specifically:
 - a. Given the delays in implementing the reforms stipulated in the PBPs and their interruption, this instrument should be used cautiously, ensuring that the first phase includes high structural depth.
 - b. The Bank's offerings should also consider the use of instruments such as loans based on results, which other donors use in the Dominican Republic.
 - c. Given limited fiscal leeway, new investment loans must be carefully dimensioned, prioritizing offerings in areas where the country has a greater commitment to advancing its development strategy as well as those in which the Bank has invested in a medium-to-long-term relationship with the country.
3. Increase emphasis on components aiming to make public spending more efficient and improve quality in operations to support human capital accumulation and the provision of basic services. The Dominican Republic's public social spending remains relatively low, particularly in the health sector. This makes the need to improve spending efficiency and management more pressing, particularly as regards human resources. Likewise, in social protection there is still a high

percentage of social assistance delivered without official targeting mechanisms that could be optimized. In education, extending the school day has created an opportunity for the extra hours to help boost educational performance.

4. Step up efforts to promote private sector participation in the provision of basic infrastructure, renewable power generation, and rural electrification. OVE recommends support to strengthen the regulatory framework for public-private partnerships (PPPs) and institutional capacity to implement them, as well as a redoubling of efforts to take advantage of the synergies between the IDB Group's public and private sector windows in developing PPP projects.

- ¹ GDP re-estimated as of March 2016, by consensus of the Ministry of Economy, Planning, and Development, the Ministry of Finance, and the Central Bank of the Dominican Republic. Source: Ministry of Finance.
- ² Services in the largest sector of the Dominican economy (66.9% of GDP), led by the hotels, bars, and restaurants segment (8.2% of GDP). They are followed by industry (27.3% of GDP), which includes local manufacturing (11.4% of GDP), construction (10.4% of GDP), and manufacturing in free trade zones (3.8% of GDP), and agriculture (5.8% of GDP).
- ³ Observatorio MIPYMES [MSME Observatory], 2016.
- ⁴ Loan proposal DR-L1072, IDB.
- ⁵ FondoMicro MSME Survey 2013.
- ⁶ This was fundamentally the result of a sharp increase in the grants line due to the prepayment to Petrocaribe (see next footnote).
- ⁷ The collapse in oil prices, which have plummeted from US\$115 per barrel in 2014 to US\$35 per barrel in March 2016, has not only sharply reduced the cost to the country of hydrocarbon imports but also its dependence on Petrocaribe. The Dominican Republic paid off 98% (US\$4.027 billion) of its outstanding debt with Petróleos de Venezuela, S.A. (PDVSA) with a payment of US\$1.933 billion in January 2015 (at a discount of 52%). As of end-2014, this transaction lowered the external debt of the nonfinancial public sector from US\$23,811,300,000 (37.2% of GDP) to US\$21,717,200,000 (34% of GDP). The prepayment was financed with proceeds from a sovereign bond issue at 19.7 years.
- ⁸ Economic Commission for Latin America and the Caribbean (2016b).
- ⁹ *Source:* Antonio Morillo Perez, 2015, República Dominicana: Estimaciones oficiales de pobreza monetaria en marzo 2015 y determinantes agregados de cambios recientes [Dominican Republic: Official estimates of monetary poverty in March 2015 and aggregate determinants of recent changes].
- ¹⁰ Human Development Report. 2015. United Nations Development Programme.
- ¹¹ Mapa de Desarrollo Humano de la República Dominicana [Human Development Map of the Dominican Republic]. UNDP 2013.
- ¹² The figure reported corresponds to the average annual change in the Gini coefficient. Progreso Multidimensional: bienestar más allá del ingreso [Multidimensional progress: well-being beyond income], UNDP 2016.
- ¹³ Indicadores de desigualdad de género en República Dominicana [Gender inequality indicators in the Dominican Republic]. UNDP 2016.
- ¹⁴ World Development Indicators. World Bank.
- ¹⁵ PPPs are currently governed by a General Contracts and Procurement Law and its amendments and regulations (Laws 340-06 and 449-06, and Decree 490-07), and PPPs have been set up on an ad hoc basis without a standardized framework.
- ¹⁶ International Monetary Fund (2016).
- ¹⁷ IDB (2015).
- ¹⁸ Finance Department.
- ¹⁹ Dirección General de Crédito Público [Government Credit Directorate]. The second largest multilateral creditor is the World Bank, with US\$927 million.
- ²⁰ The legacy portfolio includes active operations as of the first half of 2013 with an undisbursed balance of more than 30%.
- ²¹ For 2016, only disbursements to 6 December have been considered.
- ²² Three multiphase investment loans, two loans under a CCLIP, two programmatic policy based loans (PBP), and a hybrid loan (Program to Support Competitiveness Policy II, DR-L1046).

- ²³ Under the Bank's classification the Group C countries are: Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay. The Group D countries are: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.
- ²⁴ Liquidity Program for Growth Sustainability (DR-L1040) and Fiscal Strengthening Program (DR-L1043). The first of these two loans was cancelled before disbursement.
- ²⁵ In keeping with the methodology developed by OVE in document RE-485-6, a programmatic policy-based loan (PBP) series is considered truncated if: (a) the government formally requests the discontinuation of at least one operation of the series; (b) there is no loan in the pipeline 24 months after the last disbursement date of the most recent operation; or (c) a pending loan in the series has remained in the pipeline for more than 36 months after the last disbursement date of the most recent operation.
- ²⁶ Although two of these series (the Program to Support Competitiveness Policy and the Power Sector Sustainability and Efficiency Program) began during the previous evaluation period, OVE included them in its analysis because they were interrupted during in this evaluation period.
- ²⁷ Loan proposal DR-L1064, paragraph 2.2.
- ²⁸ Although a Program for the Sustainability and Efficiency of the Electricity Sector II (DR-L1058) was added to the pipeline in August 2011, the Proposal for Operation Development (POD) has not yet been approved.
- ²⁹ For example, the National Competitiveness Council, which led development of the cluster, received a budget much smaller than that stipulated in the trigger for the loan that was not approved. Likewise, Pro-competencia did not issue the necessary regulations because it did not have an Executive Director—one of the triggers for the truncated series called for the allocation of a budget and staff for the operation of Pro-competencia.
- ³⁰ Signing was set for August 2016, but was postponed.
- ³¹ Unlike in other countries, PBPs in the Dominican Republic usually include conditions that involve the submission of legislative bills to the National Congress. For example, a third of the conditions of the Formalization and Productivity Improvement Program stipulated the submission to Congress of various legislative bills, including a legislative bill for a Check Law and Bankruptcy Law.
- ³² The components considered current expenses are the conditional cash transfers, in the social protection loan; and the financing of results-based benefits in health loans.
- ³³ Previously, only technical-cooperation operation had been approved.
- ³⁴ Four operations for US\$101 million to support insurance for natural disasters, agriculture, MSMEs, and budget management were cancelled in full; and balances pending disbursement on two operations for US\$38 million in agriculture and labor markets were cancelled.
- ³⁵ This average only includes sovereign guaranteed loans.
- ³⁶ The CCLIPs include two loans in education (DR-L1032 and DR-L1056) approved in 2010 and 2012, respectively, and one in health (DR-L1069) approved in 2014.
- ³⁷ Excludes policy-based loans and emergency loans.
- ³⁸ The reported execution costs refer to sovereign guaranteed loans. The list of loans active between 2013 and 2016 corresponds to those identified as part of the evaluation in the approach paper for this evaluation. This list of loans active between 2009 and 2012 corresponds to those included in the portfolio analyzed by the Country Program Evaluation 2009-2013.
- ³⁹ The reported extension periods only include sovereign guaranteed loans. Policy-based loans and emergency loans are excluded, as are canceled projects.
- ⁴⁰ Data obtained from the 2014 and 2015 annual reports and the website: <https://www.caf.com/es/paises/republica-dominicana/nuestra-accion/>

- ⁴¹ The technical-cooperation operations that support the Program for Modernization of the Distribution Network and Reduction of Losses (DR-T1116 and DR-T1122) financed a study on updating the technical rate or revising the rate structure for the Electricity Superintendency (SIE); the technical-cooperation operation for a regulatory study to optimize the electricity market (DR-T1128) financed a study on optimizing the wholesale energy market, while the Country Office used own resources to fund two surveys on the characteristics of different types of users and willingness to pay for service.
- ⁴² The legacy portfolio analyzed by OVE only includes operations with more than 30% of their balance pending disbursement as of 31 December 2012.
- ⁴³ Although the cost/benefit estimate of the conditional cash transfers in the Dominican Republic, prepared as part of the economic analysis, reports a positive net benefit, before continuing to scale up the program it is necessary to assess whether this benefit is uniform across different beneficiary populations. If it is not, the program's expansion needs to be accompanied by improved targeting.
- ⁴⁴ Uso del tiempo en centros educativos jornada extendida y media jornada en República Dominicana [Use of time in schools with the extended school day and half-day schedule in the Dominican Republic]. EDUCA 2015.
- ⁴⁵ Of the US\$87.1 million approved during the evaluation period, 90% was for operations to support financial intermediaries for foreign trade financing, 6% for an operation to support financial intermediaries for home improvement, and 4% for a loan to support the productive sector.