RE-371

Country Program Evaluation: Dominican Republic (2004-2008)

Office of Evaluation and Oversight (OVE)

Inter-American Development Bank
Washington, DC
August 2010

For internal use only

CONTENTS

ABBREVIATIONS

BCRD	Banco Central de la República Dominicana [Central Bank of the Dominican Republic]
BCS	Bank's country strategy
CAASD	Corporación del Acueducto y Alcantarillado de Santo Domingo
CDEEE	Corporación Dominicana de Empresas Eléctricas Estatales
CID	Country Department Central America
CNC	National Competitiveness Council
CORASAN	Corporación del Acueducto y Alcantarillado de Santiago
CPE	Country Program Evaluation
DOD	Disbursed and outstanding debt
DR-CAFTA	Dominican Republic-Central America-United States Free Trade Agreement
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	Foreign direct investment
FONDEC	Competitiveness Fund
FTZ	Free trade zone
GDP	Gross domestic product
IMF	International Monetary Fund
INAPA	Instituto Nacional de Aguas Potables y Alcantarillados [National Water and Sewer Institute]
KCPs	Knowledge and capacity-building products
MDG	Millennium Development Goal
OVE	Office of Evaluation and Oversight
PAHO-OPS	Pan American Health Organization
PATCA	Support for the Transition to Competitive Agriculture (Bank-financed program)
PBL	Policy-based loan
PDL	Performance-driven loan
PPMR	Project performance monitoring report
SEDLAC	Socio-Economic Database for Latin America and the Caribbean
SEEPYD	Ministry of the Economy, Development, and Planning
SIGEF	Financial Management System
SIUBEN	Sistema Único de Beneficiarios [National System of Beneficiaries]
UAAES	Economic and Social Analysis Advisory Unit
UNDAC-OCHA	United Nations Disaster Assessment and Coordination - United Nations Office for the Coordination of Humanitarian Affairs
UNDP	United Nations Development Programme
WB	World Bank

EXECUTIVE SUMMARY

The social and economic history of the Dominican Republic has been strongly shaped by the country's exposure to exogenous factors as well as endogenous conditions of vulnerability. These factors have varying effects on the well-being of the Dominican people, especially to the detriment of low-income groups. In the past decade, periods of economic crisis (2002-2003 and 2008-2009) have led to a steady rise in basic poverty levels (Ministry of Economy, Development, and Planning—SEEPYD, 2010).

This Country Program Evaluation with the Dominican Republic (CPE 2004-2008) is the second evaluation by the Office of Evaluation and Oversight (OVE) of the IDB's programming with the country. It is based on the conclusions and recommendations of the previous country program evaluation (CPE 1991-2003). According to that document, the key development challenges for programming were related to: the country's vulnerability to external shocks and greater international competition; vulnerability to natural disasters; the instability of the financial markets and the high financial and fiscal cost of the 2003 crisis; power outages with no solution in sight; and the impact of the crisis on social indicators. The key portfolio management and execution challenges were related to delays in the signature and ratification processes for projects and the selection of effective financing models in line with the country's financing needs.

The Bank's country strategy with the Dominican Republic (BCS 2004-2008) was developed in a context of recovery from the 2002 financial crisis and stabilization policies based on a standby arrangement with the International Monetary Fund (IMF) (2005). This arrangement entailed structural reforms in several areas of public and financial administration. Accordingly, the BCS identified poverty reduction as the central objective of the Bank's program. The vulnerability of the economy and the deterioration in the country's social indicators during the crisis justified this central objective of the BCS to support the government in its poverty reduction efforts. To achieve this objective, the BCS proposed an intervention model based on support for economic growth based on increased economic competitiveness, better quality and enhanced targeting of social spending, and more effective government.

The BCS 2004-2008 proposed a program that was subject to three fundamental restrictions: (i) it would unfold in a context of institutional reforms, borrowing limits within the framework of the IMF standby arrangement, and limited fiscal headroom for investment; (ii) project preparation, congressional ratification, and execution periods were traditionally long; (iii) a significant portion of the program was in a portfolio designed during other political and economic cycles, and adapting projects in execution to the new strategic proposal of poverty reduction would not be simple.

The previous CPE (1991-2003) pointed out the financing constraints and recommended that the Bank specify the composition of the program keeping in mind these constraints and the underlying causes that have hampered execution of the program. These constraints were not explicitly acknowledged when the 2004-2008 BCS was formulated. As a result of this and of the economic situation, most of the new health, education, and rural poverty investment projects included in the BCS did not come to fruition and those that were approved took an average of 20 months to be ratified. Indeed, of the 12 operations approved between 2005 and 2008, only eight had been envisaged in the BCS, such that the pipeline anticipation rate was 43%. Moreover, the standard metrics for measuring the costs and times associated with project preparation and implementation, as well as the efficiency of disbursements, reveal portfolio efficiency problems in that period. The BCS did not serve as the guiding framework for the Bank's strategic relationship with the country in accordance with the objectives established therein. As a result, the connection between the BCS and programming decisions was tenuous.

From a financial standpoint, for the period under analysis, the Bank was a major player in the country, with a portfolio comprised primarily of reform and budget support projects (PBLs). The Bank's share of the country's total multilateral debt has been 56%, which has covered 28% of the central government's deficit financing needs. The Bank's financial report refers to a period after the 2003 crisis when the Bank supported the IMF's financial bailout package. However, Bank flows in recent years have lagged considerably with respect to IMF flows. Beginning in 2006 and through 2008, net flows were negative, largely as a result of the extended project disbursement periods and the fiscal constraints stemming from the government's financial commitments. With respect to the use of financial instruments, the BCS recommended the use of new investment instruments (performance-driven loans, and sector-wide approaches). However, the approval of projects based on these new instruments did not come to pass, and ultimately, during the 2004-2008 period, the Bank made significant use of policy-based loans (PBLs), which represented 67% of the total approved, twice the rate for this instrument during the previous period (1999-2003). With respect to nonfinancial instruments, despite the institutional strengthening needs noted in the BCS for various sectors, the Bank and the country made limited use of technical-cooperation instruments and nonfinancial products. The Multilateral Investment Fund (MIF), for its part, tripled its portfolio during this period, principally supporting productive integration projects.

In general, the analysis of the relevance of the operations approved and those substantially disbursed during the 2004-2008 period reveals a weak correspondence between the proposed intervention approaches and the BCS central objective of poverty reduction. The BCS identified major problems with respect to the country's long-term challenges. However, the Bank failed to play an effective role in the dynamics of the country's political economy, and as a result of the constraints on the approval of programmed operations, in practice the approach that was to be implemented through the new instruments and operations never materialized.

Competitiveness pillar: Reduction of barriers to sustainable growth and vulnerabilities of the growth model

In the macrofinancial area, the Program complied with most indicators in the standby arrangement signed with the IMF, with respect to laws and regulations governing the financial and banking system. Nonetheless, credit restrictions persist and there has been insufficient development of other financial markets to energize the economic base and expand productive capacity, as was proposed in the BCS. The Bank's support within the framework of DR-CAFTA did not take advantage of the long ratification period to develop a strategy to adapt to the new game rules imposed by DR-CAFTA on the markets. The Bank also failed to help the country find new trading partners and diversify its target markets. The results, in some cases positive, of increased productivity under the Support for the Transition to Competitive Agriculture (PATCA) program and the Program for the Development of Competitive Advantages did not translate into improvements in the competitive position of the sectors with the greatest potential.

The Bank has consistently supported the job training and labor modernization sector. However, the experimental designs promoted by the Bank that tested specific training systems in terms of employability yielded modest results, and no institutional mechanisms were identified for multiplying the experience in the larger policy arena. Consequently, these experiences have been of limited importance, compared with other factors such as job stability and quality that have historically been the primary flaws in the Dominican labor market.

In the area of infrastructure, considering the magnitude of the problems identified in the energy and water sectors and the reform models called for in the BCS, the operations were not particularly relevant. In fact, the Bank does not seem to have played an active role in the process of reconceiving reforms it had supported in the past (privatization initiatives), but was relatively more relevant when it came to financing specific investments. These investments represent cyclical solutions to structural problems. In the case of the energy sector, the Bank's support was limited to an investment program to rehabilitate the distribution networks. This program is relevant and consistent with the imperative to improve distribution efficiency and management. However, this type of intervention is limited in view of the serious power supply deficit. In the water sector, efforts have fallen far short of the main challenge identified in the BCS, to provide safe drinking water to the majority of the population. Instead, limited residential coverage, low water quality, and high consumption of bottled water clearly indicate that the public supply of piped water has been replaced with a private supply of bottled water, with major ramifications in terms of the cost for low-income populations and the lack of quality control and regulation of the service.

With respect to natural disasters, the emphasis on prevention in the BCS was not realized because one of the prevention operations envisaged in the BCS (Integrated Watershed Management) was not prepared and the other project approved (Natural Disaster and Risk Management) took years to ratify. The foothold gained by the Bank in the sector as a result of the recovery project following Hurricane Georges was neither capitalized nor leveraged to incorporate the emphasis on prevention and reduction of environmental vulnerability advocated in the BCS into the Bank's action in the sector. In short, the lack of interagency coordination in the sector, the limited response capacity of the agents, and the gaps in risk management, as noted in the BCS, have not yet been resolved and remain pending on the agenda.

Social pillar: Reduction of poverty and social vulnerability

The strategy for the social pillar pivoted on growth oriented to poverty reduction and an approach based on identifying the risks affecting the most vulnerable populations. None of the interventions programmed in the BCS based on the use of innovative investment instruments, including sector-wide approaches for education and rural poverty and performance-driven loans (PDL) for group health, came to fruition. Instead, given the economic situation, this portfolio was restructured in favor of policy reform and budget support loans (PBLs). Although the BCS identified some of the problems topping the social agenda, in particular the high rate of poverty and its incidence in rural areas, the policy conditions of the PBLs only partially addressed the challenges identified in the BCS, limiting their relevance.

The social emergency program, approved in 2004, has been particularly relevant in terms of its timeliness and its contribution to macroeconomic and fiscal stability, but less so in terms of its substantive contribution and its anticipated impact on the quality of public spending and the efficacy of social programming. Moreover, the protection of interventions with low levels of targeting limited the overall relevance of the program, particularly in terms of mitigating the potential effects of the fiscal adjustment on the population living in extreme poverty. The social sector program approved in 2006 was relevant to the extent that it corrected the proliferation of social assistance programs in the wake of the crisis, by trimming the social assistance budget and reallocating it toward public spending on education and health. However, in a changing institutional context, there were major delays in program execution and the fulfillment of conditionalities, which led to the issuance of waivers. The relevance of the Bank's support for the implementation of a targeting instrument (SIUBEN) was limited during the 2004-2008 period since it was not until 2009 that the Bank supported government efforts to correct errors of inclusion, which limited its technical credibility for driving policy. In addition, the conditions promoted by the sector loan failed to stipulate a restructuring of government social spending for less volatility in budgetary allocations.

Governance pillar: Challenges related to public administration

One of the objectives identified in the BCS was to strengthen the government so it could provide basic public goods and services in an efficient manner. The BCS also advocated for public policies to mitigate their impact on the most vulnerable sectors of society. During the period covered by the BCS, the public administration was subject to major institutional reforms in the framework of commitments assumed under the IMF standby arrangement, which reorganized government functions, including the concept of universal budgeting and the separation of the national planning and fiscal administration functions. These changes imposed new interlocutors and new game rules for multilateral financing.

The Bank's action in the area of governance was limited to administrative reform. The programming analysis did not suggest any specific actions that would modify the *excessive degree of discretionality in public spending, the lack of transparency in public administration, and the lack of accountability,* which, according to its own assessment (2004-2008 BCS, paragraph 1.8), predetermine a significant portion of public policies. In the framework of the PROREFORMA program, the Bank ended up supporting the institutional reform processes promoted by the IMF, with which the Bank associated itself through the modification of its program to reform the Executive Branch, which had been in execution for several years. Generally, the achievements made under PROREFORMA in reforming the organizational structure have been significant. However, these reforms, which were supported by the Bank, did not always provide mechanisms for their consolidation, in light of their considerable historical volatility, thus limiting the relevance of the central BCS objective of improving efficiency in the provision of public goods and services.

Recommendations of the Office of Evaluation and Oversight (OVE) for the Bank's country strategy with the Dominican Republic (2009-2012)

The analysis of the strategic relationship established by the Bank with the Dominican Republic over the long term indicates that future strategies and programming decisions should pivot on considerations of the country's socioeconomic vulnerability. This vulnerability analysis points to a number of long-term challenges related to: (i) the diversification of commercial markets; (ii) dependence on remittance flows, which serve as a social safety net; (iii) a more diversified energy supply less subject to fluctuations in the international oil price; (iv) strengthening of the system ensuring access to credit to expand the productive base; (v) the creation of actuarial forecasting and coverage capacity for natural disasters; (vi) volatility in social spending, particularly on education and health, and its impact on the opportunities of low-income groups; and (vii) improvements in the regulatory and economic and social-service delivery functions of public policies.

This evaluation by OVE reiterates the recommendations it made in the previous CPE, which, although partially incorporated into the BCS 2004-2008 (Annex II), did not lead to a substantial modification of the Bank's strategy proposal, based on the results. In the interest of enhancing the relevance and results of the Bank's country strategy with the Dominican Republic for the 2009-2012 period, this evaluation makes the following recommendations:

Recommendation 1: The experience of the previous strategy suggests the need to develop a new country strategy for the 2009-2012 period, in order to update and incorporate into the programming the basic contextual restrictions in terms of borrowing limits, fiscal headroom for investments, restrictions on the balance to allocate, and changes in the scope of competence of the institutional and political interlocutors.

Recommendation 2: Steps should be taken to ensure that the Bank's program helps to strengthen the government's efforts with regard to medium- and long-term planning so that it becomes a guiding framework for the implementation of its programs. In particular, the Bank should focus on the country's long-term challenges and vulnerabilities, supporting the planning and implementation of economic and social policies to strengthen a social safety net that will mitigate the effects of external shocks on the most vulnerable groups.

Recommendation 3: The Bank should support the government in the harmonization of public-expenditure management in a fiscal stabilization framework with the expected results of the country's strategic planning. In order to increase the use of country systems for budget management, investment, and public debt, they will have to be strengthened to meet quality standards. The Bank should continue to support strengthening of the country's systems with technical-cooperation instruments and knowledge products (KCPs) to identify the basic flaws in the budget management and planning system.

Recommendation 4: The Bank should set its financial parameters in the design of the strategy and ensure that the flows of benefits produced by Bank-supported programs exceed their financial costs. The Bank should also guarantee that there is value-added in the form of knowledge. Particularly during periods of limited fiscal leeway for borrowing, the Bank should invest in KCPs to ensure the development of technical policy proposals that address the country's long-term challenges.

Recommendation 5: The Bank should ensure that the conditions attached to reform and budget support programs (PBLs) support policy reform processes, contributing technical value-added and acting as incentives to promote the agreed reforms under enforceability parameters.

Recommendation 6: Given the limited predictability and efficiency of the program, the Bank should establish a new relationship with the country based on shorter loan preparation, approval, ratification, and execution periods. It should develop alternative scenarios based on these restrictions, while aligning flows to the country with financing needs. It should also ensure that the active portfolio during the strategy period addresses the long-term objectives identified in the strategy.

Recommendation 7: The Bank should make its full complement of financial and nonfinancial instruments available to the country, to help the government strengthen its capacity to provide public services and regulate private services for the economy and society, ensuring that quality and targeting remain independent from the political cycle and guaranteeing these basic services for the most vulnerable groups.

Recommendation 8: The Bank should advance the environmental vulnerability prevention and reduction agenda for the country with various instruments based on the needs and interests of the stakeholders, including technical assistance, knowledge products, and grants. Specifically, in order to prompt the adoption of prevention-oriented policies, efforts should be made to identify the political economic factors that have led to the government's adoption of rehabilitation-oriented policies. In addition, the Bank should continue to invest in knowledge by building on the efforts made to identify policy options.

Recommendation 9: Given the increase in basic poverty levels, the Bank should place priority on the targeting of social assistance programs that comprise a social safety net and for which targeting would produce a demonstrable impact on the reduction of extreme poverty. To that end, the Bank's new programs should condition support on the consolidation of an effective system for targeting financing to the poorest groups and establishing an adequate supply of quality social services to expand their opportunities.

I. CONTEXT

A. Economic developments

1.1 **The Dominican Republic's recent economic history has been characterized by long periods of economic growth, alternating with shocks that caused short periods of economic slowdown, such as those of 1990-1991, 2002-2003, 2008-2009 (Figure 1, Annex I).** Indeed, after the 1991 balance of payments crisis, the Dominican Republic experienced a decade in which average annual GDP growth was 5.6% for nine years, the second highest growth rate in Latin America.[1] This favorable performance was also reflected in the low level of volatility (Figure 2, Annex I) and low inflation. The engines of economic growth were primarily free trade zone (FTZs) exports, the tourism sector, and remittances.[2] In 2002, the financial and banking crisis caused a sharp slowdown in growth. The crisis had an estimated cost of 20% of GDP, which was financed primarily with public debt (Figures 3 and 4, Annex I), causing a depreciation of the national currency, a spike in average inflation (Figure 5, Annex I), and a negative fiscal balance (Figure 6, Annex I). From a social standpoint, the consequences of the crisis were immediate. The drop in real wages strained Dominican household budgets, causing poverty and indigence rates to rise. In 2004, over 40% of the population was poor and the indigence rate climbed to 16% (Figure 7 a/b, Annex I). Concomitantly, income distribution deteriorated during this period.[3] From 2004 to 2008—the 2004-2008 BCS evaluation period—a rapid stabilization and economic growth recovery process began. But the 2009 international crisis again had an impact on growth rates.

1.2 **From 2004 to 2008, economic activity in the Dominican Republic grew an average annual rate of 6.8% of GDP, exceeding the regional average by two percentage points.[4]** FDI flows recovered to pre-crisis levels, growing to US$2.884 billion in 2008 (Figure 8, Annex I).[5] In 2004, the new administration implemented reforms and measures to combat the fiscal imbalance, primarily through a series of tax reforms that, among other things, raised the value-added tax and made a slight increase in the energy rate.[6] Another measure that accompanied this reform was the cut in public spending, primarily civil service spending, that led to a 10% cut in the public payroll. These measures, combined with the nascent economic recovery, had a moderate impact on the fiscal deficit. However, considering the losses generated by the parafiscal deficit (4% of GDP in 2004) stemming from the financial rescue, the consolidated fiscal deficit came in at 5.4% of GDP that same year.

1.3 **In January 2005, the government negotiated a standby arrangement with the International Monetary Fund (IMF)**. That arrangement called for the implementation of structural reforms aimed at correcting institutional weaknesses and a strong fiscal adjustment.[7] Based on the standby arrangement, the BCRD implemented a system of inflation targets, based on control of money aggregates, which translated into recovered confidence in economic policy management (Figure 5, Annex I).[8] The parafiscal deficit dropped to 1.8% of GDP in 2007.[9] In fiscal terms, significant progress was made. The nonfinancial public sector rose from a deficit of 4% in 2004 to a surplus of 0.4% in 2007. The tax reform measures,[10] together with the economic recovery, boosted tax receipts to more than 18% of GDP in 2007. The consolidated fiscal deficit was 2.1% in 2007 (Figure 6, Annex I).[11] These measures entailed borrowing limits. Although public debt management never threatened sustainability, it has been a government priority. Principal and terms were renegotiated with private external creditors.[12] Public debt fell to less than 25% in 2006 and then stood at 30% in 2008-2009 (Figure 3, Annex I).[13]

1.4 **Poverty reduction in the 2004-2008 period indicators has not kept pace with the economic growth rates recorded.**[14] While the country's poverty and indigence rates have been dropping since 2004, they are still higher than before the crisis (Box 1, Annex I). Specifically, although the percentage of the population below the poverty and indigence line was 27% and 8% respectively at the end of 2002, by 2009 the figures had increased to 34% and 10% (UAAES, 2010) (Figure 7 a/b), Annex I). Nor did levels of inequality improve significantly during the years of sustained growth (Box 2, Annex I).[15]

B. Vulnerabilities associated with the Dominican Republic's economic growth model

1. Exposure to external shocks

1.5 **Historically, the Dominican economy has exhibited a correlation with the U.S. economy.** During the 2004-2008 period, the United States continued to be the Dominican Republic's main trading partner, receiving about 70% of its exports, accounting for more than one third of its tourists, serving as its primary source of remittances, and representing over one third of the country's FDI. Accordingly, Dominican economic trends have been impacted by the current global financial crisis (2009) and the slowdown of the U.S. economy (Box 3, Annex I).[16] GDP growth for 2009 stood at 3.5%. External accounts have deteriorated, exports fell by an average of 10% in 2008-2009, and the current account deficit was 9% of GDP, almost double the level in 2007. An increase in the oil bill and the price of commodities accounted for most of the deficit.[17] However, it is worth noting that the impact of the international crisis was less than had been initially anticipated and the recovery stronger, with growth in the first quarter of 2010 estimated at 7.5%.[18]

1.6 In addition to these external conditions, during the 2004-2008 period, the Dominican economy faced major challenges arising from an economic structure based on FTZ exports, tourism, and remittances (Figures 9 and 10, Annex I).[19] First, FTZ exports (mainly textile) fell, and there was no alternate supply of exportable goods or market diversification able to offset their decline (Figure 11, Annex I).[20] The Dominican Republic–Central America–United States Free Trade Agreement (DR-CAFTA)[21] signed in 2004 and in force since 2007 did not have an impact in terms of increased exports (Figure 12 and Box 4, Annex I). Growth in tourism and its share in GDP have been sliding (Figure 13, Annex I).[22] Lastly, remittances fell by 5.2% in 2009, pointing to a decline after 10 years of average year-on-year growth of 7% (Figure 14b, Annex I). This decline is a potential contributing factor to social vulnerability inasmuch as remittances are a major source of family income and have served as a stopgap for the limitations of the social safety net.[23]

1.7 **At the same time, there are some constraints on the development and promotion of productive diversification,[24]** although the World Bank's *Doing Business* selected the Dominican Republic as one of the 10 countries in the world implementing more reforms aimed at improving the business climate and competitiveness in 2008. According to the World Economic Forum's Global Competitiveness Index, the areas placing the greatest constraints on productivity are: (i) institutional barriers and government policies, (ii) constraints in the financial and banking sector, (iii) the high cost and low availability of services, primarily in the electricity sector, and (iv) low education and labor market limitations. On this last point, the studies concur that with current levels of training and education, the Dominican workforce is limited in its ability to participate in productive diversification.[25]

2. Challenges associated with the operation of the financial and banking system

1.8 The Government of the Dominican Republic has made significant improvements in the regulatory and institutional framework of the financial and banking system. Nevertheless, the sector faces challenges going forward. Accompanying the standby arrangement between the Dominican government and the IMF, and supported by the multilateral banking community, financial intermediaries have been undergoing a process of transformation in recent years, pursuant to the Monetary and Financial Law (2002) aimed at consolidating the financial system[26] (Table 1, Annex I). The changes made in banking supervision set the stage for a recovery and improvement of the banking system's indicators for solvency,[27] quality of assets,[28] and economic return,[29] allowing bank credit to recover to pre-crisis levels (Figure 15, Annex I). Despite this progress, there is still no evidence of a significant increase in access to credit for small businesses, which have traditionally been the most vulnerable to tight credit. Moreover, there are still fundamental limitations in terms of the system's efficiency and stability. According to data from the Central American Monetary Council, levels of concentration in the system were the highest in the Central American region, with assets concentrated among the top five banks (89% in 2008); the flow of resources to the private sector in the Dominican Republic is among the lowest in the region (33% of GDP in 2007) (Figure 16, Annex I); the banks' operating expenses continue to be high,[30] and the rate spread has grown since mid-2008 (Figure 17, Annex I).[31] Deepening credit and instituting a consolidated risk supervision system are pending tasks.

3. Chronic deficit and gaps in public electricity service

1.9 **The power generation system in the Dominican Republic is poorly diversified and vulnerable to oil price fluctuations.** In the current power generation system, the cost of power production is exposed to the volatility of international prices of energy inputs and the variability of exchange rates, putting pressure on current account and fiscal balances.[32] In 2008, oil imports represented 31% of the country's total imports and 9.3% of GDP. Finding individual power generation alternatives has become an entrenched practice in the country.[33] Although the government has made it a policy priority to improve the country's energy position, in practice, little progress has been made in finding system-level solutions that are less dependent on fluctuations in the price of oil (*Current Energy Situation*, World Bank, 2009).

1.10 **There are fundamental structural limitations on financing and regulation in the Dominican electricity sector.** Historically, the sector has demonstrated limited institutional and regulatory capacity, and its decisions on rates, investment, and billing have bowed to political considerations.[34] The rate system has not generated enough revenue to cover operating and investment expenses. As a result, the sector has been a fiscal burden on the government. The current model (2009), in which private generators operate alongside a State-owned corporation (Corporación Dominicana de Empresas Eléctricas Estatales, CDEEE) (Box 5, Annex I), is exposed to potential weaknesses in corporate governance, which could discourage investment.[35] The subsidy system further undermines the functioning and sustainability of the sector. The Dominican government has allocated a substantial part of fiscal revenue (about 11% in 2008) to subsidies for utilities and users (Box 6, Annex I).[36] Power distribution companies are compensated and operate with frozen rates.

1.11 **The quality of power supply entails economic costs[37] and social repercussions**. As a result of the electricity sector's financial deficit and low rate of investment, service quality is low, and outages are frequent. Statistics rank the Dominican Republic as the country with the fourth highest electricity losses in the world (Figure 18, Annex I). In a vicious circle, the deterioration of the services leads to further financial losses for the utilities, and the low service quality makes consumers less willing to pay their bills (WB, 2009). Currently, it is estimated that 34% of all electricity consumed is not paid for.[38] This situation has driven a self-generation model in the high-growth sectors of the economy, which would be more costly than grid power.[39] Lastly, despite government efforts through the Power Outage Reduction Program,[40] the service interruptions disproportionately penalize the low-income population, adversely affecting their living conditions, and small businesses, which have less access to self-generation alternatives. Some social services, like night schools and public health clinics, are affected by the power outages.

4. Water and sanitation service supply

1.12 **The coverage and quality of water and sanitation services adversely affect the most vulnerable population**. Between 2004 and 2008, residential water services in the Dominican Republic stood at 70%, according to data from the National Work Force Survey and reached only 50% of urban households and 23% of rural households, according to data from ENHOGAR, 2007.[41] With respect to the sewer system, residential services reached 23% of households (32% urban and 5% rural) (ECLAC, 2008). Wastewater treatment is weak: 75% of the water supplied is not being collected (Table 2 a/b, Annex I).[42] While the uneven supply of services impacts all sectors of the population, the poorest are the hardest hit. The provinces with the lowest levels of access to water have the highest level of unmet basic needs (Figure 19, Annex I).

1.13 The problems of quality of the water supply promote the consumption of bottled water, placing an economic burden on the family budget. According to available information, the potability index for the water supplied is below the level required for safe drinking water (>95%) (Table 3, Annex I).[43] This situation has resulted in increased consumption of bottled water.[44] The percentage of people who consume bottled water grew from 13.9% in 1990 to 66.8% in 2007 in urban areas and from 8.8% to 57% in rural areas over the same period (ENDESA, 1991; ENHOGAR, 2007). In terms of the impact on the family budget, monthly spending on water as a percentage of income for the poorest quintile is four times higher than for the wealthiest quintile.

1.14 The sector faces institutional challenges at the level of planning and regulation, as well as in the financing and operation of services. The lack of consensus for enacting a water law was due to the absence of a national strategy specifying and establishing a hierarchy of actions among the multiple stakeholders (Abreu et al., 2005). Each operator acts independently, based on its short-term objectives, which makes it hard to implement programs that address the sector's needs and reinforces patterns of political intervention. While financing levels have been high,[45] nearly 90% of the investment in the sector has been used to finance water supply megaprojects that have increased the volume of water delivered. *However, the system's efficiency continues to be a challenge for the authorities together with household coverage* (Figure 20, Annex I). Rates do not cover service costs, and a system of universal subsidies with transfers from the central government undermines the functional autonomy of the operators (Abreu et al., 2005).[46]

5. Environmental vulnerability and prevention systems

1.15 **The Dominican Republic has a high level of exposure and limited capacity for responding to and managing natural disasters**.[47] The Dominican Republic is located in the path of tropical cyclones and is exposed to tropical storms and hurricanes on a recurring basis. This environmental vulnerability impacts the social sectors, the fiscal accounts, and the economy in general. From a fiscal point of view, in accordance with the study by Cardona (IDB, 2005), the Dominican Republic is exposed to contingent liabilities of US$6 billion in the event of a severe disaster, which represents one fourth of the country's capital reserves. The public sector faces potential annual losses from disasters equivalent to US$56 million.[48] Although the Dominican Republic has a national emergency plan along with prevention and contingency plans, no headway has been made in their implementation. Progress has been limited in the area of risk management and financial protection (UNDP, 2006).

C. Poverty and social policy

1.16 The historical analysis shows that in cycles of economic expansion, poverty levels only recover partially.[49] As a result of the economic recovery and the social reform measures initiated by the government in 2004, the country's poverty and indigence rates have been recovering. Even so, they are still higher than before the 2002 crisis (Figure 7 a/b, Annex I).[50] According to a recent UAAES publication (August 2010),[51] the Gini coefficient underwent changes of little significance in the 2000s (from 0.550 in 2000 to 0.505 in 2009) (Table, Annex I). The unequal distribution of economic growth reflects a limited elasticity of poverty to growth.[52] Moreover, limited access to basic services adversely affects quality of life and poverty.[53]

1.17 Government social spending has been low and volatile with respect to business cycles, and heavily weighted toward social assistance programs. Although the country began to increase social spending as a percentage of GDP in 1991, much of the gains were lost during the 2002-2003 crisis (Figures 21 and 22, Annex I).[54] There has been a shift in the structure of social spending towards social assistance categories, where spending rose from 0.4% of GDP (2003) to 1.6% of GDP (2007), and away from education and health (Figure 23, Annex I). This restructuring of spending has not been consistent with the policy conditions set under the IMF arrangement (2005-2008), which encouraged the government to shift spending away from social assistance in favor of health and education spending (Figure 24, Annex I).

1.18 **During the 2004-2006 period, there was a dispersion of social programs with limited impact on poverty reduction.** As a result of the 2002-2003 crisis, social assistance programs generated during this period grew in an uncoordinated manner, and did not manage to form a social safety net.[55] These programs were regressive in absolute terms, that is, they transferred more resources to families with higher incomes (Table 4, Annex I). As a result, despite the broad coverage of these programs, their impact on poverty and inequality has been limited.

1.19 **Since 2006, the government has made progress in eliminating and targeting some social programs, but with significant implementation challenges.** The institutional progress achieved through the creation of the Public Social Policy Office in 2004 has been positively reflected in the development of a budget for institutions executing social assistance programs (2009) and in the elimination of several programs that were overlapping or fragmented under the Social Safety Net Program.[56] Another achievement has been the creation of the Solidaridad program, which combines a number of programs[57] and has become the cornerstone of the government's social strategy. Lastly, the creation of the National System of Beneficiaries (SIUBEN) has been a major step forward in terms of enhancing the targeting of programs, such as in the case of BONOGAS.[58] Nonetheless, during the evaluation period the use of SIUBEN as a targeting instrument was limited, there are still institutions that continue to promote universal coverage programs,[59] and some of the programs that were cut were insignificant in budgetary terms.[60] These constraints began to be addressed in 2009 and progress is being made in correcting the inclusion errors detected in SIUBEN.[61]

1.20 **With respect to education services, school performance results have been uneven, particularly to the detriment of rural and low-income populations.** According to data available in 2004, primary educational results were relatively low.[62] The review of current statistics shows that, in general, these results have not improved. According to national tests in reading comprehension and mathematics, on a scale of 0-100, the overall average for students in the sample was 29.1 points and 23.6 points, respectively.[63] The differences between rural and urban areas, to the detriment of the rural areas, have a major impact on equity (Figures 25, 26, and 27, Annex I). In comparative terms, the Dominican Republic's level of academic achievement is below the regional average[64] and below what could be expected given its income level.[65]

1.21 The 2008–2018 Ten-year Education Plan recognizes these problems as well as the fact that public financing does not cover sector needs.[66] Financing remains below the amount stipulated in the 1997 law (4% of GDP or 16% of public spending) and the needs of the sector. Between 2005 and 2008, spending on education fluctuated between 1.9% and 2.5% of GDP.[67] There is a broad consensus that investment in infrastructure is a precondition for improving performance. In this regard, the Organisation for Economic Co-operation and Development (2008) documented an infrastructure deficit of 24,000 additional classrooms and an investment of around US$1 billion if the Dominican Republic is to meet the Millennium Development Goals (MDGs).[68] The infrastructure deficiencies have resulted in overcrowded classrooms, multiple class shifts in the same school, and reduced hours,[69] impacting the quality of public education.[70]

D. Public administration efficiency and transparency challenges

1.22 International indexes of government effectiveness show that the situation in the Dominican Republic requires improvement and, for some indicators, the country is below the Latin American average (Figure 28, Annex I). As discussed in the previous CPE (paragraphs 1.14-1.16), [71] the quality and implementation of public policies in the Dominican Republic are adversely affected by political economic factors, particularly its regulatory and service-delivery functions.[72] Deficiencies in the regulation of services have led to serious problems both in the provision of economic and social services and in the organization of these sectors.

1.23 **Beginning in 2005, in the framework of the IMF standby arrangement, major institutional reforms in public administration were introduced, reorganizing some functions of the government to bring it in line with international standards.** Among the most important reforms were the concept of universal budgeting and the separation of the national planning and fiscal administration functions through the creation of the Ministry of Finance and the Ministry of the

Economy and Planning. With respect to financial administration, although the government has made headway in implementing the Financial Management System (SIGEF), these improvements have not yet translated into greater efficiency in the use of public funds. Procurement planning procedures and feasibility studies for works are infrequent.[73] In addition to these funding allocation problems are weak budget control mechanisms that do not ensure the timely availability of resources for execution.[74]

II. PROGRAMMING

A. Strategic relevance of the IDB in the Dominican Republic

2.1 **The Bank's financial relevance in the Dominican Republic is high.** Indeed, the IDB continues to be one of the country's primary creditors. The balance of borrowings at the end of 2008 was US$1.271 billion.[75] This corresponds to 11% of total public debt, 17.6% of total foreign debt, and 70% of multilateral debt, according to a new methodology for calculating public debt. From 2004 to 2008, the Bank's disbursements totaled US$767 million, an average of US$153 million per year, equivalent to 28% of the financing for the central government deficit.[76] Between 1995 and 2007, the amount of disbursed and outstanding debt (DOD) doubled,[77] and during the period of the country strategy (2004-2008), it increased 40%. The most critical years in terms of management of the foreign debt were those immediately following the crisis, when the Bank provided refinancing support as part of the financial bailout package led by the IMF, which lightened the financial burden and extended the amortization periods (Figures 29 and 30, Annex I).

2.2 **The BCS 2004-2008 had limited relevance as a planning tool.** The BCS 2004-2008 proposed a program that was subject to some basic restrictions that were not explicitly internalized. Specifically: (i) it would unfold in a context of institutional reforms, borrowing limits within the framework of the IMF standby arrangement, and limited fiscal headroom for investment; (ii) project preparation, congressional ratification, and execution periods were traditionally long; (iii) a significant portion of the program was in a portfolio designed during other political and economic cycles, and adapting projects in execution to the new strategic proposal of poverty reduction would not be simple. Although the previous CPE (1991-2003) pointed out the financing constraints and recommended that the Bank specify the composition of the program keeping in mind the execution problems and risks, these constraints were not explicitly acknowledged when the 2004-2008 BCS was formulated. The Bank and the country agreed on alternative scenarios for implementation that did not incorporate these financial constraints and did not serve to guide programming.

2.3 **The high percentage of projects that the BCS did not anticipate based on its analytical work signals the limited relevance of the strategic programming.** The BCS 2004-2008 included 15 operations pending disbursement from prior periods and programmed 19 new operations for the 2005-2008 period. Between

2005 and 2008, 12 loan operations were approved, which when added to the three operations approved in 2004, comprise a portfolio of 15 operations. Of the 12 operations approved between 2005 and 2008, only eight were considered in the BCS, indicating a low anticipation rate (42%), albeit better than prior programming cycles.[78] Thus, almost one third of all approved operations were not programmed, indicating an improvisation rate of 33%, the highest in all the programming cycles analyzed by OVE (Table 5, Annex I).[79] Moreover, the projects approved between 2004 and 2008 took 20 months on average to be ratified and by late 2008, three operations had still not been ratified by the Congress, representing a major impediment to achieving the objectives set forth in the BCS. In general, these problems have arisen because the BCS has not served as the guiding framework for the strategic relationship with the country.

2.4 **Judging by the indicators and metrics of the BCS results matrix, at face value, the evaluability index of the BCS is relatively high (0.68).** There are results indicators for all general and specific objectives. The vast majority of indicators have targets (91%) and most establish baselines (85%), although there are no milestones. However, the ex post analysis of the BCS leads to the conclusion that not all the indicators included in the results matrix can be used to evaluate the effectiveness of the BCS because the matrix includes indicators for operations in the pipeline that were never approved. Specifically, 30% of the indicators do not correspond to the program that was ultimately executed. Moreover, the validity of some indicators is questionable, and it is hard to attribute them to the financed programs.[80]

2.5 **The Bank had limited relevance for strategic sectors of the BCS in relation to its central objective and the vulnerability assessment.** The BCS took shape against a backdrop of recovery from the financial crisis and based its assessment on the vulnerabilities of the Dominican Republic’s economic growth model (BCS, paragraph 1.1). The BCS identified major problems in relation to the country’s long-term challenges. Thus, the conditions of vulnerability and the worsening of social indicators during the crisis justified the central objective of the BCS to support the government in its poverty reduction efforts. Considering that poverty has become a structural problem and that the 2002-2003 crisis exacerbated poverty and inequality, the central objective of the BCS is clearly relevant. To achieve this objective, the Bank proposed activities around three strategic pillars: (i) the competitiveness pillar, to reduce barriers to private investment and sustainable growth; (ii) the social pillar, to further human development for the very poor and make social spending more efficient; and (iii) the governance pillar, to make public administration more efficient and transparent.

2.6 In general, the analysis of the relevance of the interventions ultimately approved and substantially disbursed during the 2004-2008 period reveals a limited relationship between the proposed areas of focus and the BCS objective of poverty reduction. In fact, as described below, the models promoted during this period were not necessarily the most suitable for reducing poverty. The following sections provide a detailed account of this general conclusion based on an analysis of the relevance of the proposed strategy vis-à-vis the main development challenges identified in the BCS and the analysis of the model selected for the specific operations, approved or in the pipeline, in order to meet these challenges.

1. Competitiveness pillar

2.7 **To improve competitiveness, the BCS proposed a broad range of activities related to the vulnerabilities of the growth model:** (i) consolidating the macroeconomic framework; (ii) resolving institutional weaknesses in the financial sector; (iii) improving the business climate; (iv) seizing the opportunities offered by DR-CAFTA; (v) making labor markets more efficient; (vi) improving basic productive infrastructure; and (vii) reducing environmental vulnerability. In general, the BCS assessment in this pillar adequately represents the country's challenges and the government's strategy, but the IDB's strategic proposal was not selective, and in its execution, the vulnerability assessment becomes blurred.

2.8 In the area of **consolidation of the macroeconomic framework**, the Bank adopted a position of monitoring the main lines of the economic program agreed upon by the government with the IMF. The fundamental hypothesis on which the BCS was based was that the country had a wealth distribution model under which the return to a sustainable growth path was a necessary condition for reducing poverty (BCS, paragraph 3.2). As described in Chapter I, this condition was not sufficient. The Bank's program did not help leverage the period of macroeconomic stability and high growth into better distribution of wealth or a recovery of poverty levels. Nor did these years of growth resolve structural issues such as the infrastructure deficits or help create a social safety net.

2.9 In **the financial sector,** the BCS focused on supporting the development and effective implementation of the Monetary and Financial Law and strengthening regulation and supervision of the financial and banking system (BCS, paragraph 3.4). The strategy also proposed to help make social security reform financially feasible and the country's financial markets more efficient (BCS, paragraph 3.5). The relevance of the Bank's activities in the sector was related to their timeliness. After the 2003 banking crisis, the Bank approved two projects (DR-L1001 and DR-0151) to support the system's sustainability in the medium term.[81] The use of a policy-based loan (PBL) can promote improvements in the regulatory framework, but its impact on the development of financial markets and instruments for improving access to credit, particularly for new clients, is limited. With respect to social security reform (DR-0146), the IDB supported the consolidation of the Office of the Superintendent of Pensions (SISPEN) but did not get involved in the functioning of the system at a level that would have contributed to its long-term financial feasibility, as proposed in the BCS. With respect to private sector financing programs, support focused on credit lines for export companies through private banks.

2.10 For the objective of **enhancing the competitiveness of the sectors with the greatest potential for penetrating international markets by seizing the opportunities offered by DR-CAFTA,** the BCS proposed support for the government plan, which sought to harmonize macroeconomic policy with open markets and investment and systematically increase the competitiveness of the economy (Strategy Matrix). The Bank did not approve any of the programmed operations, but focused instead on implementing projects that had been approved previously, primarily support for the National Competitiveness Council (CNC) (DR-0152), Support for the Transition to Competitive Agriculture (PATCA) (DR-0138), and the Strengthening of Foreign Trade Management (DR-0148), complemented by Multilateral Investment Fund (MIF) projects. The Bank's support in this area took place during the transition period leading up to the ratification of DR-CAFTA in 2007. Against this backdrop, strategic support would have required clear concerted efforts in the sectors with the greatest competitive potential in light of the new game rules imposed by DR-CAFTA, and an orderly transition for those sectors that may have been more vulnerable. It also would have required the identification of activities to strengthen the international market presence of the Dominican Republic and expand its pool of trading partners. In practice, none of these factors were considered in the programming decisions.

2.11 Specifically, in terms of portfolio operations, this evaluation finds that the IDB's support within the framework of the PATCA program was relevant in terms of improving the productivity of some farm sectors that concentrate much of the country's poverty.[82] However, given the BCS objective of promoting greater diversification of target markets and restructuring sectors under the new scenario of a more integrated economy, the PATCA program was not very relevant. Meanwhile, the CNC program, which aimed to improve the business climate and increase partnering between businesses, was formulated with the right idea in mind. Private production in the Dominican Republic is structured around small operations, which makes it hard to take advantage of economies of scale and limits opportunities for integrating into the global economy. There is also little public-private coordination. Thus, the promotion of greater cooperation and the creation of an entity to bring together public and private sector actors were undoubtedly relevant. However, the program was not executed with a strategic vision aimed at a change of scenario in the context of DR-CAFTA.[83] All in all, the Bank's program has not significantly supported the process of readying the sectors for the conditions in the signed agreements promoted by the BCS.

2.12 With respect to **improving the business climate,** the Bank's strategy was to strengthen legal certainty for investors and creditors, lower business transaction costs, and make the rules for interaction between the public and private sectors more transparent (BCS, paragraph 3.9). The operations program supported a second stage of institutional reforms to enhance legal certainty in land ownership (DR-L1010), which while relevant, did not address the problems of informally held lands, about 40% of the total,[84] and was designed solely to improve the situation of owners with annotated affidavits for whom the State already recognized their ownership right.[85] The Bank Group's support also gave rise to relevant operations for lowering business transaction costs (MIF/AT-851, *inter alia*). One of the most important achievements in this area was the reduction in the number of procedures/days required to start a business, initially promoted by the National Competitiveness Council (CNC) program (DR-0152).

2.13 With respect to the **labor market**, the BCS called for activities to support government actions to modernize labor mediation processes through public-private initiatives that make the job search process more effective and balance employment supply and demand (BCS, paragraph 3.10). During the period covered by the BCS, disbursements were completed for the Labor Training and Modernization Project (DR-0134), and the first phase of the Labor Markets and Social Transfers Program (DR-L1006) was approved. These operations were based on an assessment of the limitations of the labor market and proposed employability solutions. Given the high levels of unemployment resulting from the crisis, programs to adapt the skills of the labor force to market demands are very relevant. However, these models focused on employability and overlooked basic considerations such as the lack of job security and the importance of improving job quality, as well as the lack of incentives for training given the stagnation of real wages.

2.14 In the **infrastructure sector**, the BCS proposal was to concentrate on: (i) restoring the road system and strengthening maintenance systems; (ii) improving access to drinking water and basic sanitation; and (iii) contributing to recovery in the energy sector (BCS, paragraph 3.11). The infrastructure sector programs were not particularly relevant to the identified challenges and the reforms they portended. In fact, the Bank played a limited role in reconceiving the earlier reforms (privatization of water and electricity systems), but was relatively more relevant when it came to financing specific investments that represented cyclical solutions to structural problems. In the **transportation sector**, the Bank failed to make headway under the Local Road Maintenance and Rehabilitation Program (DR-0131), in execution since 1998, in addressing the structural challenge identified in the BCS of ensuring a more stable allocation of resources for road maintenance and improving the concession system (BCS, paragraph 1.19). Furthermore, it did not approve phase one of the Multiphase Program for Road Infrastructure (DR-L1008) until 2007, which is up against the same budgetary constraints on road maintenance as the other program.

2.15 In the **energy sector,** the model promoted by the Bank emphasized activities such as: (i) restoring financial stability to the sector, (ii) strengthening pricing policy, and, once institutional conditions are improved, (iii) modernizing the transmission networks and supporting the private sector's return to electricity distribution (BCS, paragraph 1.21).[86] The objective of supporting the sector's financial sustainability, based on an assessment of the problems in the pricing system and across-the-board subsidies, did not have a correlative emphasis in the implementation of the Bank's program. The BCS called for a performance-driven loan (PDL) for consolidation of energy sector reform, but the loan was not prepared. With respect to the World Bank, during the period of the BCS, the IDB's participation in electricity sector policy dialogues has been limited.[87] During that period, the Bank approved an investment program to modernize the distribution networks,[88] which while relevant and consistent with the needs to improve distribution efficiency and management, does not address the root causes of the serious deficit in the power supply.[89]

2.16 In the case of **drinking water and sanitation,** the Bank's relationship with the country during the period covered by the BCS was characterized by lack of consensus. Since the 1999 approval of the loan in execution (DR-0123), it has been manifestly impossible for the Bank and the Dominican government to come to a lasting agreement on the right intervention model for addressing the sector's institutional, operational, and financial problems. The project had to be reformulated, and the plan to address the sector's macroinstitutional problems with a model that included private actors was abandoned. The scope of activities was reduced to making improvements at the level of the service provider in the city of Santo Domingo, limiting the Bank's strategic relevance in this sector.

2.17 Lastly, to reduce **environmental vulnerability,** the BCS called for support for the development and strengthening of institutional capacity to prevent and mitigate natural disasters through a disaster and risk management program, as well as activities to support the integrated management of watersheds and coastal areas (BCS, paragraph 3.12). As with previous strategies (BCS 1997-2000, BCS 2001-2003), this programmatic emphasis on prevention never materialized: the watershed program was not prepared, and the natural disasters program was not ratified until 2008. In 1998, the Bank supported the recovery process after Hurricane Georges (DR-0135), which enabled it to pursue some activities in the area of prevention. However, the foothold gained in the sector as a result of this project was not leveraged to promote policies emphasizing prevention and reduction of environmental vulnerability, or to help reduce the fiscal burden of these events.

2. Social pillar

2.18 **The strategy proposed by the Bank pivoted on efforts to achieve growth that took social vulnerabilities into account.** To do so, the BCS called for the continuation of reforms in the education sector and the expansion of group health coverage; the modernization of social protection systems; and support for the reduction of rural poverty (BCS, paragraph 3.18). It proposed a series of innovative investment instruments, including a sector-wide approach for education and rural poverty, and a PDL for group health. None of these investment programs were developed. On the contrary, given the economic situation in the post-crisis period, this portfolio was restructured with an emphasis on PBLs. While the strategy identified key aspects of social vulnerability, the high levels of poverty, and their impact in rural areas, the policy conditions of the PBLs were only partially related to the objectives of the BCS, limiting their relevance in terms of helping to address the identified challenges.

2.19 In the **education sector**, the BCS called for the consolidation of education reforms through the extension of rural multigrade education, improvements in elementary education in urban fringe areas, and the strengthening of education management and secondary education, through second phases of projects in execution, which ultimately were not developed during the period covered by the BCS. In the **health sector**, the BCS proposed a shift in focus towards the decentralization and integration of group health services with primary care services, in order to expand the coverage of child immunization programs and rates of detection and control of infectious diseases, through a program that was never developed.

2.20 The **Social Emergency** PBL (DR-0159) was approved in 2004 in response to the crisis. The program objectives were to help the Dominican government to maintain macroeconomic stability, mitigate the potential impact of the fiscal adjustment on the population living in extreme poverty, and give continuity to the institutional reforms initiated in 2001. The PBL was particularly relevant in terms of its timeliness and contribution to macroeconomic and fiscal stability, but less relevant in terms of its substantive contribution and its expected impact with respect to restructuring spending and improving social programs to mitigate the effects of the adjustment on groups living in extreme poverty.[90] The **Social Management Reform** PBL (DR-0150) was approved in 2006 to improve efficiency and effectiveness in the social assistance, social safety net, education, and health sectors. The program objectives were to trim the social assistance budget and reallocate it toward education and health, as well as to modify the targeting instruments of the programs. The proposal was relevant to the extent that it was intended to correct the proliferation of social assistance programs that occurred in the wake of the crisis and reduce volatility in social spending.

3. Governance pillar

2.21 **The BCS promoted a public administration able to provide basic public goods and services efficiently and public policy management able to mitigate impacts on the most vulnerable sectors of society.** To do so, the BCS (paragraph 3.13) proposed: (i) focusing on deepening fiscal management reforms to correct distortions in the tax system (paragraphs 1.26-1.27), (ii) consolidating the financial management system (paragraphs 1.28-1.30); and (iii) making government more transparent and modernizing government control systems. Despite this strategic intention, the Bank's action was limited to the area of administrative reform, and it was unable to identify actions to modify the incentives for public actors, which, according to the BCS itself, were summarized as "highly discretionary spending, the lack of transparency in public administration, and little accountability" (paragraph 1.8). To make public administration more efficient and transparent, the BCS supported the continuation of the financial administration and public investment reforms initiated in 2001 (paragraph 3.14). In this context, the relevance of the strategic proposal was limited by a partial intervention model focused on the gradual implementation of the Financial Management System (SIGEF), which has not been complemented by operations intended to improve the contract management, public investment (DR-0156), and tax administration (DR-0157) systems. Given the economic situation, these programs ended up not being developed during the period covered by the BCS. The rest of the projects programmed in the BCS 2004-2008 were delayed during the ratification process or were simply never ratified. The Program to Strengthen the National Statistics System (DR-L1003) was approved in 2005 but was not ratified by the legislature until 2008. The Program to Modernize Public Resource Management (DR-L1005) was approved in 2006 and only just ratified in 2009. The Program for the Institutional Strengthening of the Internal Revenue Service (DR-L1016) was approved in 2007 and was ratified in 2009.

2.22 In this context, the support provided by the Bank was mainly in the form of two projects in execution: the **Program of Support for Reform and Modernization of the Executive Branch** (PROREFORMA) (DR-0073), approved in 1999 and completed in 2008, and the **Program for Modernizing the National Congress and the Office of the Comptroller** General (DR-0106), approved in 2000 and completed in 2006. To the detriment of the relevance of the objective of improving efficiency in the provision of public goods and services, the PROREFORMA initiatives focused on modifying the organizational structure in order to resolve coordination problems and differentiate functions. In the case of the congressional reform, the relevance of a program to build legislative and control capacity is clear, given the strong presidentialist characteristics of the Dominican political system (BCS, paragraph 1.8). However, the focus of the main component of the operation was on improving the infrastructure and equipment of the Congress, to the detriment of the components more focused on strengthening legislative, oversight, and representative functions. Lastly, the recent support for strengthening the National Statistics Office is, a priori, a relevant area of intervention for building public policy development, monitoring, and evaluation capacities.[91] Also, the PRODEV initiative for promoting results-based management in the country's public and financial administration has been relevant.[92]

III. EXECUTION OF THE BANK'S PROGRAM IN THE DOMINICAN REPUBLIC

3.1 **During the period covered by the BCS, and given the economic situation in which the strategy unfolded, Bank flows were negative and volatile.** As the previous CPE anticipated, net transfers[93] became negative in 2006. Indeed, between 2004 and 2008, total net transfers were negative by US$116 million.[94] Moreover, Bank transfers to the country remained volatile, whereas World Bank transfers were less volatile and IMF transfers remained positive and countercyclical (Figure 31, Annex I). As of December 2003, the balance pending disbursement for approved operations was US$700 million.[95] During the period covered by the BCS, the balance fell to US$265 million (60%). Between 2004 and 2008, sixty new operations (loans and technical-cooperation projects) were approved for US$719 million. These approved amounts were below both the base (US$953 million) and high (US$1.283 billion) scenarios proposed in Annex VI to the BCS.[96] Using the more conservative scenario as the benchmark, the number of projects approved represents 60% of the number programmed, and 75% of the programmed amounts. The reason for this is in part the economic situation and the borrowing ceilings specified in the standby arrangement with the IMF. The targets for completion of projects in the portfolio were not met either.[97] Cancellations totaled US$196.8 million, leaving, as of December 2008, an undisbursed balance for the country of US$435 million.[98]

3.2 **The program assigned priority to the use of policy reform instruments (PBLs).** The amounts approved for PBLs represented 67% of the total, twice the rate during the 1999-2003 period. The increase in policy-based lending is indicative of a greater need to finance current expenditures as a result of the crisis (Figures 32 and 33, Annex I).[99] The three unrestricted loans[100] accounted for over 46% of amounts disbursed during the entire 2004-2008 period, whereas the investment amount approved was cut 40% with respect to the previous cycle.

3.3 **The Bank made limited use of the technical-cooperation instrument, while the MIF tripled its technical-cooperation portfolio.** The Bank approved 26 nonreimbursable technical-cooperation projects and three small projects, for an original amount of US$6.6 million.[101] Although this exceeds the projected amount in the BCS for technical-cooperation operations ($5.1 million), it is less than half the amount approved in 1999-2003.[102] The MIF doubled the number of grants, tripling the amounts approved, with 15 grants (US$16 million) and a loan (US$1 million), over the previous BCS.[103] The BCS called for a mix of financial and nonfinancial instruments, in order to increase the likelihood that the country would consent to programmatic approaches to financing that made increasing use of country systems. The operations program (Annex I to the BCS) anticipated 19 nonfinancial products for the 2005-2008 period. However, during this period, only four were approved.[104] Although the BCS indicated as a lesson learned that “nonfinancial products can be useful tools of policy dialogue, the formulation of strategic frameworks that are critical for development, and the dissemination of experience relevant to the country” (paragraph 2.11), it does not seem to have taken full advantage of these tools. The nonfinancial products focused predominantly on competitiveness issues.[105]

3.4 **In terms of portfolio performance, the standard metrics for measuring project preparation and implementation times, as well as the efficiency of disbursements, pointed up major execution problems with the portfolio** (Table 6, Annex I). Moreover, cancellations accounted for over one fourth (27%) of the amounts approved, adversely affecting its effectiveness and increasing borrowing costs, as suggested in the previous BCS. The investment project preparation cycle in the Dominican Republic was longer than the Bank average.[106] Between 2004 and 2008, the total preparation time for projects was almost three years (34 months), exceeding the averages for the Bank and the Country Department Central America (CID), not including the Dominican Republic.[107] These delays can be partly explained by the debt ceilings and the delay in ratification by the Congress. Those approved during the 2004-2008 period took an average of 20 months to be ratified. A historical comparison with other borrowing member countries that require legislative ratification reveals historically longer delays in the Dominican Republic. Between 1996 and 2008, the Dominican Republic took an average of 13 months for project ratification, five months more than the average time needed by the other countries that require ratification (Figure 34, Annex I).[108] In the case of PBLs, the Financial Reform Consolidation Program (DR-0151) required just six months for preparation, but preparation of the Social Management Reform Program (DR-0150) took 33 months, calling into question its timeliness.[109] The analysis of disbursement efficiency shows that 50% of projects in execution perform below average on the Bank's disbursement curve, and 23% perform below expected levels (Figure 35, Annex I).[110]

3.5 **Project preparation and execution costs in the Dominican Republic were high.** During the period covered by the BCS, the average project preparation costs per million approved (US$3,671) exceeded the CID average (US$2,698) (Figure 36, Annex I).[111] Because, as mentioned above, the projects are subject to significant delays and in many cases reformulations, the high preparation costs are not always justified. Moreover, the execution costs of investment projects per million disbursed between 2004 and 2008 also exceeded Bank averages (Figure 37, Annex I).[112] Project performance monitoring reports (PPMRs) show that during the strategy's first stage, from 2004 to 2006, only 24% of projects reported implementation problems. For 2007 and 2008, no problems were reported because that question was no longer included in the reports.[113] The PPMRs do not seem to reflect an analysis of the problems that is consistent with the low level of disbursement efficiency. The percentage of audited financial statements with qualified opinions was 17% in 2004 and 13% in 2005; as of 2006 the system does not report any with qualified opinions, reflecting progress in this regard. With respect to the programming, execution, and knowledge generation missions, the Bank invests relatively less time in generating and programming the portfolio in the Dominican Republic, as well as in monitoring and executing it, than the average for CID countries.[114]

3.6 **The results of the Survey on Monitoring the Paris Declaration for the 2005-2007 period showed forward and backward movement.** In particular, with respect to the *number of parallel structures*, the IDB reduced the use of such structures from 29 to 10. However, a design analysis of 10 Bank loans[115] approved during the period covered by the BCS indicates pro forma compliance, given that in most cases, the projects considered the creation of new organizational structures within the government agencies.[116] The Survey does not report key indicators on the relationship between the IDB and the Dominican Republic with respect to *use of country public financial management systems* and *use of country procurement systems*. Aspects related to the predictability of aid for the government sector worsened significantly, as did *comprehensive, realistic budget estimates* (Table 7, Annex I). For its part, according to the same source, the Dominican Republic has made progress in the area of donor harmonization.[117]

IV. RESULTS OF THE STRATEGY

A. Trends in the BCS 2004-2008 indicators

4.1 **The BCS indicators reveal progress in the macroeconomic and financial sector, and less progress in the rest of the sectors.** The BCS proposed a results matrix, which, as indicated in the previous chapter, has measurable indicators, but it is difficult to attribute them to Bank programs. The low anticipation rate of the BCS adds to the lack of representativeness of these indicators. As a result, this chapter uses the objectives stated in the loans ultimately approved as the primary reference for evaluating results. Trends in the matrix indicators do not reflect the results of the Bank's program, but they do contain relevant contextual information. For example, the macroeconomic and financial indicators (IMF) show significant progress, whereas the competitiveness index, for example, has not changed (*World Economic Forum*). Annual export growth was negative, and the trade openness index fell (BCRD). While some business climate indicators improved (*Doing Business*), infrastructure limitations remain significant. At the same time, the indicators for poverty and indigence have not improved much, and the target of a 6.5-percentage point reduction in extreme poverty was not met (*World Development Indicators*). The improvements in the government effectiveness index have also been limited (*Governance Matters 2009*) (Figure 38, Annex I).

B. Analysis of the results of the BCS interventions

4.2 The results analysis is based on official information provided by Dominican authorities from the different agencies and has been used to determine the progress made toward project outcomes based on the planned objectives. In some cases, the analysis has been able to apply impact assessment methods that have made it possible to isolate the program's results from control samples.

1. Competitiveness pillar

a. Consolidating the macroeconomic framework and the financial system

4.3 After the 2003 financial crisis, and in order to support the Dominican government in the implementation of its macroeconomic program, international financial institutions provided a financial aid package of US$1.2 billion over a 24-month period. The package included US$300 million from the World Bank, US$300 million from the IDB (US$100 million for the Financial Reform Consolidation Program (DR-0151) and US$200 million for the Protection and Sustainability of Social Reforms Program (DR-0159)), and US$600 million from the IMF under a 2005 standby arrangement that was extended to 2008. The results of the standby arrangement indicators were considered acceptable with the exception of fulfillment of fiscal targets.

4.4 The Bank, through the Financial Reform Program and the reimbursable technical-cooperation project, Strengthening, Supervision, and Regulation of the Banking System (DR-L1001 for US$6 million, approved in 2003), proposed to support the authorities in the development and implementation of its financial sector consolidation program and its financial intermediation institutions, while guaranteeing its solvency to ensure the flow of medium- and long-term resources needed to finance productive investment. The program met all the conditionalities and made satisfactory progress in developing and implementing legislation. The principal indicators for the financial and banking system improved between 2004 and 2008. However, with regard to financial system consolidation, no substantial gains were made in the system's efficiency and price.[118] Basic considerations, such as the concentration of the system and the limited channeling of funds to the private sector, are examples of the pending challenges. Although the regulatory and supervisory system has improved in recent years,[119] the perception among market agents is that while changes in the regulations have been in the right direction, there is still work to be done so the regulator can properly exercise its supervisory role.[120]

4.5 During the period covered by the BCS, the reimbursable technical-cooperation operation to support Implementation of Pension Reform (DR-0146 for US$5 million, approved in 2003) was also disbursed. The project provided support for the consolidation of the Superintendency of Pensions (SIPEN) with the objective of increasing the coverage of the pension system. The results in terms of strengthening SIPEN have been achieved and received a positive evaluation. The system consolidation results, measured in terms of expansion and diversification of pension system coverage have been limited. Although the proposed system was for universal coverage through a three-pronged contributory, subsidized contributory, and subsidized system, by the time this evaluation was completed, only the subsidized program has been implemented. Lastly, the results in terms of expansion of the financial markets and channeling of pension funds into productive investments have also been limited.[121] Currently, the pension funds have begun investing in BCRD bonds and the viability of channeling funds to other strategic sectors, such as housing and infrastructure, is being discussed. However, a market of institutional investors proposed in the BCS has yet to develop.

b. Seizing DR-CAFTA opportunities

4.6 The BCS called for completing execution of the following programs: Program for the Development of Competitive Advantages (DR-0152 for US$10 million,) and Strengthening of Foreign Trade Management (DR-0148 for US$5 million), both approved in 2003, and Support for the Transition to Competitive Agriculture (DR-0138 for US$55 million, approved in 2002). Secondly, the BCS proposed the implementation of a project to increase access to credit for small and medium-sized enterprises, which was not approved. Moreover, a significant portion of MIF resources were dedicated to this objective (43% of all nonreimbursable funds).

4.7 The purpose of the Program for the Development of Competitive Advantages was to help increase partnering between firms (clusters) and build consensus on competitiveness policies in order to foster the competitiveness of firms in the manufacturing, export-processing, agribusiness, and tourism sectors. The expected productivity gains for beneficiary firms were only partially realized. The first indicator, the global competitiveness index, showed modest, albeit not easily attributable, improvement (moving from 3.63 in 2004 to 3.72 in 2008), but the target of a 5% annual increase was not met. For the second indicator—productivity (or sales or revenue) gains for the firms in the clusters—baselines were not established, and the overall progress of the project was not measured. Nevertheless, aggregate data on production and exports (2003-2007) from five of the 25 clusters supported by the program, pointed to a 30% increase (Table 8, Annex I).[122] This operation's primary component was the creation of the Competitiveness Fund (FONDEC) for the cofinancing of public-private partnerships and actions aimed at boosting cluster competitiveness.[123] The demand among firms to finance clusters with own resources never materialized, and counterpart contributions totaled only 14% on average, lower than expected. Thus, most of the funds were not invested in the product clusters considered strategic for a more integrated Dominican economy, but rather in traditional clusters.[124] However, this operation was successful in its support for the government in the development of a National Competitiveness Plan, under which plans of action were prepared for priority sectors, and a consensus-based public-private vision for the country's competitiveness was developed.

4.8 The Strengthening of Foreign Trade Management Program was created to strengthen trade negotiation management, strengthen administration of trade agreements, implement a national export promotion program, and raise public awareness about the growing importance of the foreign trade sector. The project's effectiveness in achieving the proposed objectives has not been satisfactory, and it is hard to attribute results in terms of business or exports generated to this operation, as acceptable progress was not made in any of its components. The program was reformulated in 2009.[125]

4.9 The Support for the Transition to Competitive Agriculture (PATCA) Program was created with the objective of reducing poverty in rural areas and increasing the efficiency of the agrifood sector.[126] The operation proposed three outcome indicators: level of agricultural exports, domestic market share of agricultural products, and household income of beneficiary producers. The first two indicators were outside the scope of the project, and the third indicator was not measured. According to the logical framework, none of the project indicators includes metrics.[127]

4.10 The results of the impact evaluation by OVE[128] indicate that the PATCA program had a significant positive impact on the productivity of rice and livestock producers. There was no evidence of the effect of the technologies on the productivity of producers of other crops or on dairy production.[129] The results in terms of poverty reduction were limited. The project had some design flaws that limited its potential impact on the most disadvantaged populations. The program eligibility criteria related to property registration made it impossible for some producers to participate.[130] Moreover, although 46% of approved applications were for small producers, many of them were not able to implement the technologies because they did not have the required counterpart funds (Table 9, Annex I).[131] Lastly, Tropical Storm Noel destroyed 13% of the investments made under the PATCA program (907 producers, 30% were total losses). The producers lost their investments, and the project prohibited the refinancing of technology losses and did not include an insurance program to protect against natural disasters.[132] The results of the technical-assistance components for promoting the country's agricultural health and trade policy could not be measured because there were no indicators.[133]

c. Improving the business climate

4.11 The BCS operations program called for a second phase of institutional reforms under the Property Jurisdiction Consolidation Program (DR-L1010 for US$10 million, approved in 2006 and ratified in 2007) to build on the progress made under the earlier Program to Modernize the Real Property Adjudication and Registration System (DR-0118 for US$32 million, approved in 1997), which was in the final stage of execution. It also called for the simplification of procedures for starting and running new businesses, with particular emphasis on small and medium-sized enterprises, through the technical-cooperation project Unified Business Start-up Management System (US$770,000). In addition, financing was provided for additional MIF technical-cooperation operations (US$1.3 million) to support the development of microcredit institutions for small and medium-sized enterprises.[134]

4.12 The objective of the Property Jurisdiction Consolidation Program was to "consolidate the modernization of the Jurisdicción Inmobiliaria [Real Estate Jurisdiction] efficiently, transparently, and sustainably, thereby helping to ensure the legal certainty of real property ownership" for the purpose of contributing to the economy's competitiveness by bringing greater clarity to property ownership, boosting production factor markets and incentivizing better resource allocation, while consolidating the achievements of the Program to Modernize the Real Property Adjudication and Registration System. The results in terms of boosting competitiveness and the factors of production markets cannot be determined because there is no information for analyzing the impact of the program.[135] With regard to efficiency in the processing of real property transactions, it was determined that there was a 30% reduction in the average property registration time,[136] but with considerable variability depending on the process.[137] The project included a component to support the elimination of property annotations, which was adequately executed, and a component to establish the Registered Real Property Guarantee Fund, which was blocked by Congress due to its tax implications.[138]

4.13 The Unified Business Start-up Management System emerged as support for CNC initiatives in the sector and the *Crea tu Empresa* [Start Your Own Business] project financed by the Dominican government. *Crea tu Empresa* is a virtual one-stop shop for registering businesses.[139] To put the procedures online, the MIF provided nonreimbursable resources to the Santo Domingo Chamber of Commerce and Production. The operation is just starting, but progress has already been made thanks to previous CNC projects. According to *Doing Business*, between 2004 and 2008, the time it takes to start a business fell from 77 to 22 days, although there continue to be nine procedures.

d. Making labor markets more efficient

4.14 To improve labor market efficiency, the BCS operations program sought to support the government through the Labor Markets and Social Transfers Program (DR-L1006 for US$10 million, approved in 2005 and ratified in 2007) and the Labor Training and Modernization Program (DR-0134 for US$21.1 million, approved in 1999 and ratified in 2001), still in execution. The Labor Training and Modernization Program aimed to increase employment opportunities for low-income groups by adapting training programs to labor demand. This program included an impact evaluation with an experimental design for the delivery of benefits, and it generated robust data on the impact of the program. The results of the evaluation reflect positive impacts on the beneficiary population for the following indicators: employment rate: 3% (2.3%); monthly income from work: US$239 (US$222); and enrollment in a health insurance plan: 5.1% (2.9%).[140] However, the results in terms of increased employability have not been significant.[141] The employment rate for beneficiaries was 61% and that of the control group was 58% (March, April, and May 2006) (Figure 39, Annex I).[142] This was due, in part, to the fact that there was insufficient coordination between the training institute (ICAP) and the private sector.[143] Moreover, only 20% of the participants were hired by the firms where they were trained, suggesting a weak match between the needs of the firms and the training areas. Lastly, the program only formally integrated the institute that runs the national vocational training system (National Institute for Vocational Training) into the program.[144]

4.15 The Labor Markets and Social Transfers Program was approved as a continuation of the earlier program. This operation has two subprograms: improving the National System of Beneficiaries (SIUBEN) (US$600,000) and labor markets (US$9.4 million).[145] Disbursements for this operation began in 2008, and it is still too early to evaluate program results. Its experimental design is seen as positive inasmuch as it will help verify program effectiveness.

e. Upgrading basic infrastructure

4.16 The BCS portfolio included two projects in execution: the Local Road Maintenance and Rehabilitation Program, Phase II (DR-0131 for US$48 million, approved in 1998), and the Project to Consolidate Reform and Modernization of the Potable Water and Sanitation Sector (DR-0123 for US$71 million, approved in 1999). The operations program also included the Multiphase Program for Road Infrastructure, Phase I (DR-L1008 for US$50 million, approved in 2007), to improve maintenance of the road network. For the energy sector, the proposed operations program called for approval of a loan for the consolidation of energy sector reform, to enhance the sector's financial sustainability, which was not developed. In its place, the IDB approved the Electricity Distribution Network Rehabilitation Project (DR-L1026 for US$40 million, approved in 2008), which was not included in the BCS.

4.17 In the area of **road infrastructure,** as in the past, Bank action was focused on supporting the country's road maintenance needs (OVE, 2006).[146] The only project executed was the Local Road Maintenance and Rehabilitation Program. The operation had a long execution period (1998 to 2007) and was geared primarily toward consolidating the modernization of the institution responsible for the local roads network, and funding investments for rehabilitation and maintenance of local roads and bridges. The results have been limited. According to program indicators, 22% of all national roads were in good condition upon program completion, but the target was 75%.[147] The failure to meet some of the targets was influenced by a number of natural events that accelerated the deterioration of the roads to be maintained, increasing maintenance costs. Moreover, the country failed to develop a sustainable mechanism for guaranteeing regular investment in road maintenance. The establishment of a road maintenance fund promoted by the project was not accepted by the government. The Multiphase Program for Road Infrastructure was approved in 2008, so it is too early to assess its results. This operation is contending with the sector's historical institutional and budgetary problems.

4.18 In the **drinking water and sanitation** area, the IDB Group's intervention was limited to the 10 years of execution of the Project to Consolidate Reform and Modernization of the Potable Water and Sanitation Sector. The original project proposed a comprehensive transformation of the sector based on the reform principles outlined during the 1990s.[148] These reforms were meant to increase the coverage and quality of services. The project was restructured on several occasions, and given the lack of consensus between the IDB and the Dominican government on the direction of the changes, the project was scaled back to focus solely on the operator serving the city of Santo Domingo (Corporación del Acueducto y Alcantarillado de Santo Domingo, CAASD),[149] and 56% of the funds originally committed were canceled. By the end of 2009, only 25% of the loan proceeds had been executed, some having been redirected to emergency investments in the wake of tropical storms. CAASD made limited progress in its legal transformation process, and the inefficiency and budgetary dependence on government funding persist. Low water coverage and high consumption of bottled water referred to in chapter I clearly point to the de facto privatization of the water supply, with major ramifications in terms of the cost of water, especially for the poorest segments of the population.

4.19 Lastly, in the **electricity sector**, OVE did not find evidence of the IDB's participation in the discussion of sector policies and solutions to long-term structural problems during the strategy period (2004-2008), as indicated in the BCS. The evidence indicates that the sector dialogue was led by the World Bank. Only in 2009-2010 does the Bank seem to be resuming a role in the sector policy dialogue. Until 2008, the Bank's action was limited to the Electricity Distribution Network Rehabilitation Program, which seeks to make the electricity sector more sustainable by improving the financial position of electricity distribution companies. The project will also help the distribution companies recover losses and increase their levels of efficiency.

f. Reducing environmental vulnerability

4.20 The previous CPE (1991-2003) singled out environmental vulnerability as one of the major challenges facing the Dominican Republic, and a sector in which the IDB has not managed to get involved or propose a portfolio that addresses the existing weaknesses (paragraph 4.37). The 2004-2008 BCS called for the approval of two loans: the Integrated Watershed Management Program and the Disaster Prevention and Risk Management Program. The first loan was never developed, and the second, after the earlier cancellation of a similar loan (DR-0145, approved in 2002 and cancelled in 2003)[150] and three years awaiting congressional approval (ratified in 2008), just started to disburse. Several technical-cooperation projects were approved,[151] along with an emergency loan (DR-L1029 for US$20 million, 2007), representing the IDB's traditional approach to the sector, in which the focus is on emergency response instead of prevention.

4.21 Given its relevance to the sector, OVE analyzed the Reconstruction and Improvement Program in the Wake of Hurricane Georges (DR-0135 for US$105 million, approved in 1998 and disbursed in 2004). The objective of this loan was to partially restore the affected infrastructure and economic flows, with an emphasis on disaster prevention and social participation.[152] OVE highlights the component for strengthening disaster prevention mechanisms, land-use planning, and the rational use of natural resources, because it represented a change in the approach to the sector, from one of emergency assistance to one of disaster prevention and risk management. This component, for just US$4 million, included disaster preparedness activities and the preparation of regional and municipal prevention and environmental management plans.[153] Unfortunately, there was not enough information to identify changes in the results indicators (Project Completion Report, 2006). Anecdotally, sector stakeholders considered this program a milestone in disaster management in the Dominican Republic, placing the issue on the country's agenda and strengthening the national risk prevention and management system.[154]

2. Social pillar

4.22 For the period under analysis, the Bank granted two sector loans for a total value of US$350 million: Emergency Program for the Protection and Sustainability of Social Reforms (DR-0159 for US$200 million, approved in 2004) and the Social Sector Management Reform Program (DR-0150 for US$150 million, approved in

2006). The objective of the emergency program was to help the government maintain macroeconomic and fiscal stability, as well as to mitigate the potential effects of the fiscal adjustment on the population living in extreme poverty and continue the institutional reforms.[155] Specifically, the disbursements were conditioned on action in three areas: (i) fulfillment of the macroeconomic program with the IMF; (ii) protection of the execution of priority budget programs in the health and education sectors; and (iii) activities to sustain reforms under way in public spending management in the social sector and in the education, health, and social assistance sectors. In the framework of these conditionalities, the continuation and pertinence of sector reforms stand out.[156] However, basic considerations such as the quality of social spending.

4.23 The second loan, the Social Sector Management Reform Program, sought to improve efficiency and effectiveness in the social assistance, social security, education, and health sectors. The operation focused on promoting a restructuring of social spending—streamlining investment in social assistance and increasing resources allocated to education and health—and on improving the targeting of social programs through the implementation of the SIUBEN. The evolution of the breakdown of social public spending indicates that the share of resources allocated to social assistance has increased.[157] At the same time, although there is no precise information on the percentage of targeted spending on the lowest-income quintiles, progress has been made in terms of the targeting of some social programs associated with the creation of the SIUBEN. However, this instrument initially exhibited errors of inclusion. The conditionalities imposed on the PBL were ambitious and had a high political cost for the government. This is the case with the proposal to eliminate or integrate the various social assistance programs. Although the number of social assistance programs was reduced from 42 to 21, of the 10 programs proposed for elimination, only three were cut, and another seven were cut that had very low budget allocations.[158] As to whether improvements were made during the period in the management of the Solidaridad program and the Alternative Employment Program, given the short execution period involved, it is impossible to draw conclusions. In 2009-2010, progress was made towards improving the performance of the conditional cash transfer program (Solidaridad) and social sector accountability.[159]

4.24 In the **education sector**, the BCS called for the consolidation of educational reforms. To achieve this strategy, the operations program considered second phases for the Multiphase Program for Equity in Basic Education (DR-0125 for US$80 million, approved in 2002) and the Multiphase Program for Modernization of Secondary Education (DR-0112 for US$52 million, approved in 2000), which were in execution. Although second phases of the proposed loans were not developed or ratified during the period under analysis, the two operations approved during prior programming periods were completed. The objectives of the Multiphase Program for Modernization of Secondary Education included improving access to and enhancing the quality of secondary education by reorganizing supply and optimizing infrastructure use and promoting efficiency in school management.[160] In terms of results, the available studies show mixed evidence.[161] The document prepared by the Ministry of Education shows that only the targets for reducing dropout and overage rates were met. The results of national tests and repetition rates did not improve (Table 10, Annex I). More generally, the program's coverage in terms of investment in expanding infrastructure through the construction of model schools did not come close to addressing the massive shortage of school infrastructure, in accordance with the BCS.[162]

4.25 **The objectives of the Multiphase Program for Equity in Basic Education were to:** (i) improve the academic achievement of students in rural and urban fringe areas; (ii) improve the educational management of the schools; and (iii) promote initiatives to be developed under the Educational Development Plan. In terms of results, the program is still in execution, so it is premature to assess its results. However, because it is a multiphase program, it should be noted that there are some design flaws in its impact evaluation that will make it hard to quantify results and restrict potential adjustments in subsequent phases based on the evidence.[163]

4.26 The **health sector** strategy consisted in supporting the decentralization and integration of primary group healthcare services, to increase the coverage of child immunization programs and the rates of detection and control of infectious diseases. To this end, the BCS called for a program for the protection of group health, which was not approved, and the portfolio included the Health Sector Modernization and Restructuring project (DR-0078 for US$61.2 million, approved in 1997), which was in execution. The latter operation, which concluded during the period under analysis, sought to improve the health status of low- and middle-income Dominicans. In terms of results, and based on the performance indicators proposed by the project, the target for persons insured by the social security system was met satisfactorily and progress was made in the area of results-based management processes of regional health services.[164] However, these institutional reforms and the increase in coverage have still not translated into a significant improvement in health services or in a reduction in out-of-pocket spending.[165]

3. Governance pillar

4.27 The IDB's operations program included two projects approved in previous strategies: the Program of Support for Reform and Modernization of the Executive Branch (DR-0073 for US$21.5 million, approved in 1999) and the Program for Modernizing Congress and the Office of the Comptroller General (DR-0106 for US$26.9 million, approved in 2000), accompanied by the PBL Financial Reform Consolidation Program (DR-0151 for US$100 million, approved in 2004). Also, new projects was proposed: the Program to Strengthen the National Statistics System (DR-L1003 for US$10 million), approved in 2005 and ratified in 2008, and the Modernization of Public Finance, which was not prepared, but approval was granted for the Program for the Strengthening of the Internal Revenue Service

(DR-L1016 for US$10.5 million) and the Program to Modernize Public Resource Management (DR-L1005 for US$21 million), both ratified in 2009.

4.28 The results evaluation is limited to the Program of Support for Reform and Modernization of the Executive Branch (PROREFORMA) and the Program for Modernizing Congress, as these were the only operations under this pillar that disbursed during the BCS period. PROREFORMA sought to build permanent and effective institutional capacity in the area of central public administration, develop an equitable distribution policy, and improve the efficiency of spending. Its execution was marked by a long disbursement period (1999-2009) requiring interaction with several administrations and by the existence of other institutional reforms proposed within the framework of agreements with the IMF. Ultimately, the central public administration was restructured in such a way that a good part of the measures lost their relevance and were redesigned.[166] These factors made it difficult to evaluate the results and attribute them to the Bank's action.[167] In general, the program helped strengthen capacity to develop and coordinate macroeconomic and social policies, by reorganizing the Ministry of Finance and the SEEPYD. However, the results in the reforms proposed for the National Information Technology Office and the National Statistics Office were not achieved (Box 7, Annex I). Results were achieved in professionalizing the workforce in accordance with the Bureaucratic Development and Human Resources Management Indexes developed within the framework of the project (Table 11 and Figure 40, Annex I). However, no emphasis has been placed on the need to change certain practices related to civil service rotation.

4.29 With respect to the Program for Modernizing Congress, although the established targets were met, its sustainability is uncertain. In fact, the Legal Advisory Office[168] and the Budgetary and Macroeconomic Evaluation and Monitoring Unit ceased operations because Congress did not allocate the corresponding budget allocation or appoint a technical staff. The objectives of reducing staff turnover and improving staff performance were not measured. In interviews, it was determined that staff turnover is still a fundamental problem for congressional operations. With respect to the institutional development of the Legislative Branch, the selection of the indicators shows a preference for evaluating the efficiency rather than the quality of operations.[169] The subprogram linked to the Office of the Comptroller General played a secondary role, and although it achieved its target in terms of the number of audits conducted in 2004,[170] this did not entail improvements in the Office's operation as a control body.

ENDNOTES

[1] Average growth in Latin America between 1990 and 2003 was 3.4%. The Dominican Republic grew 5.6% and Chile grew 5.8% annually.

[2] Textile exports from manufacturers in FTZs increased 50% until 2001; the tourism sector performed exceptionally, growing from US$770 million in 1991 to US$2.798 billion in 2001 (11% of GDP); and remittances grew from US$330 million in 1991 to US$2 billion in 2001 (10.3 % of GDP). Calculations are based on BCRD data.

[3] In 2002, the richest 10% of families earned 41.5% of income, up from 38.3%. In 2004, the poorest 40% of families earned 10% of income, down from 12% (ECLAC).

[4] This favorable performance can also be verified in the level of economic volatility, characterized by a combination of volatility and average growth. See Figure 3 in Annex I.

[5] The Dominican Republic thus became one of the primary recipient countries of FDI in Central America and the Caribbean, in third place after Panama and Costa Rica (ECLAC).

[6] There was also a 10% telecommunications tax and a 0.15% tax on financial transactions.

[7] In August 2003, the government signed a standby arrangement with the IMF for US$600 million that it was unable to maintain and canceled two months later after the renationalization of the electric distribution companies. The 2005 arrangement was negotiated for US$665 million for two years and was later extended to January 2008.

[8] At the end of 2004, annual inflation was 28.7%. In 2005 it was 7.4%, outperforming BCRD targets, and at the close of 2006 it was within the 5-7% band.

[9] Although international reserves at the BCRD hit a historic low (US$260 million) following the 2003 crisis of confidence, by the end of December 2007, the measures included in the IMF arrangement, along with the recovery of confidence and private capital, had enabled the BCRD to recover and rebuild its international reserves (US$2.9 billion). The parafiscal deficit shrank from 4% of GDP in 2004 to 2.9% in 2005, 2.2% in 2006, and 1.8% in 2007. In addition, reforms in financial administration, public borrowing, investment planning, and managing for results legislation were introduced.

[10] This included the expansion of the value-added tax for industrial goods and services, and the 30% increase in the income tax on high-income sectors and companies. The tax reform of December 2006 included the increase in the oil tax, the creation of taxes on vehicle licenses, and a 16% tax on insurance services. At the same time, ad-valorem taxes were created for alcoholic beverages and tobacco. Reforms were also introduced in legislation on financial administration, public credit, investment planning, and results-based management.

[11] The consolidated fiscal deficit, as a percentage of GDP, fell from 7.6% in 2003 to 3.4% in 2005 and from 3.4% in 2006 to 2.1% in 2007. The difference in the performance between the nonfinancial and the consolidated public sector was attributable solely to the central bank’s parafiscal deficit. To analyze the fiscal dynamic in isolation from the cyclical fluctuations facing emerging economies, the structural fiscal deficit must be used in place of the actual deficit (Izquierdo and Talvi, 2008). This adjustment shows how prior to the financial crisis the structural and actual fiscal deficits were aligned, while during the crisis there was a cyclical deterioration in the actual deficit that corrected in 2007. This dynamic was corrected beginning in 2008.

[12] The renegotiation of debt addressed the following obligations: (i) Paris Club (2004-2005), US$330 million; (ii) commercial banks (2005-2006), US$177 million; (iii) bonds (2005), US$1.067 billion; (iv) bonds (Unión FENOSA) (2005-2006), US$300 million.

[13] Public debt adjusted for the cyclical component of GDP and the real exchange rate, and for the differences between the structural and actual fiscal deficit (Izquierdo and Talvi, 2008). Both IMF and

Dominican government estimates project that with a primary surplus of 1.5% of GDP for 2008-2012, the nonfinancial public sector deficit would be eliminated and the public debt would reach equilibrium levels of about 30% of GDP by 2015.

[14] According to the Economic and Social Analysis Advisory Unit (UAAES) at the Ministry of the Economy, Development, and Planning (SEEPYD), during the 2005-2007 growth period, the growth elasticity of poverty, calculated as the ratio of the growth rate of the percentage of the population in poverty to the real GDP growth rate, averaged -0.68.

[15] With respect to the issue of inequality, the estimates currently available suggest different conclusions. On one hand, the UAAES and SEDLAC figures show a decrease in inequality, and on the other, the ECLAC calculations show an increase.

[16] Table 3 in Statistical Annex I shows the quarterly correlation between the real GDP growth of the United States and the real growth of various productive sectors for which it was possible to combine the data series. These correlations reveal a direct relationship between United States GDP and real growth in the mining, construction, hotel, transportation, communications, and export sectors.

[17] Increases in oil and food import prices were responsible for 53.6% of the current account deficit. The country’s oil bill alone accounted for more than 40% of the total increase in imports. During 2008, fuel imports climbed to US$4,241.3 million, an increase of US$1,017.3 million (31.6%) over the 2007 amount.

[18] At the start of 2009, the IMF’s World Economic Outlook estimated growth of 0.5% for the Dominican Republic in 2009, a figure well-below the 3.5% achieved.

[19] These activities continue to be the main source of foreign currency, employment, and investment but have few linkages with the rest of the economy. The service sector, which includes tourism, accounts for 51.7% of GDP.

[20] While in 2000 the country supplied 4% of U.S. textile imports, in 2006 this share fell to 2%, and there is no recovery in sight for the sector (SEEPD, 2008). These companies face greater competition in the international market due to the entry of China into the World Trade Organization and by the termination of the Agreement on Textiles and Clothing. Moreover, although domestic exports (not including FTZ exports) have grown in recent years, this export basket is based primarily on low value-added goods such as mining products (i.e. ferronickel, silver, and gold), goods purchased in the port (i.e. fuel and food), and other minor products with low technological content. Finally, the analysis of the Dominican Republic’s productive structure shows that the share of foreign trade in GDP has been replaced by a larger share of private consumption.

[21] DR-CAFTA calls for the elimination of tariffs on 80% of the products imported from the United States. Tariffs on the rest of the products will be phased out over 10 years following the entry into force of the agreement. The agreement also requires the immediate elimination of tariffs on 80% of exports from the signatory countries (Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras, and the Dominican Republic) to the United States.

[22] The growth of nonresident visitors entering the country by air and the total production of the country’s hotels, bars, and restaurants has been falling since the 1990s.

[23] BCRD, Statistics, August 2009.

[24] In the World Economic Forum’s Global Competitiveness Index, the Dominican Republic is ranked 98th of 134 countries. In the World Bank’s *Doing Business*, the Dominican Republic was ranked 97th of 181 countries in 2009. The two indices agree that the Dominican Republic has made significant progress in reducing the time and the number of formalities required to open a business, as well as progress related to electronic payment of taxes and improvements in the property registry system.

[25] The mismatch between labor supply and demand in the Dominican labor market shows a disproportionate demand for unskilled temporary workers and no corresponding supply. Moreover, postsecondary education is poorly compensated, and there are no incentives for training.

[26] The total number of financial intermediaries has fallen from 131 in 2004 to 112 in 2008. The Dominican financial system is made up of various types of financial institutions, with the largest being

the full-service banks. Twelve full-service banks represent 79.6% of the total assets of the financial system. Of these, two dominate almost half of the system: De Reservas is State-owned (22.3% of the market), and Banco Popular is private (23.2%). Other institutions with lower shares are the Asociaciones de Ahorros y Préstamos [Savings and Loan Associations], which hold 12% of the system's assets, or one sixth of the assets held by the full-service banks.

[27] The ratio of technical net worth to risk-weighted assets and contingent liabilities has gradually improved from 10.4% in 2004 to 13.4% in 2008.

[28] The ratio of the overdue portfolio to the total portfolio fell from 6.8% in 2004 to 3.4% in 2008.

[29] Average return on equity went from 21% to 28.3%.

[30] The ratio of annualized administrative spending to average assets is the highest in the region at 6.8%, compared to the regional ratio of 4.7%. The other countries have the following ratios: Panama (0.9%), Costa Rica (4.4%), El Salvador (2.8%), Guatemala (4%), Honduras (5.3%), and Nicaragua (6%).

[31] Although the relatively wide rate spread has traditionally been explained by the need to cover nonfinancial operating costs, the recent increase in this indicator to the levels of the 2003 crisis could be an early sign of potential banking problems (IMF, *Financial System Stability Assessment. Dominican Republic*, page 27).

[32] The Dominican Republic depends almost entirely on imported fuels to generate electricity, primarily oil (59% of the primary sources fueling the country's installed capacity, about 3,164 MW). Natural gas makes up 17%, hydroelectric energy 17%, and the rest, coal (Source: BCRD).

[33] In 1989, this type of generation represented 42% of the country's installed capacity. Twenty years later, backup generators represent 38% of the country's total capacity and 63% of the total capacity contracted by distribution companies to supply their markets. Recently, this phenomenon has become more acute because the largest consumers are circumventing the distribution companies and becoming unregulated users entering into contracts with generators on the free market. (UAAES, op. cit.).

[34] Martinez, Rafael. "La reforma de las empresas públicas y sus proyecciones socioeconómicas en República Dominica [Reform of State-owned enterprises and their socioeconomic projections in the Dominican Republic]," VII International Congress of the Latin American Centre for Development Administration (CLAD) on Reform of the State and Public Administration, Lisbon, Portugal, 8-11 October 2002.

[35] The CDEEE and its subsidiaries control 15% of the country's installed capacity (468.4 MW of hydroelectric power plants owned by Empresa de Generación Hidroeléctrica Dominicana), 100% of the transmission network (owned by Transportadora de Electricidad, S.A.), and 83% of the distribution market (through Edenorte and Edesur). The Dominican government assumes conflicting roles, including policy maker (Ministry of Finance and the National Energy Commission), regulator (Office of the Superintendent of Energy), and shareholder (CDEEE).

[36] Electricity subsidies represented 8.5% of the Dominican government's total expenditures, close to the amount spent on education (10.1%) and higher than spending on health (7%). Historically, Dominican government subisides to the power sector represented between 2% and 2.5% of GDP (UAEES, 2008). The Dominican government created the Electricity Rate Stabilization Fund to finance the gap between the indexed rate and the current rate. The readjustment of the retail rate is based on variations in oil prices, inflation, and the exchange rate. However, this indexing formula has rarely been applied and the rate applied has always been below the indexed rate. In 2006, the Dominican government decided to freeze rates in order to reduce the impact of oil prices on the retail rate, and to date no readjustment has been made.

[37] Nearly half of all companies participating in the Investment Climate Survey (2005) cited electricity as the greatest obstacle to competitiveness. World Bank, 2006. Dominican Republic Country Economic Memorandum, The Foundations of Growth and Competitiveness.

[38] Low service quality also leads to theft through the manipulation of meters, illegal connections, and nonpayment of bills. The Dominican government created the National Program to Support the Elimination of Electricity Fraud in October 2002 to enforce collections and eliminate illegal

connections. Six years later, there is no evidence that the program has changed the cultural perception that stealing electricity is not a crime. The Dominican government passed a law against theft (Law 186/2007), but implementation was postponed to 2009.

39 Most consumers spend a significant part of their monthly income on unmet service needs (10-13% for small consumers and about 30% for large consumers). For small consumers, these expenses include electricity purchases from distribution companies, backup provisions, candles, fuel for lanterns, fuel for generators, and small inverters. For large consumers, about half of all Dominican businesses in the commercial and industrial sectors have backup generation capacity (92% in the case of industrial consumers). One survey estimated these expenditures at US$37 million/month in Santo Domingo alone (World Bank: Project Evaluation Document, April 2008).

40 The Power Outage Reduction Program was a political response to address the social unrest caused by the financial outages of 2001. They were expected to be eliminated by 2003. In fact, the program is an agreement between the Dominican Government and the distribution companies, whereby some areas are supplied with a limited amount of power during certain hours of the day. In turn, the companies must be reimbursed by the CDEEE for 75% of the cost of supply in the program areas. There is no accounting on use for any of the program consumers and payments are based on a fixed rate. In 2008, the program was still in place and 12.7% of the power acquired by the distribution companies from the generators in that year was supplied to its areas. The program has been a burden on the government's budget inasmuch as only 10.3% of the electricity supplied to the program areas was billed (SEEPYD, UAAES, Energy Monitor, October 2008). The cost to the government has been estimated at between US$5 million and US$15 million per month. Currently, 500,000 families live in the program areas, representing about 30% of the distribution companies' total customer base.

41 Despite the fact that coverage indicators rank the Dominican Republic among the region's countries with the best levels of access to improved water and sanitation services, these figures hide enormous gaps in access. In 2006, the Dominican Republic had service coverage indicators placing it among the countries with the best coverage in Latin America: 95% access nationwide, 97% for urban areas, and 91% for rural areas. According to the same source, the sanitation coverage rate was 79% nationally, with 81% coverage in urban areas and 74% coverage in rural areas. However, these figures refer to the availability of piped water less than 500 meters from the home, not residential connections. For sanitation, the figures refer to adequate sanitation systems (waste disposal), not the collection of wastewater. (Multipurpose Household Survey included in Dominicana en Cifras [The Dominican Republic in Numbers], 2008). The figures from the household survey differ by 10% from the figures published by the Demographic and Health Survey, ENDESA (urban coverage of 59.2%; rural coverage of 18.9%). These data also differ from those published in the National Work Force Survey which indicated a household coverage rate of 70% (Table 2b, Annex I).

42 These figures hide the differences between the operators responsible for providing services. For example, the utility serving the city of Santiago (Corporación del Acueducto y Alcantarillado de Santiago, CORASAN) has the best coverage indicators (90% of the population with access to piped water and 97% with access to an adequate waste disposal system). At the other extreme are some of the systems administered by the National Water and Sewer Institute (INAPA), where the piped water coverage rate is 40% (Altagracia and Monte Cristi) and adequate sanitation systems are available to 75% of the population (Elias Peña, Baoruco, Independencia). For its part, Corporación del Acueducto y Alcantarillado de Santo Domingo (CAASD), which serves nearly 40% of the urban population, including the city of Santo Domingo, and 20% of the rural population, provides 75% of the population with access to residential water and 19% with access to the sewer system. (CAASD, 2008).

43 This indicates major differences between operators. In fact, CORASAN has a high potability index (>95%), while for systems administered by INAPA, the potability index has been falling sharply, to about 69%.

44 The quality of bottled water is variable owing to the limited controls on the industry. Recently, the Ministry of Public Health closed 68 bottled water processing plants upon verification that they did not meet required quality standards. *El Listín Diario* (6 July 2009).

[45] Average investment in the water and sanitation sector for the 1999-2006 period exceeded US$140 million, representing 0.44% of GDP, much higher than the amount estimated as necessary to meet the MDGs or even achieve universal coverage (Abreu, December 2005).

[46] Rates have been frozen for more than 10 years. One exception to this situation is CORASAN, where rates are approved by its governing board, whereas at INAPA and CAASD, they are approved by the Office of the President. The corporations receive transfers from the central government, which cover part of their payroll, all costs of inputs for potabilization, and other operating expenses.

[47] According to the United Nations Development Programme (UNDP) global report "Reducing Disaster Risk: A Challenge for Development" (2006), the Dominican Republic has relatively high vulnerability to hurricanes, second only to Haiti. This makes the island of Hispaniola the most vulnerable to hurricanes in the Caribbean region. See also UNDP, 2004; PAHO, 1999; UNDAC/OCHA, 2005.

[48] According to a study conducted for an IDB-financed Program on Indicators of Disaster Risk and Risk Management (Cardona, 2005), El Salvador, Peru, and the Dominican Republic face the greatest risk of extreme disasters. These countries could suffer major losses, and they do not have sufficient economic resilience to respond to them. Another indicator proposed in the System of Indicators financed by the IDB is the Disaster Deficit Index, which measures country risk in macroeconomic and financial terms to possible catastrophic events. The results of this index for the five-year intervals between 1980 and 2000 for the Dominican Republic indicate that, for maximum extreme events, the country would not have sufficient own resources, or resources through feasible transfer and/or financing operations, to address the losses and replace the capital reserves drawn down by these types of events. Compared to a sample of 14 countries in the region, the Dominican Republic is one of the countries with the lowest economic capacity to cope with a disaster (Cardona, 2005).

[49] The social progress achieved in the 1990s, a decade of growth, was reversed by the 2003 crisis (IDB, 2001). Higher inflation and an increase in food and transportation prices cut average household income in the Dominican Republic by one third, resulting in a significant increase in poverty (IDB-WB, 2006.) See the analysis of the changes in poverty levels by the UAAES (SEEPYD) (2005-2007). The most recent poverty report by the World Bank and the Inter-American Development Bank indicates the following structural determinants of poverty in the Dominican Republic: (i) low educational levels; (ii) unemployment or underemployment; (iii) location in rural areas; (iv) lack of basic services; (v) larger number of household members; and (vi) older heads of household.

[50] According to UAAES (SEEPYD) figures, while the percentage of the population below the poverty and indigence line was 29.1% and 10.7%, respectively, at the end of 2002, by the start of 2007 the figures had increased to 36.8% and 11.8%.

[51] In fact, for the 1997-2000 period when the economy grew at 6.1% per capita annually, only the 30% of the families with the highest purchasing power experienced significant income gains (IDB-WB, 2006). In contrast, average labor income for families in the bottom five deciles fell by about 2% per year in real terms (IDB-WB, 2006).

[52] According to UAAES (SEEPYD) figures, during the 2005-2007 growth period, the growth elasticity of poverty, calculated as the ratio of the growth rate of the percentage of the population in poverty to the real GDP growth rate, averaged -0.68.

[53] It refers to the deficiencies of the education system, with high overage, repetition, and dropout rates; and the low quality of healthcare services owing to limited spending and weak administrative structures. The Dominican Republic continues to have serious quality problems in the provision of public services (especially sanitation and electricity) (IDB-WB, 2006).

[54] In this period, spending fell from 7.9% of GDP (2002) to 6.8% of GDP (2003), did not recover to pre-crisis levels until 2005, and still lags behind in comparison to the regional average.

[55] The first mapping of social assistance programs (2004) identified at least 43 programs in which the objectives, operational features, and expected results had not been clearly defined (Báez and Solís, 2004).

[56] The Social Safety Net Program was structured as 21 social assistance programs grouped into six areas: (i) local development; (ii) national development; (iii) social assistance; (iv) inclusion of vulnerable groups; (v) job support; and (vi) social subsidies.

[57] The Solidaridad program includes: Comer es Primero [Eat First], Incentivo a la Asistencia Social [Social Assistance Incentives], Ayuda a Ancianos [Elder Care], and Dominicanos y Dominicanas con Nombre y Apellido [A First and Last Name for all Dominicans]. The Dominican government is also considering including the following three programs: Tu compromise [Your Commitment], Retorno y Permanencia en la Escuela [Return to and Stay in School], and Suplementos Alimentarios [Food Supplements]. Under the Solidaridad program, targeted conditional cash transfers are provided to the population living in extreme poverty in order to stimulate demand for education and health services. Through June 2007, the program covered 37% of the population living in poverty.

[58] SIUBEN is an information system based on the socioeconomic characterization of families that ranks households based on socioeconomic needs criteria. The projects that use SIUBEN include: the Solidaridad program, the subsidized health system; the National Council for the Elderly; the program to eradicate child labor; and the BONOGAS liquefied gas subsidy. The BONOGAS transfer is US$6.5 per month per family and is paid to a total of 800,000 families, of which 626,000 are in SIUBEN categories I and II and the remainder are in category III.

[59] Decree 1554-04 establishes: *Programs aimed at implementing activities that protect the poorest shall be geographically or individually targeted*.

[60] The Alternative Employment Program and the Social Program for Agricultural Production.

[61] SIUBEN, as a targeting mechanism, now contains information on 1.5 million households in priority areas on the poverty map (social-sector authorities). However, according to a 2006 IDB-WB study, the percentage of households that SIUBEN declared as eligible despite having income above the poverty line was 46.4%, and the percentage of households with incomes below the poverty line that SIUBEN considered to be ineligible was 38.2%.

[62] The educational results indicated that fewer than half of first grade students complete the fourth grade on time and less than one quarter reach the eighth grade on time. Only 10% of students entering first grade complete secondary school on time. (IDB, 2004. La educación en la República Dominicana. Logros y desafíos pendientes [Education in the Dominican Republic: Achievements and pending challenges]).

[63] This is very poor performance, especially considering that students would earn a grade of 25 points if they were to random mark answers on a test with four possible response choices. Results of studies by the Educational Evaluation Research Consortium.

[64] United Nations Educational, Scientific and Cultural Organization/Regional Bureau of Education for Latin America and the Caribbean, Second Regional Comparative and Explanatory Study (June 2008).

[65] Second Regional Comparative and Explanatory Study.

[66] Infrastructure investments total about US$2.8 billion for construction of new classrooms and refurbishment and replacement of classrooms for early childhood and primary education alone (for secondary education, an additional US$1 billion is projected) (2008-2018 Ten-year Education Plan, 5th ed.).

[67] For 2008, the budget for education as a proportion of GDP was cut by 16.8% (2008-2018 Ten-year Education Plan).

[68] To achieve the MDGs, the Dominican education system needs to refurbish, replace, or update a total of 14,000 classrooms, and needs an additional 10,000 classrooms in the short term in order to meet the official schedule, with a maximum of two daily shifts per school. This represents a short-term deficit of 24,000 classrooms. According to cost estimates made within the framework of the MDGs, the infrastructure work requires an investment of around US$1.446 billion (Organisation for Economic Co-operation and Development, 2008, page 49). The most recent Ministry of Education calculations of the immediate demand for classrooms, based on the defined criteria and using the education center management system tool, indicate an average annual investment of US$165 million for construction of

new classrooms alone from 2010 to 2012. In the 2010 budget, in addition to the investment amount traditionally budgeted for education, an additional US$283.4 million has been budgeted for the 2010-2012 period for construction, refurbishment, equipment, and educational materials for classrooms for children from households participating in the Solidaridad program.

[69] The system of two and even three shifts means that actual classroom time is quite low. The children have four-hour school days, in violation of current regulations (5 hours 45 minutes). The official curriculum establishes 1,080 hours in class for elementary school, 1,250 for secondary, and 1,400 for technical-professional school. It is estimated that on average, the number of classes taken by the students does not amount to 500 instruction hours. The average time students spend in school is 3 hours 27 minutes per day. The time is longer for the morning shift—3 hours 44 minutes—than for the evening shift—3 hours 7 minutes. Average class time was 156 minutes in 2005 and 161 minutes in 2008. For 2008, the largest proportion of schools on the morning shift (48.7%) used 3 to 3.5 hours of class, while for the afternoon shift, the largest proportion (39.7%) used 2 to 2.5 hours of class.

[70] About one fifth of students nationwide attend private schools, and there is an inverse relationship between level of poverty and private school attendance. This leads to the conclusion that private education has prospered as a result of the deficiencies and limitations of the public education system, and not as an alternative option (UNDP, 2008. Human Development Report).

[71] RE-306 contains an in-depth analysis of the country's political history and decision-making process.

[72] According to the literature (Choup 2006, Murillo and Schrank, 2005), this structure influences the types of goods and services that the State provides. Leaders opt for transfers targeting public goods to sustain their clientelistic relationships.

[73] According to *Public Expenditure Review*: "Given that priorities change frequently, even during a single administration, the funds allocated to complete started works are frequently diverted to new, unplanned works. Many public works are started, particularly during election periods, but not finished. For example, when the previous administration took office, 30 projects were under construction, and 13 additional buildings were added. Only 17 of these 43 buildings were completed."

[74] An example of budgetary discretion is account 1401. This fund allows the president to have funds whose use is governed by the sole criteria of "meeting important public needs." While various modifications to the budget process (Decree 646-02) have diluted the importance of this account (Artana et al., 2006), according to Law 423-06, in the Budget and Public Spending Law for 2008, an amount equivalent to 6% of estimated current revenues would be appropriated for allocation by the president.

[75] Datamart. Statement of Approved Loans (Dynamic Version), December 2003, and Bureau of Public Credit, 2008 Statistics, Public Sector Debt by Creditor (the previous methodology was selected for purposes of comparison with prior years).

[76] Balance sheet after donations. Central government operations (accrual basis). BCRD. Figures converted to U.S. dollars using the average annual exchange rate of the IMF.

[77] The DOD from bonds quadrupled. The amount of internal debt from Treasury Bonds doubled between 2004 and 2008, accounting for 36.8% of internal debt and 22% of total DOD, up from 12%. The proportion of private short-term financing increased from 14% to 23%, and the amounts from financial institutions accounted for 12% of total DOD in 2007, compared to 1% in 1995.

[78] The lowest anticipation rate was for social-sector operations, with only one of the six projects that were initially anticipated obtaining approval. However, the single social-sector programmatic policy-based loan that was approved represented 42% of the total amount approved. In the case of competitiveness, 50% of the projects approved were not programmed. In governance, three projects were approved, of which one was not programmed.

[79] The improvisation rates in prior cycles were: 0% for 1991-1996, 6% for 1997-2000, and 3% for 2001-2003. Document RE-306, paragraph 2.23.

[80] In the case of the environment, risk and vulnerability indexes proposed in an analytical work (Cardona, 2005) are presented as indicators, but there are no plans to recalculate them in the BCS or in the

proposed operations, so it is impossible to verify whether they were met. For other indicators, for example, the extreme poverty rate, the BCS includes metrics but does not mention the source, which makes it hard to update the indicator and determine whether it was met.

81 The first project for Strengthening, Supervision, and Regulation of the Banking System (DR-L1001) was approved in 2003; the second sector loan for the Financial Reform Consolidation Program (DR-0151) was approved in 2004.

82 Since the investments in technology and food safety have characteristics of public goods, targeting public investment to promote this type of investment is necessary. See also: "*República Dominicana: Política Agroalimentaria, Competitividad y Pobreza Rural*" [Dominican Republic: Agrifood Policy, Competitiveness, and Rural Poverty], IDB (2000).

83 Resources from the Competitiveness Fund (FONDEC) were not always invested in clusters of strategic products for the Dominican economy, considering their potential for developing more diverse markets.

84 Institute for Liberty and Democracy, "*Evaluación preliminar de la economía extralegal en 12 países de Latinoamérica y el Caribe: Reporte de la Investigación en República Dominicana*" [Preliminary assessment of the extralegal economy in 12 Latin American and Caribbean countries: Report on the research in the Dominican Republic], July 2006.

85 In fact, this operation corrected a design flaw in the earlier Program to Modernize the Real Property Adjudication and Registration System (DR-0118), which established a titling system, but with serious boundary-marking and georeferencing inaccuracies. This legal system recognizes the ownership right to a property but does not specify its location. According to information from the abovementioned program, as of December 2005, of the 920,000 formally registered properties in the Dominican Republic (i.e. recorded in the Title Registry), 46% were covered by these types of titles.

86 In general terms, this model coincides with the Dominican government's Comprehensive Plan for the Dominican Electricity Sector (2006-2012).

87 From 2004 to 2008, the World Bank took the lead in supporting the Dominican electricity sector. After the crisis of 2004-2005, the World Bank approved a technical assistance loan of US$7.3 million (2004) and a programmatic sector reform loan of US$150 million (2005).

88 In October 2008, as part of a coordinated effort with the World Bank and the Organization of Petroleum Exporting Countries, the IDB approved a sovereign loan of US$40 million to finance business plans for distribution companies. Once more, the World Bank led the financial aid package, approving a US$42 million loan in April 2008.

89 As mentioned in Chapter I, and as suggested in the BCS, the causes are more related to political intervention in determining rates in investments, the fiscally unsustainable subsidy system, the sector's financial restrictions, and existing regulation problems.

90 The program was important for providing continuity to the social sector reforms as a result of the contingencies on the loan disbursements. Nevertheless, the vast majority of the contingencies proposed were limited to the drafting of manuals, entry into effect of regulations and laws, or the implementation of protocols. Thus, they failed to address the quality of the spending and the efficiency and efficacy of the social programs implemented.

91 The component to strengthen the National Statistics Office had already been incorporated in PROREFORMA.

92 The opportunity to use nonreimbursable resources from PRODEV to align the political will of various entities and boost the production of reliable official statistics for governmental purposes was not leveraged.

93 Net transfers defined as: Disbursements – (Principal + Interest + Credit fees + Other fees + Income + Other) (IDB Datawarehouse).

94 Net transfers fell from US$186 million in 2002 to -US$95 million at the end of the BCS period.

95 Finance Datamart. Statement of Approved Loans (Dynamic Version) as of 31 December 2003.

96 The strategy proposed a shift to the high scenario if highly ambitious targets were met: "*the extent to which elimination of the nonfinancial public-sector deficit improves fiscal capacity, the tax system is reformed, and government financial management and energy sector reforms are implemented.*"

97 At the start of the period covered by the BCS, there were 22 loans in execution, with an undisbursed balance of over 50%. There were plans to complete 16 projects between 2005 and 2008 (BCS, Annex VI), of which 13 were completed, including four PBLs. The other nine investment projects that were completed were in execution, on average, for over 75 months from their approval date.

98 The loan balance is: undisbursed balance at the start of the BCS + loan approvals – loan disbursements – loan cancellations = balance at the end of the BCS: US$700 million + US$688 million – US$756 million – US$197 million = US$435 million.

99 An analysis of repayment flows shows that the PBLs were used to repay the emergency loans.

100 The Social Management Reform Program and the Financial Reform Consolidation Program, as well as an emergency loan, Protection and Sustainability of Social Reforms.

101 In terms of sector relevance to the central BCS objective of poverty reduction, the analysis shows that the technical-cooperation projects and small projects accounted for 42% of the amount approved for competitiveness, 41% for governance, and 17% for the social sector.

102 In the 1999-2003 period, 56 operations were approved for US$11.4 million.

103 In the 1999-2003 period, seven grants (US$5 million) and a loan (US$2.5 million) were approved.

104 In addition to these four, three others were approved in 2004. Of these seven approved projects (DR-N1003, DR-N1004, DR-N1006, DR-N1008, DR-N1014, DR-N1019, and DR-N1022), final reports for only four of them can be found in IDBDocs.

105 Economic Situation and Outlook: Central America, Mexico, Haiti, and the Dominican Republic (DR-N1003); Support for the Independent Panel – Dominican Electricity Sector (DR-N1004); Energy Sector Dialogue (DR-N1008); Potential Effects of Trade Liberalization on Rural Households (DR-N1022).

106 For example, the Health Sector Modernization and Restructuring project (DR-0078), which finished disbursing in 2007, required 49 months of preparation. The Program for Modernizing the National Congress (DR-0106), completed in late 2006, required 32 months of preparation. Lastly, the Multiphase Program for Road Infrastructure, Phase I (DR-L1008), approved in December 2007, was in preparation for 28 months.

107 The average total project preparation time in the Bank and the CID, not including the Dominican Republic, was 27 months. A breakdown of the total preparation time reveals that the average time from preparation of the initial profile to approval was 15 months, equivalent to the average for the Bank and the CID. However, the time from approval to the first disbursement was 19 months, well above the averages for the Bank (12 months) and the CID (13 months).

108 GN-2159. Countries requiring ratification by the Legislative Branch.

109 Anecdotal information from executing agencies and Country Office specialists suggests that delays in preparation time have major implications for project execution, because three years after the design of a project, circumstances may be quite different, and most projects require changes in their operations plans to adapt to new scenarios, as well as the reallocation of resources among the various components.

110 For all investment projects between 1% and 99% disbursed and for all years since 2000, the ratio of actual time of duration to planned (projected) duration was compared to the ratio of the amount disbursed to the amount approved. This data was graphed on a logistic curve describing average disbursement performance of the programs and compared to the Bank's curve. Projects above the curve disbursed more quickly than the Bank average, and projects below the curve were subject to delays.

111 Project preparation in the Dominican Republic has come to cost in some cases between 1.5% and 3% of the originally approved amounts. Loan DR-L1010 cost US$26,454 per million approved, or 2.65% of the originally approved amount. Loan DR-L1016 cost US$18,400 per million approved, nearly 2%

of the approved amount. Loan DR-L1005 spent $14,678 per million of the approved amount on preparation (US$308,237 in total, or 1.5% of the total approved amount of US$21 million). Technical-cooperation projects also had high preparation costs. For example, in the case of the Watershed and Coastal Management Program (TC-0210048, nonreimbursable), US$86,900 was spent, which was 29% of the total amount of US$289,000, which was ultimately not approved.

[112] Execution costs per million disbursed in the Dominican Republic are US$4,903, compared to US$3,000 for the Bank.

[113] In 2006, 28% of the projects in the country exhibited problems related to the achievement of development objectives, a rate that fell to 6% for both 2007 and 2008. This could be partially explained by the fact that 6 of the 18 loans in execution had not begun to disburse, and therefore no problems were reported. Another possible explanation is the 2007 change in the PPMR format, which made it possible to report the problems in other categories, but not necessarily in implementation.

[114] The average number of programming missions between 2004 and 2008 was seven, while the CID average was 12. The average number of execution and monitoring missions remained constant at 27 missions, with a CID average of 33. Finally, there were nine knowledge generation missions, compared to 11 for the CID.

[115] For the Disaster Prevention and Risk Management program (DR-L1007) and the Emergency Assistance program in response to Tropical Storm Noel of October 2007 (DR-L1029) the only document the Office of the Secretary has is the executive summary, which does not present the programs' execution in detail.

[116] In three of the cases, program implementation is proposed through execution units created with resources from prior loans. These execution units are considered "permanent" units or are slated to become permanent upon completion of the projects (DR-L1005, DR-L1006, DR-L1008). In three other loans, the creation of execution units is proposed, one by resolution, another as a unit attached to a ministry, and in the third case, through the formation of a technical team (DR-L1010, DR-0151, DR-L1003). In another case, governmental agencies are appointed as executing agencies, but the hiring of a full-time professional is proposed for general program administration, as well as a financial-accounting support specialist to achieve "efficient program administration" (DR-L1016). Only in three projects were governmental executing agencies responsible for integrated project execution (DR-L1026, DR-0150, DR-0151).

[117] This is the case despite the separation of functions that occurred between the BCRD as the principal counterpart for the IMF, the SEEPYD for the World Bank, and the Ministry of Finance for the IDB.

[118] Some indicators, such as interest rate spreads, are now at the levels preceding the 2003 financial crisis.

[119] In general terms, regulation has advanced in the following areas: (i) dissolution and liquidation of financial institutions; (ii) limits on related-party lending; (iii) capital adequacy system; (iv) prudential standards for liquidity and market risks; (v) corporate governance; (vi) concentration of risks, (vii) lender of last resort mechanisms; and (viii) investment in cross-border entities. On the supervision side, the following improvements stand out: (i) liquidity monitoring; (ii) early warning mechanisms and corrective actions; (iii) risk bureau; (iv) procedures for inspecting loan portfolio quality; (v) transition toward risk-based supervision; (vi) preparation and execution of strategic plans; (vii) implementation of programs to contract qualified professionals; (viii) execution of supervisory staff training programs; and (ix) strengthening of the technology platform for supervision purposes (DR-L1040).

[120] Along the same line, the last European University Institute annual report on the Dominican Republic indicates that the reliability of banking system indicators is limited, inasmuch as the Superintendency does not yet have a robust inspection system. Country Profile 2008, Dominican Republic, page 25. In relative terms, although the Dominican Republic has managed to reverse the impact of the 2003 banking and financial sector crisis (CPE paragraph 1.17), compared to Central American and Caribbean countries, the Dominican Republic is below the regional average for most financial sector indicators. According to the IMF Report (December 2008), *financial sector vulnerabilities have been*

reduced, but will remain until risk-based consolidation supervision can be fully implemented and institutional capacity strengthened further. Moreover, the delays in implementing the laws on recapitalization of the BCRD do not promote the credibility of the government or its monetary policy.

[121] The pension fund administrator market has been consolidated into five administrators, and the yields, in real terms, which were negative in 2003 and 2004, stabilized at zero during the 2005-2008 period. The pension fund administrators have begun investing in BCRD securities, and the feasibility of channeling funds to other strategic sectors such as housing and infrastructure is under discussion, but a market for institutional investors, as proposed in the BCS, has not yet been developed.

[122] In addition, for three of the six tourism clusters—Santo Domingo, Puerto Plata, and La Romana—the effect of the clusters can be approximated by the change in arrivals of foreign passengers to the nearest airports. Growth between 2003 and 2008 is positive in all three areas. Although annual growth for 2008 was negative for all areas, the effect of the global crisis on this estimate cannot be isolated, which makes it impossible to draw any conclusions for that year.

[123] Under this component, support was provided that overlapped with the MIF interventions, to the detriment of market validation of the intervention models, calling into question coordination within the IDB Group. The MIF programs were generally designed to promote partnering betweens micro, small, and medium-sized enterprises through cluster or franchise models. The MIF operations proposed a model for validating the relevance of the actions based on the willingness to pay of the beneficiary private firms or other relevant local stakeholders. However, through FONDEC, the Bank itself provided the counterpart financing in some cases. In the absence of the self-selection mechanism, this evaluation questions the relevance of the financed interventions to the business development of the participating firms.

[124] A more qualitative analysis of the information from the project status reports leads to the following conclusions: (i) the most successful clusters were those that emerged in response to demand, while those that were induced, as was the case with information and communication technology clusters, failed; (ii) the clusters that were supported in coordination with other agents (United States Agency for International Development) (mangos, organic coffee, fruit and vegetable farming, ecotourism) had relatively better results; and (iii) the clusters that contributed more counterpart resources were more successful.

[125] In terms of efficiency, the distances between stakeholders, their lack of coordination, and high turnover among the executing agency’s senior staff increased program costs and execution times. As a result of the poor performance of the operation, in December 2008, an administrative mission was conducted to agree on measures for program execution. It was determined that project funds would be used to finance a strategy to support the Dominican garment industry, in the amount of US$400,000. In addition, an extension was granted to complete the program in October 2009, and a decision was made to restructure the program’s logical framework.

[126] The program had three components: an investment component (support for the adoption of technology, targeting small farmers, with 60% of the resources); and two technical-assistance components (improvement of food health and safety and support for trade policy and institutional reform in the agrifood sector). The Ministry of Agriculture was responsible for executing the program through a central coordination unit, a project management council, four technical execution units, and a financial unit to channel program resources (Banreservas).

[127] There are no disaggregated data on exports in the Dominican Republic to calculate the change in the level of agricultural exports. In the case of agricultural production, although its relative share of GDP has fallen, between 2002 and 2007 growth in the rice, traditional export crops, and livestock sectors was positive and above average. In the case of other crops, growth was negative, revealing the lack of diversification in the agriculture sector.

[128] To analyze the differentiated impacts of these programs on efficiency indicators, OVE conducted an impact assessment of the program’s investment component, which subsidized agricultural technologies through matching grants, to identify changes in the productivity of beneficiary producers, compared to what would have occurred had they not participated in the program. This exercise was based on data

from the executing agency. The database was set up in 2008 and includes 1,572 observations for producers engaged in agricultural, livestock, and dairy production activities (PATCA beneficiaries and nonbeneficiaries). Because there was no baseline, the propensity matching score was used to calculate the estimate (Gonzalez Diez et al., 2009).

129 In addition, as an externality, the project developed the private technology provider market. At program startup, there were 10 providers in the entire country, and by early 2009, there were 72 companies, with about 19 of the suppliers tendering bids for each of the technologies after the second year of project execution. This guaranteed price competition for the producers obtaining the technologies under the project.

130 A significant number of the poorest farmers do not have formal title to their properties. Here, it would have been useful if the Land Jurisdiction Modernization Program had made some progress in terms of helping campesinos formalize their land ownership because these producers are probably the poorest and would be left out of the program.

131 Of the approved applications that were not executed, 58% corresponded to these small producers. This fact reinforces the idea that the failure that occurred in this market was one of financial restrictions that prevented the producers from gaining access to the technologies. In fact, there are currently 7,327 additional applications for support that could not be covered by the program from producers who know about the technologies but would not be able to finance them individually.

132 Data provided by the program executing agency.

133 Progress was made in terms of creating new standards, legal digests, and institutions regulating food safety and health. However, the monitoring indicators proposed in the project's logical framework are not available. This makes it impossible to determine the real effect that the investments made on the improvement of agricultural health and the country's health. For its part, the technical-support component financed the consulting assignments planned. In addition, the development of the registry of properties and producers, which links producers to their properties within an area of 14,600 square kilometers, is 75% complete and includes about 20,000 producers. This database will be an important input for targeting policies and characterizing the Dominican agrifood sector. For example, the registry will make it possible to analyze information related to planting, harvest, production, and farm prices and place export products from the agriculture sector. This will make it easier to target public policies in this sector.

134 While this last line of action was not formally outlined in the BCS, it is closely related to the government's strategy.

135 The initial indicators that were proposed—such as the number of financial operations guaranteed with property titles—were not measured. According to this project's final monitoring report, these indicators were changed.

136 While in 2002, the average time to obtain a duplicate due to loss was 120 business days, and it took 80 business days to formalize the incorporation of a condominium, the time it now takes for these processes varies from 7 to 45 business days and from 7 to 55 business days, respectively.

137 In addition, the Real Property Registry Law was enacted to simplify the procedures and management of the real property registry offices. One of the most important reforms introduced by the law is the ban on the issuance of "annotations," promoted during the previous phase, which are temporary legal statements that acknowledge a land right but do not specify the location of property. In 2005, of the 920,000 formal properties registered in the Title Registry, 46% were still covered by this instrument.

138 Congress blocked the tax, the Fund (US$300,000) was canceled, and the resources were redirected to identifying other sustainable alternatives.

139 The platform connects the National Industrial Property Office, the Internal Revenue Service, the Presidential Office of Information and Communication Technologies, and the Santo Domingo Chamber of Commerce and Production, to facilitate the business incorporation process.

140 However, for some population groups separated based on classification criteria such as gender, age, education, and region, the effects are greater. The most significant impacts are observed in the eastern

part of the country and in Santo Domingo. The differences in the levels of employment and wages are greater for women. The opposite occurs with enrollment in a health insurance plan. Thus, the evidence obtained to date is not convincing (positively or negatively), and considerations were made as a result of the evaluations to strengthen the program in its second stage.

141 An analysis of the May-July 2005 and March-May 2006 surveys shows that, in the months immediately following the training, the program did not improve the employability of the participants, with respect to the control group. However, after several months, growing differences were observed between the two groups, though they were not statistically significant.

142 Also, according to the different population classification criteria, differentiated impacts are observed with respect to: women (3.6%), young people aged 17 to 19 (9.1%), young people with primary education (5.6%), Santo Domingo (6.3%), and the east (12.9%). Another significant result is that young participants seem to get better jobs than nonparticipants. Thus, at the time of the survey, the difference between the percentage of beneficiaries and controls employed in jobs that provide health insurance was greater than 5% (with a 2.9% margin of error). The difference was particularly significant in the case of men. For women, the difference was less and was not significant. Again, the most significant effect was observed in the eastern part of the country (17.3% with a 7.5% margin of error). In terms of income, the results show that participation in the program does not have a consistent effect. In the first monitoring survey, positive but not very precise impacts were observed. However, these effects were not replicated in the second measurement. Nevertheless, in some population groups (women, east, and Santo Domingo), the observed effect is greater and slightly more significant.

143 In fact, businesses indicated that they received calls from the institute once the training was complete, rather than during the course design period.

144 Some of these problems were resolved in project execution. The training sessions closely followed the Chilean training model, which is based on demand rather than supply, as planned in the initial document. In addition, the Instituto Nacional de Formación Técnico Profesional [National Institute for Vocational Training] was invited to participate in the project as a technical evaluator of the proposals and as course supervisor.

145 This program proposes the development of a National Employment System, which includes the coordination of a National Employment Commission, the implementation of a Labor Monitoring Center, and the provision of labor intermediation services. The subprogram also includes the continuation, with some adjustments, of the Youth and Employment Training Program that is also being financed by the World Bank.

146 In the evaluation of the impact of the Rural Access Roads II program (DR-0013) (OVE, 2006), performed in 2006, OVE concluded that although the expected results were not produced in terms of road network maintenance and sustainability, the program did have positive results in terms of accessibility to public transportation by these communities.

147 Nor did it meet the goal of maintaining 1,157 km of roads. By program completion, maintenance had been performed on only 853 km. The 1,000-meter target for bridges in the system of maintained local roads was met and exceeded, with maintenance performed on 1,250 meters.

148 These included: approval of a new legal framework, creation of an independent regulatory agency, transformation of operators based on market criteria, and adjustment of the system of rates and subsidies in order to ensure the operators' long-term sustainability.

149 To this end, the plan was for the company to execute a business management plan and promote the necessary modifications in the legal framework under which it was created.

150 Loan DR-0145, the "Disaster Prevention and Risk Management Program" (2002, US$5 million), arose from the solid results obtained in the prevention and mitigation component of the Hurricane Georges loan (DR-0135). According to Bank reports, disagreements between the government and the IDB with respect to the executing agency and the risk management approach that the government had begun to support resulted in the cancellation of the loan in 2003. Whereas the government wanted the executing agency to be Civil Defense, the Bank felt that the Technical Secretariat of the Office of the President,

as previously agreed on in the loan, would be better suited to executing this project because it had a greater technical capacity at the time, as well as prior experience executing the loan's prevention component.

[151] Emergency Help for the Victims of Hurricane Jeanne (DR-T1011 for US$50,000, 2004), Emergency Caused by Torrential Rain in Jimaní (DR-T1009 for US$50,000, 2004); Support for Emergency Caused by Tropical Storm Noel (DR-T1037 for US$200,000, 2007).

[152] The program was cofinanced with almost US$111 million from the World Bank, which contributed resources to finance imports, reconstruction and mitigation of infrastructure, and institutional strengthening.

[153] The other components focused on the reconstruction of social and production-related infrastructure as prioritized by the government, reconstruction in low-income communities, and the prevention of macroeconomic deficits (protection of recurrent social spending).

[154] The 2002 enactment of Law 147/02 on Risk Management is largely attributed to the work done under this loan's prevention component.

[155] In 2001, the Bank approved another PBL for US$200 million. Its objective was to reduce poverty and support economic growth by making public social spending more efficient.

[156] The rules and regulations established under the General Health Law were maintained; the National Health Council began operations; and the social-sector authorities' plan for restructuring the social assistance system was implemented.

[157] According to information provided by social-sector authorities, the original budget for programs using targeting systems to select beneficiaries shows that they represented just 24.1% of the activities subject to the restructuring process in 2006, but roughly 39.3% in 2008. Although the targets set are not being strictly met, spending on social assistance has been restructured, and spending quality has improved, with spending on untargeted activities falling from 75.9% in 2006 to 60.7% in 2008. The SIUBEN is applied to: (i) the Solidaridad program, (ii) the subsidized health system; (iii) the National Council of Older Persons; (iv) the child labor eradication program; (v) emergency programs for Tropical Storms Noel and Olga; and (vi) the liquefied gas subsidy. The amount of the subsidy (known as BONOGAS) is US$6.5 per month per family and reaches a total of 800,000 families, of which 626,000 belong to SIUBEN categories I and II, with the others in category III.

[158] Such as the Alternative Employment Program and the Ministry of Agriculture's Social Program for Agricultural Production.

[159] In essence, according to social-sector authorities, these IDB- and World Bank-financed projects will help: (i) align the conditional cash transfer system with the priorities of the health and education sectors; (ii) systematize monitoring and evaluation of the program in order to strengthen its management; (iii) deconcentrate and automate the operations cycle in order to strengthen the community-based organizational structure; (iv) strengthen the targeting system by recertifying SIUBEN-registered households; (v) improve results in the social, education, and health sectors by implementing performance management agreements; and (vi) promote a culture of social accountability and oversight, through a strategy that integrates programs, sectors, and community networks from organized civil society.

[160] Other specific objectives included: (i) reviewing secondary curricula for appropriate distribution and hourly course load; (ii) ensuring the availability of educational inputs; (iii) modernizing human resource training policies in the sector; and (iv) reducing the risk of academic failure among young people.

[161] An analysis of the results of all of the studies can be found in the sector note (Education).

[162] This was indicated in the final evaluation of the Ministry of Education, and is also clear from the 2008-2018 Ten-year Education Plan. The problem aggravates basic education issues, since, according to the Ministry of Education, "Over 60% of students enrolled in basic education attend are in overcrowded schools, and a third are in evening shifts where the lack of electricity makes learning impossible" (Phase II of the multiphase program, proposal page 41.)

[163] In the case of the EMI and PACE programs, a quasi-experimental evaluation was proposed, with a budget of US$400,000 for the EMI and US$500,000 for the PACE (paragraphs 2.11 and 2.25 of the loan document; the figures include resources for qualitative evaluations). OVE had access to the baseline study for the Multiphase Program for Equity in Basic Education, Phase I, developed by the Instituto Tecnológico y de Estudios Superiores de Monterrey. The results of the baseline report give rise to technical problems: the metrics do not represent the situation before the program as had been sought, the representativity of the samples is uncertain, and the instruments for measuring academic performance are flawed.

[164] According to information provided by the social-sector authorities, performance management agreements were signed in regional health services VI and VIII, which also include performance evaluation forms, information sources, and the steps needed to meet the objectives established in the agreements. For 2010, negotiations are under way for performance management agreements between the Ministry of Public Health and regional health services I, II, III, IV, V, and VI, in which commitments are made to meet specific primary healthcare objectives in accordance with the regional epidemiological profile.

[165] With respect to the infant mortality indicator, although the rate has fallen by more than 10% nationally, the percentage indicated corresponds to a set of health-related actions in which the project did not play a significant role (Project Completion Report).

[166] The Technical Secretariat of the Office of the President, the project's main beneficiary, was dissolved, and the SEEPYD was created along with the Ministry of Finance, with fundamental changes in their structures and functions.

[167] However, as a result of these reforms, the new legal framework strengthened some of the operation's working objectives. These legislative modifications included the Public Credit Law, the Public Function Law, the Basic Public Budget Law, the Planning Law, and reforms to the treasury and procurement system. This new institutional framework set the stage for planning the Program to Modernize Public Resource Management and the Program for the Strengthening of the Internal Revenue Service.

[168] Although the Legal Advisory Office was created by resolutions of both chambers of Congress and initially provided with staff, equipment, furniture, and a budget provided by the program, it was closed because it never completed its charter as established in the resolutions, and fundamentally, because as of 2006 it was not allocated a budget.

[169] This is particularly evident in the indicators selected to measure the relationship between Congress and civil society. The information collected in the interviews shows greater transparency (the Congress's television programs and website were highlighted) and a stronger relationship with civil society. However, it should be taken into account that these changes are the result of complex democratic transition processes, and it is hard to determine the extent to which they were made possible by the project.

[170] The number of audits conducted is not the only element that matters. The amount covered by the audits should also have been taken into account when developing the indicators.