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DOMINICAN REPUBLIC

IDB COUNTRY STRATEGY (2013-2016)

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ABBREVIATIONS

AECID	Agencia Española de Cooperación Internacional para el Desarrollo [Spanish Agency for International Development Cooperation]
BCRD	Banco Central de la República Dominicana [Central Bank of the Dominican Republic]
CDEEE	Corporación Dominicana de Empresas Eléctricas Estatales [Dominican Corporation of State-owned Electricity Companies]
CPE	Country Program Evaluation
CRI	Cash recovery index
END	Estrategia Nacional de Desarrollo [National Development Strategy]
ENHOGAR	Household Survey
IDEC	Iniciativa Dominicana por una Educación de Calidad [Dominican Initiative for Quality Education]
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
ITBIS	Impuesto a la Transferencia de Bienes Industrializados [industrialized goods and transfer tax]
MAPS	Methodology for assessing procurement systems
MESCyT	Ministry of Higher Education, Science, and Technology
MH	Ministry of Finance of the Dominican Republic
MIF	Multilateral Investment Fund
MINERD	Ministry of Education of the Dominican Republic
MSMEs	Micro, small, and medium-sized enterprises
MSP	Ministry of Public Health
MW	megawatts
NCB	National competitive bidding
NFPS	Nonfinancial public sector
NSG	Nonsovereign guaranteed
NTCI	Normas técnicas de control interno [Internal control technical standards]
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
PAHO	Pan American Health Organization
PEFA	Public Expenditure and Financial Accountability Review
PNPSP	Plan Nacional Plurianual del Sector Público [National Multiyear Public Sector Plan]
PROSOLI	Progresando con Solidaridad program
SASP	Sistema de Administración de Servidores Públicos [Public servants administration system]
SIGEF	Integrated Financial Management System
UEPEX	External loan executing units

EXECUTIVE SUMMARY

Country context: The Dominican Republic has been one of the region's fastest-growing economies in recent decades. Between 1990 and 2012, per capita income in the Dominican economy registered average growth of 3.9%, driven by export-oriented activities such as manufacturing in free trade zones and tourism. Although this good performance has produced social gains, major challenges remain. Poverty still affects 40.8% of the population and wide disparities between regions persist. Growth became less vigorous in the wake of the international financial crisis, not only as a result of the less favorable external environment, but also because of the loss of competitiveness caused by stagnation in business productivity and the human capital deficit. The fiscal deterioration observed in 2012 also highlighted the persistence of serious fiscal management challenges. Against this backdrop, the main challenge the Dominican economy faces is not just that of sustaining growth rates, but also to do so in a more inclusive way that enables substantive improvements in the population's living standards.

The IDB in the Dominican Republic: Over the period 2010-2013 the Bank's activities were focused on three main areas of action: (i) macroeconomic stability and spending efficiency; (ii) productive sectors; and (iii) the social sector. Between 2010 and 2012 sovereign guaranteed and nonsovereign guaranteed operations for US$926 million and US$231 million, respectively, were approved, together with technical cooperation operations for US$8.9 million, MIF operations for US$6.4 million and IIC operations for US$28.3 million.

Priority sectors 2013-2016: The Bank's country strategy with the Dominican Republic for the period 2013-2016[1] will concentrate its actions in six sectors within three key pillars: (i) strengthening the human capital base through interventions in the social protection, education, and health sectors; (ii) macroeconomic stability and public spending efficiency through support for fiscal management and efficiency and financial sustainability in the electricity sector; and (iii) productive development and competitiveness, with particular emphasis on linking different sectors and boosting the productivity of micro, small, and medium-sized enterprises (MSMEs). Gender, as a crosscutting action area, will be incorporated in the human capital pillar sectors, while the climate change adaptation perspective will be incorporated in the productive development and energy sectors. The private sector windows will support interventions promoting infrastructure development, human capital, and the productive sectors.

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[1] This country strategy will be in force from the time of its approval by the Board of Executive Directors until December 2016.

Lending framework:	The sovereign guaranteed lending scenario considered by the Bank entails approvals of US$1.528 billion over the strategy period.
Risks:	The main risks for implementation of the strategy relate to: (i) the economy's vulnerability to external shocks and natural disasters; and (ii) the execution capacity of the executing agencies, which could slow the rate of implementation and have an impact on portfolio performance. The strategy includes the necessary mitigation measures.

I. COUNTRY CONTEXT

1.1 The Dominican Republic has been one of Latin America's fastest-growing economies in recent decades. Between 1990 and 2012, per capita income in the Dominican economy posted average growth of 3.9% (well above the Latin American average of 1.8%), driven by export-oriented activities such as manufacturing in free trade zones and tourism.

1.2 Although this good performance has produced social gains, major challenges remain. The economy's dynamism has had a limited impact on job creation, which is necessary for a sustained reduction in poverty levels. The bulk of the jobs created are informal (three out of four between 2004 and 2011), mostly in sectors with very low productivity (services, commerce, transport), while job creation in high productivity sectors has slowed.[2] Between 2004 and 2011 poverty and extreme poverty rates dropped by 9 and 5 percentage points, to 40.8% and 10.4%, respectively. However, rates remain high compared to the rates of 32% and 8.2% registered in 2000,[3] with strong disparities persisting between different areas of the country.[4]

1.3 More recently, economic growth has slowed. Between 2009 and 2012, gross domestic product (GDP) achieved average growth of 4.9%, significantly below that posted from 2005-2008 (7.8%). This deceleration reflects the change in the international context in the wake of the 2007-2008 global financial crisis, characterized by slow growth in the developed economies, particularly the United States, which is the main destination for the country's exports (55%), and the main source of remittance (40%) and tourist (70%) flows.

1.4 In the fiscal area, after a process of post-crisis consolidation, there was a serious worsening of the fiscal accounts in 2012. This was due to an increase in public spending associated with the electoral cycle, increased capital expenditure, and larger transfers to the electricity sector.[5] The new administration[6] has adopted and is implementing a major fiscal consolidation strategy that includes a tax reform to increase fiscal revenue and measures to normalize expenditure to levels prior to the

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2 As a result, broad unemployment remains high (15.1% in 2012). The stagnation in the quality of employment is also apparent in the dynamics of real wages, which in 2011 came to only 75% of their value in 2000.

3 Between 2005 and 2011 the Dominican Republic registered a poverty/growth elasticity of -0.83. This is less than half the Latin American average of -1.7 (Robles, 2012).

4 In three of the nine regions of the Dominican Republic (Enriquillo, El Valle, and Noroeste), general and extreme poverty rates are over 50% and 17%, respectively—more than twice the rate registered in the Distrito Nacional.

5 The central government deficit went from 2.6% of GDP in 2011 to 6.6% in 2012. See Annex V for more details on the economic context.

6 The new administration took office on 16 August 2012.

electoral period, and a redirecting of resources to the social sectors.[7] Nevertheless, significant fiscal management challenges remain, which need to be addressed to ensure a stable macroeconomic situation conducive to economic growth.

1.5 In this context, the main challenge the Dominican economy faces is not just that of sustaining growth rates, but also to do so in a more inclusive way that enables substantive improvements in the population's living conditions. This is a difficult task given the Dominican Republic's steady loss of competitiveness,[8] which is the main obstacle to growth.[9] This pattern is due to: (i) stagnating productivity and a drop in business competitiveness, due to meager investments in innovation and technology development (particularly among MSMEs, which make up the bulk of companies in the country), deficiencies in logistics and transportation infrastructure, particularly as regards electricity supply services, limited access to credit, and an absence of effective productive development policies; and (ii) the low quality of human capital, due to the serious deficiencies in health and education services.

1.6 To meet these challenges, in its National Multiyear Public Sector Plan for 2013-2016 (PNPSP)[10] the Dominican government emphasizes the *construction of a development model that places priority on expanding the whole population's capacity, in particular, that of the most vulnerable and excluded, by fostering more inclusive and higher quality education, health care, and social protection; and promoting productive sectors with more possibilities for creating decent jobs, integration in the community, and environmentally sustainable production*.[11]

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[7] The tax reform (passed in November 2012) aims to boost tax revenues by 1.5% of GDP. The measures passed include: (i) increasing the industrialized goods and transfer tax (ITBIS) from 16% to 18%; (ii) establishment of a lower ITBIS rate for a set of previously exempt goods; (iii) introduction of a 10% tax on dividends and interest paid to persons who are residents for tax purposes. On the expenditure side, the 2013 budget envisages a reduction in primary expenditure from 18.2% of GDP in 2012 to 15.7% in 2013. In addition to the cut in spending, resources have been redirected to accommodate an increase in the allocation to preuniversity education to 4% of GDP (formerly 2.5%) and more resources allocated to increase subsidized health insurance and social welfare program coverage.

[8] The Dominican Republic was in 105th place in the Global Competitiveness Index rankings in the 2012-2013 World Economic Forum report (out of 144 economies). This was a serious decline from its position at the start of the decade (50th). This places it below the Central American average (80), ahead of just Nicaragua (108), and well behind Panama (40) and Costa Rica (61).

[9] "República Dominicana: "Una Actualización del Diagnóstico de Crecimiento" [Dominican Republic: Update of the diagnostic assessment for growth], Inter-American Development Bank, 2013.

[10] The PNPSP frames the policies to be implemented during the current government's tenure and is guided by the National Development Strategy Law 2030 passed on 25 January 2012, which establishes a consensus-based long-term vision for the country.

[11] The strategy will support the achievement of the Bank's priorities set in the Ninth General Increase in the Resources of the Bank (GCI-9). The operations approved during the strategy will contribute to meeting the lending target for "small and vulnerable countries." Interventions in health, education, and social protection will contribute to "poverty reduction and equity enhancement." Operations in the energy sector may contribute to the "climate change, sustainable energy, and environmental sustainability" target. "Regional cooperation and integration" will be addressed by operations in the productive development sector.

II. THE IDB IN THE DOMINICAN REPUBLIC

2.1 During the period 2010-2012, sovereign guaranteed loans for a total of US$926 million were approved and US$830 million was disbursed.[12] With this, the Bank financed 17.2% of the country's external debt and 11.5% of its total debt in 2012. This consolidated the Bank's position as the Dominican Republic's main source of multilateral financing, despite the growing share of financing from bilateral lenders and the bond market.[13] Over the same period the Bank's nonsovereign guaranteed (NSG) windows approved a total of US$276 million,[14] and US$102.4 million was disbursed.

2.2 The Bank's achievements during this period include countercyclical support to address the impacts of the international financial crisis (2009-2010) through the structuring of a package of financial aid made possible through the International Monetary Fund's standby arrangement, implemented by the country from 2009 to 2012. Other important achievements of the Bank's country strategy include: (i) energy: increase in the cash recovery index (CRI) through medium-term reforms in the sector; (ii) social protection: targeting of electricity subsidies through implementation of BonoLuz and social welfare programs; (iii) health and education: improved levels of nutrition, health, and education of children and young people from the poorest families; (iv) agriculture: increased agricultural sector productivity; and (v) financial management: increase in ex ante financial coverage to address natural disaster risk, and progress on financial management and disaster response.[15]

2.3 The portfolio of sovereign guaranteed loans in execution[16] comprises 23 operations for a total of US$863.8 million, with a balance available for disbursement of US$432.4 million (50.1% of the approved total). Around 77% of the available balance is concentrated in the social protection (35.8%), water and sanitation

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[12] The Bank's activities have been focused on three main areas of action: (i) macroeconomic stability and expenditure efficiency (public finances, energy, transportation, water and sanitation); (ii) productive sectors (agriculture, tourism); and (iii) social sector (social protection, education, and workforce integration).

[13] Financing from PetroCaribe has gone from representing 17.9% of external debt (11.1% of total debt) in 2009 to 23.5% (15.8% of total debt) in 2012, while the share of international bond issues rose from 14.3% to 19.2% of external debt over the same period (8.9% to 12.8% of total debt). Indeed, in 2011 PetroCaribe came to be the Dominican Republic's main individual creditor (in terms of external and total debt)—a position the IDB had occupied over the previous 10 years.

[14] This amount includes US$264.8 million in loans, US$6.1 million in equity investments, and US$5 million in credit lines under the Trade Finance Facilitation Program.

[15] The outcomes of the interventions presented in the Bank's current country strategy are not yet observable given that the projects are still in execution. The following achievements deserve highlighting, however: (i) coverage of the BonoLuz program has been extended to 400,000 low-income families; (ii) the electricity sector's cash recovery index rose from 58.5% (2010) to 61.3% (2012); (iii) the targeting of social assistance expenditure increased from 6.3% (2005) to 53.1% (2011); and (iv) farming income for 9,400 direct producers and 22,500 indirect producers improved through innovation and technology.

[16] Data for 30 June 2012.

(14.6%), agriculture (13.7%), and education (13.1%) sectors. The Bank's portfolio also includes three NSG loan operations for US$208 million in the transportation and energy sectors; 28 technical cooperation operations for US$45.7 million; 23 MIF operations for US$15.8 million, geared primarily towards: (i) MSME development and access to finance (14 operations), and (ii) market development and functioning (two operations); and one Social Entrepreneurship Program project for US$214,000.

III. THE BANK'S STRATEGIC PRIORITIES FOR 2013-2016

3.1 The strategy's core goal is to stimulate growth compatible with the creation of quality jobs, so as to enable a sustained reduction in poverty levels. To this end, priority has been given to three pillars of support for the country: (i) macroeconomic stability and fiscal management conducive to sustainable economic growth; (ii) investment in human capital; and (iii) productive development policies that promote productivity and business competitiveness.

3.2 To promote a stable macroeconomic environment the Bank will support strengthening of the country's fiscal management to make tax administration more efficient and improve the quality and transparency of public expenditure. Given that the challenges in the fiscal area are closely linked to the performance of the electricity sector, which also represents one of the main obstacles to competitiveness, the Bank will support the country's efforts to ensure this sector's efficiency and financial sustainability.

3.3 In the human capital pillar, interventions geared to consolidating the effectiveness of the social safety net will be coordinated. Through the social safety net the Dominican government has succeeded in encouraging the population to invest in health and education, while raising the quality of the supply of these social services. As regards productive development, the Bank's work will center on boosting the productivity of MSMEs and improving their market access, emphasizing job creation[17] in areas marked by a high incidence of poverty. This challenge will be addressed taking a multisectoral approach based on strengthening value chains. Additionally, the Bank will step up the country dialogue on bilateral economic development and integration with Haiti and social security reform.

3.4 To achieve tangible outcomes within the three pillars of action, the strategy will focus on those sectors in which greatest impact can be achieved[18] and take into account the areas of action of the World Bank and other donors.[19] Based on these elements, and the ongoing policy dialogue with the country, the strategy will focus

[17] Workforce integration is not one of the priority areas of action as the challenges in this area will be addressed by two loans currently in execution.

[18] The findings regarding the main growth constraints, conditions of poverty, execution capacity, and the Bank's experience and positioning were taken into account when selecting the sectors.

[19] See Annex IV on donor coordination.

on the following sectors: (i) fiscal management; (ii) energy; (iii) social protection; (iv) education; (v) health; and (vi) productive development.[20]

A. Priority sectors

1. Fiscal management

3.5 The Dominican Republic's fiscal revenues, measured in terms of adjusted tax burden, are well below the Latin American average (16.3% of GDP over the period 2006-2010 vs. a weighted average of 27.6% for the region). The Dominican Republic's adjusted tax burden rose to 17.6% of GDP in 2007 and, since then, has dropped steadily to 15.4% of GDP in 2011, due to the proliferation of special regimes and incentives for all taxes, aimed at a multitude of sectors and classes of goods and services, which results in a complex, inefficient tax system.

3.6 The Dominican Republic has achieved significant progress in developing a legal framework covering almost all the systems involved in the management of public finances in recent years.[21] Nevertheless, major challenges remain, as apparent in the serious fiscal deterioration reported in 2012. There are problems in the fiscal institutional framework as regards the credibility of the budget, predictability, and control over budget execution, supervision of aggregate fiscal risk arising from autonomous decentralized public sector institutions,[22] the public procurement system, control over public employees' payroll, and appropriate records of information on expenditure by subnational government.

3.7 To meet these challenges, in its PNPSP 2013-2016 the Government of the Dominican Republic has established the objective, within the framework of the institutional development strategy area, of bolstering the reform and modernization of the financial administration and implementation of a public planning and investment system. In line with the PNPSP, the Ministry of Finance has drawn up its Institutional Strategic Plan 2011-2015, which identifies four basic pillars of the reform of government financial administration: (i) reforming the regulatory framework, (ii) modernizing financial management; (iii) reforming internal control; and (iv) implementing the Integrated Financial Management System (SIGEF).

3.8 The strategic objectives of the Bank's involvement in this area will be: (i) improvements in domestic taxation; (ii) consolidating financial management systems; and (iii) strengthening public investment planning and priority setting

[20] The priority areas are fully aligned with the objectives of the Dominican Republic's National Multiyear Public Sector Plan 2013-2016 (PNPSP).

[21] The laws passed were: Law (5-07) creating the Integrated Financial Management System, Organic Law (423-06) on the Public Sector Budget, Public Credit Law (6-06), Law on Procurement of Goods and Services, Works, and Concessions (340-06, amended by Law 449-06), National Treasury Law (567-05), Law creating the Government Accounts Directorate (126-01), Civil Service Law (41-08), Law Instituting the National Internal Control System and Office of the Comptroller General (10-07).

[22] On eight of the 28 performance indicators envisaged in the performance evaluation of the public finances control and management system (Public Expenditure and Financial Accountability, PEFA) in July 2012, scores of D and D+ were obtained (the highest score in this system is A).

systems. In terms of domestic taxation, the Bank's action will focus on continuing its support to the design and implementation of a more rational and equitable tax system through: (i) measures to make the tax system more progressive and to rationalize incentives, and the introduction of rules on how the government grants tax incentives; and (ii) implementing measures and mechanisms to strengthen control and supervision processes. In the public financial management area, the Bank's support will aim to improve financial, administrative, and budgetary control over the execution of central government spending and that of decentralized and autonomous institutions. Through technical cooperation, it will also support the strengthening of public investment planning and priority setting systems.

3.9 The main risk is that of fatigue slowing further reforms in tax administration and tax policy. To mitigate this risk, specific interventions will include components for negotiation, communication, and reorganization management, and international best practices will be implemented in policy and tax administration design.

2. Energy

3.10 The Dominican Republic's energy sector has for a long time been characterized by unreliable supply and recurrent financial problems. As well as being a significant fiscal burden,[23] these problems are one of the country's main constraints on productivity.[24] The (interrelated) factors explaining this performance are: (i) highly inefficient distribution utilities; (ii) an inadequate and costly generation mix that is vulnerable to oil price volatility; and (iii) an inefficient rate structure. Dominican electricity companies suffer from high distribution losses and low revenue collection levels,[25] resulting in a recurrent financial deficit, which has to be covered by public funds and increased debt to their suppliers.[26] The generation matrix remains vulnerable due to its high degree of oil dependence,[27] despite the Dominican government's efforts at reform. The rate structure has also been unable to adequately reflect generation costs.[28] This results in a widespread subsidy and

[23] Between 2008 and 2012 central government current transfers averaged 1.6% of GDP.

[24] According to the World Bank Enterprise Survey (2011), Dominican companies identified the electricity supply as the main obstacle to their operations.

[25] Between 2009 and 2011 energy losses dropped by 3.3 percentage points to 32.9%. In 2012 losses rose to 35.5% due to a re-estimate of the customer base actually billed. The cash recovery index rose consistently between 2009 from 2012, from 58.4% to 61.3%. Despite this progress, these indicators are a long way below levels considered efficient based on other experience in the region (14% for the level of losses, and 85% for the cash recovery index).

[26] In December 2012 the sector owed power generation companies US$484 million.

[27] The reforms have meant that over the last 12 years it has been possible to go from 90% reliance on liquid petroleum to a more diversified mix comprised of 40% liquid petroleum, 14% coal, 31% natural gas, 14% hydroelectricity, and 1% wind power.

[28] As part of the commitments to the IMF under the latest standby arrangement, the average service provision rate was adjusted by 12.5% in 2009, 11.0% in 2010, and 8% in May 2011. However, a significant difference remains (of around 40%) between the indexed rate (which was set as a self-financing rate, accepting losses of 30% and which only served as a reference for the need for rate increases under the current system) and the average rate applied.

consequently both a higher fiscal burden and inefficient energy use. Moreover, the substantial cross subsidies of residential customers by commercial and industrial customers make the rate structure inefficient.

3.11 To meet these challenges, the new administration has outlined an action plan based on three pillars. The first aims to change the energy generation matrix by adding 1,500 MW of new generating capacity over the next four years.[29] The second pillar aims to improve the management efficiency (in both financial and commercial terms) of the sector's public enterprises. Finally, the third pillar establishes a loss reduction strategy using remote metering, customer standardization, and rehabilitation of distribution networks.

3.12 The strategic objective of the Bank's participation in the sector is to help increase its operating efficiency and financial sustainability in the area of distribution, also helping to reduce its impact on public finances. To that end, the strategy calls only for investment loans aimed at implementing the operational, commercial, and financial recovery of the government-owned distribution utilities appropriately. The Bank will also continue its technical support to the sector, primarily in the use of technical tools available to execute the electricity expansion program optimally, and implement an efficient rate structure. Subject to close coordination with the public sector window on progress in the sector framework, the private sector windows will explore long-term financing interventions and syndication of power generation and efficiency projects. In particular, the private sector windows will look for opportunities to invest in industry transformation to promote energy efficiency, recycling, clean-fuel alternatives, etc.

3.13 The main risk to these interventions could arise from changes in the Dominican government's plans for the sector's recovery, which might cause delays to actions in progress, or their being halted. This risk is considered to be low, however, as the Government of the Dominican Republic has formally requested financing and technical assistance from multilateral banks to continue network rehabilitation and improve the commercial performance of the electricity distribution utilities. The management capacity of Dominican electricity companies has also been identified as an additional risk for the execution of the investments envisaged in the distribution area. To mitigate this risk, the Bank will provide technical support and provide ongoing monitoring of the commercial and financial indicators of the Dominican Corporation of State-owned Electricity Companies (CDEEE) and the government-owned electricity utilities.

3. Social protection

3.14 In recent years the Dominican Republic has made significant strides in relation to social protection, such as increasing the social assistance[30] spending assigned using

[29] It is worth noting that the Dominican government aims to hold a significant stake (over 50%) in the new capacity.

[30] Social assistance refers to noncontributory social protection. In the Dominican Republic this provides cash and aid in kind to the poor.

targeting criteria, and reducing the administration costs of the Progresando con Solidaridad (PROSOLI) program.[31] Despite these accomplishments, the poverty rate registered in 2011 remains high (40.8%), above the Latin American average (31.4%).

3.15 Untargeted social assistance spending still accounts for a large percentage (46.9%, 2011) of total social assistance expenditure. The system is fragmented and there is duplication of work,[32] undermining the capacity to reduce poverty levels substantially and sustainably. In the case of the Solidaridad program, both considerable under-coverage of the poorest segments (66%) and high leakage rates, i.e. inclusion errors (55%), were detected in 2011.[33] This led to a new methodology being implemented in 2013 to ensure the list of eligible households is current. Furthermore, adjustments need to be made to the program's coresponsibility scheme, mainly to address maternal and child health. The biggest challenges in the sector in this respect are: (i) continuing improvements to spending targeting; (ii) increasing the system's effectiveness and coordination based on a shared strategic vision; and (iii) strengthening the technical and operational capacity of the sector's agencies and programs.

3.16 To meet these challenges, in its National Multiyear Public Sector Plan (PNPSP) 2013-2016, the Dominican government aims to reduce poverty with an effective and efficient social protection system. This plan arises out of the lines of action from the 2030 National Development Strategy (END): (i) consolidating the conditional cash transfer system, according priority to female-headed households and those in extreme poverty; (ii) reforming the institutional framework to improve the system for the design, execution, monitoring, and evaluation of policies for the protection and inclusion of families in poverty; and (iii) promoting the active participation of a variety of actors and social sectors in the design, execution, and monitoring of poverty reduction programs.

3.17 Therefore, the Bank's support in this sector, within the human capital pillar, will have the strategic objective of making the social safety net more efficient and more effective. Interventions will be geared towards: (i) improving the targeting of social assistance programs; (ii) strengthening the operational structure and providing technical support on adjustments to PROSOLI's coresponsibility arrangements; and (iii) improving operational coordination with the education and health sectors and agencies associated with intermediation and employment training services,

[31] Between 2005 and 2011, targeted social assistance spending increased from 6.3% to 53.1% of total social assistance expenditure. Between 2009 and 2012 the administration costs of the Solidaridad program (currently known as PROSOLI) dropped from 19% to 12.3%. Data based on information from the Social Policy Coordination Bureau (GCPS) Technical Directorate.

[32] For example, six programs have been identified in the sector providing social assistance by supplying medicines.

[33] Own calculations based on National Labor Force Survey (ENFT) data.

particularly in terms of electronic verification of compliance with coresponsibilities and consolidation of a normative framework that generates synergies.[34]

3.18 The main risks to these interventions are associated with possible opposition to rationalization and targeting of spending by the programs affected. Within PROSOLI the risks are of beneficiaries having an inaccurate perception of the new intervention model, and difficulties in achieving the necessary coordination with the education and health sectors to ensure quality and adequate coverage by the services offered and verification of coresponsibilities. To mitigate these risks, the Dominican government will be given technical support for establishing clear and solid criteria supporting decisions and promoting interagency coordination mechanisms.

4. Education

3.19 The biggest gap in social services lies in the quality of education. The Dominican educational system is characterized by high rates of grade-repetition, over grade age, dropouts, and poor learning outcomes.[35] Multiple factors underlie these shortcomings. Firstly, there are late school entry and the lack of early childhood development services.[36] Children living in poverty tend to enter the educational system late,[37] which has serious consequences for students' cognitive development and tends to affect their educational trajectory and working life as an adult. Additionally, shortcomings in teacher quality (from initial training, through promotion mechanisms, and in-service training), weaknesses in administrative and teaching management, and limited and overcrowded school infrastructure all have a negative impact on education quality.

3.20 The current administration has put the sector's problems high up on the policy agenda. Proof of this is the 75% increase the sector has been given in the 2013 General State Budget Law.[38] Additionally, the PNPSP 2013-2016 has set the following targets for the sector: (i) building new classrooms; (ii) developing teaching careers and teacher training; (iii) reviewing and updating the curriculum; (iv) establishing a longer school day; (v) quality comprehensive care for children

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[34] This is particularly relevant for the Dominican government's new "Quisqueya Empieza contigo" initiative, which addresses comprehensive care in early childhood and new elements in PROSOLI, such as training for better workforce integration and earning capacity.

[35] According to Ministry of Education statistics, on average students barely managed to achieve 50% scores on all subjects at all levels in 2010. Internationally, the results are also poor: in the Second Comparative and Explanatory Regional Study (2006), Dominican 3rd and 6th grade students obtained the lowest scores in Latin America and the Caribbean.

[36] According to the 2009 Household Survey (ENHOGAR), 52.0% of children in the highest income quintile received early education, while only 11.7% of those in the poorest quintile did.

[37] Just 80.3% of the poorest six-year olds compared with 93.1% of the wealthiest children are enrolled in a basic education grade (ENHOGAR, 2009).

[38] This increment brings the education budget to 4% of GDP, as stipulated in the General Education Law (66-97) in 1997.

ages 0 to 5 through the new Quisqueya Empieza Contigo program; and (vi) strengthening the management of teaching establishments.

3.21 The Bank's strategic objectives in the sector will be to: (i) improve the quality of primary and secondary education; and (ii) support the expansion of coverage of early education, targeted on the poorest strata. To accomplish this, interventions are envisaged geared to improving physical resources and their administration, expanding early childhood development services, and enhancing teacher effectiveness by including in-service training and evaluation. Improvements to student monitoring and evaluation systems will also be supported. These actions will be complemented by nonsovereign guaranteed operations to improve basic education infrastructure and teacher training.

3.22 The main risks identified concern: (i) institutional weakness of the main entities involved in the design and execution of education and early childhood policy; (ii) the high degree of interagency coordination required to implement the early childhood care plan; and (iii) use of resources from the additional budgetary allocation to finance fixed current expenditure, in detriment to the required investment. To mitigate these risks, the Bank will accompany its operations with technical support and institutional strengthening.[39]

5. Health

3.23 Despite the progress made in reducing maternal and child mortality by more than 30% over the last 10 years,[40] mortality rates remain among the region's highest,[41] with little progress on reducing infant mortality during the neonatal period (associated with the rising number of teenage pregnancies) with major disparities depending on level of income.[42] Teenage pregnancies are one of the risk factors associated with maternal and infant mortality.[43] At the same time, population aging and the increased prevalence of chronic degenerative illnesses are increasing the burden on the health system.

3.24 The factors that have constrained improvements in health indicator outcomes include the delays in consolidating the sector reform begun in 2001.[44] This aimed to achieve universal health coverage, promote equity, guarantee comprehensive care, and make the changes necessary to separate the governance, financing, and

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[39] The Bank is doing this through its lending operations and technical cooperation already underway, such as Support for Management-for-Results (DR-T1076), which may mitigate some of the risks identified.

[40] Over the period 1990-2010 the maternal mortality rate dropped from 220 per 100,000 live births to 125.9, while the infant mortality rate fell from 55.1 to 27.8 over the same period. World Development Indicators.

[41] Health Situation in the Americas: Basic Indicators, 2011. Pan American Health Organization, 2011.

[42] Infant mortality, for example, ranges from 43 per 1,000 live births in the bottom quintile to 26 per 1,000 live births in the top quintile. Demographic and Health Survey (ENDESA) 2007.

[43] The adolescent fertility rate in the Dominican Republic is 98 births per 1,000 teenage girls and is among the highest in the Latin America and the Caribbean region, which has an average of 79 births per 1,000 teenage girls.

[44] Law 87-01 (2001), establishing the Dominican Social Security System, and Law 42-1 (General Health Act).

provision roles of the National Health System, and enable them to be taken on by its various constituent institutions. Given that the reform's proposed objectives and many of the proposed elements of the reorganization of the health system have not yet been implemented or have been left incomplete, their potential impact has been limited. This has contributed to inadequate health outcomes, inefficient spending, and the impossibility of laying the groundwork for the financial sustainability of the social security system in the current context of fiscal constraint.

3.25 Against this backdrop, the biggest challenges the sector faces are concentrated in (i) reducing maternal and child mortality rates, as well as teenage pregnancies, so as to mitigate their latent risk; (ii) improving quality of supply and effective access to health services; (iii) consolidating structural reform and implementing the reforms needed for strengthening the institutional framework and management in the sector; and (iv) a significant improvement in allocation efficiency, use of healthcare resources, and improving health insurance coverage.

3.26 In view of these challenges, the Dominican government, in its National Multiyear Public Sector Plan 2013-2016 has set the objective of improving the level of health of the country's population by: (i) strengthening primary health care and closing supply gaps; (ii) decentralizing and separating functions in the Ministry of Public Health (MSP); (iii) improving the quality of services with a view to reducing maternal and child mortality rates and the indicators associated with infectious/contagious diseases; (iv) increasing the coverage of the uninsured population; (v) creating a fund for catastrophic health expenses for people not belonging to the Seguro Familiar de Salud [Family Health Insurance] (SFS) to cover illness or expenses not covered by that program; and (vi) gradually eliminating the direct charging of patients at public hospitals.

3.27 To help the country achieve these objectives, the Bank's support in this sector within the human capital pillar will be focused on: (i) strengthening primary healthcare, (ii) improving the quality of healthcare services on all levels of care; (iii) making healthcare spending more efficient; (iv) developing policies to improve the performance of human resources;[45] and (v) consolidating key aspects of healthcare reform. These actions may be accompanied by nonsovereign guaranteed interventions to expand access to services by means of infrastructure investments through public-private partnerships (PPPs) and capacity-building of health sector personnel.

3.28 The main risks associated with the Bank's proposed interventions relate to: (i) public management and governability and the MSP's insufficient management capacity to lead the processes and achieve consensus with the actors involved and implement the actions needed to transform the health system; (ii) macroeconomic impact and fiscal sustainability, given the increase in coverage proposed, in

[45] Specifically, the country will be supported in preparing strategies to improve the distribution of qualified personnel, aligning health professionals' training with the country's needs, updating the system of medical internships, and designing incentive schemes to raise the quality of services delivered.

particular for the population on the lowest income levels, which will probably make it necessary to raise public spending on health; and (iii) implementation of reforms and changes linked to the expansion of the results-based financing model. To mitigate these risks, the Bank will strengthen the MSP's governance role and support the implementation of other measures to help make the national debate on public investment in health more transparent through technical cooperation funding and ongoing technical support.

6. Productive development and competitiveness

3.29 Growth of the Dominican economy has been based on openness to trade, sector policy to promote free trade zones and tourism, attracting foreign direct investment, and substantial remittance income. However, this growth model has been showing signs of exhaustion in recent years, having failed to generate sufficient formal jobs or have a significant impact in terms of poverty reduction, while marked inequalities between the country's regions remain. In general, the Dominican economy has lost competitiveness in recent years, and this has been reflected in its less buoyant exports.[46] At the root of these unfavorable developments is low business productivity and, in particular, the low productivity of the MSMEs in almost all sectors of the economy, particularly tradables.[47] The productivity of the Dominican economy has progressed more favorably than the Latin American average, but has been showing signs of stagnation or even decline, particularly since the late 1990s.[48] The problems underlying the productivity deficit, which is the main obstacle to enhancing the economy's productive development and competitiveness, include the weakness and institutional fragmentation of public policies to foster productive development, low investment in innovation, infrastructure gaps (energy, transport, and logistics), and scant access to credit.

3.30 The PNPSP 2013-2016 identifies productive development as one of its strategic areas. In particular, the plan highlights the specific objectives of: (i) boosting MSMEs' efficiency, investment capacity, and productivity; (ii) promoting export development based on competitive positioning in international markets; (iii) raising productivity, competitiveness, and environmental and financial sustainability of agricultural production chains, in order to contribute to food security, boost export potential, and generate employment and income for rural populations; and (iv) expanding coverage and raising the quality and competitiveness of the logistics and transportation services infrastructure, gearing them to territorial integration, and support for productive development and competitive positioning in international markets.

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[46] Exports as a percentage of GDP declined from an average of 44% between 1992 and 2005 to just 33% over 2006-2012 (BCRD). This pattern contrasts with that seen in the countries of Central America, where exports rose by 7 percentage points as a share of GDP over the same period.

[47] According to the Dominican Republic's National Competitiveness Council (CNC) in 2012, over 90% of registered businesses are small and medium-sized enterprises, generating 30% of GDP and providing over two million jobs. However, their share of foreign trade is small, accounting for just 20% of exports.

[48] See Productive Development sector note.

3.31 In light of the foregoing, the strategic objective of the Bank's involvement in the productive sector will be enhancing the productivity of MSMEs with growth potential[49] and increasing their market access. This requires a multisectoral approach with actions aimed at: (i) strengthening firms' capacity to introduce innovation and adopt technologies; (ii) facilitating companies' access to financing; (iii) facilitating connectivity and a foothold in markets;[50] and (iv) strengthening the institutions necessary to improve the implementation and coordination of interventions. The multisectoral nature of the problem of low productivity alluded to above calls for a new approach in line with recent best practice in productive development and competitiveness policies. In tune with the PNPSP's priorities, and with a view to boosting the impact of its interventions, the Bank will apply a value chain approach as the framework for organization and coordination of its interventions in specific regions. The private sector windows, in particular the MIF, will complement the sovereign guaranteed interventions to foster links between rural producers and value chains, diversifying agricultural output towards higher value, more productive, and nonseasonal products, and increasing agricultural producers' financial capacity. In addition, technical assistance will be provided to improve the management framework for concession contracts.

3.32 The main risk identified concerns the weakness of government institutions involved in the design and execution of productive development and competitiveness policies, as this may limit the interagency coordination the interventions need. To mitigate this risk, the Bank's programs will include careful evaluation of the institutional capacity of the relevant agencies and the corresponding strengthening plans. One additional risk is the weakness of information for decision-making in the sector.[51] To overcome this, the Bank's interventions will incorporate actions to improve the availability of specific information on business activity in the country, so as to enable more accurate diagnostic assessments and facilitate monitoring and evaluation.

B. Areas of crosscutting action

3.33 In light of the priority sectors, the strategy would also have two crosscutting areas: climate change adaptation and mitigation and vulnerability reduction, and gender. Specifically, in the productive development and energy sectors a climate change adaptation and vulnerability reduction approach will be taken in the design of road, distribution network, and logistics investments. At the same time, a gender

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[49] "MSMEs with growth potential" are understood as those with the capacity to accumulate assets and room to boost their productivity and competitively gain a foothold in markets; this is in contrast with subsistence MSMEs whose production does not create surpluses and only covers basic needs.

[50] Interventions in this area may envisage public investment infrastructure components, including rural roads, communications and logistics infrastructure, and MSME internationalization programs.

[51] The country faces serious shortcomings in terms of the quality and quantity of information on the characteristics and activities of Dominican companies. In particular, there is a lack of disaggregated data on productivity, qualification of the labor force, sales, investments and innovation, export activity, and market segments served by business sector and region, and social and environmental aspects.

perspective will be incorporated into the human capital pillar's sectors (health, education, and social protection). The mechanisms whereby these areas are included in the Bank's programs and initiatives will be defined during strategy implementation.

IV. LENDING FRAMEWORK

4.1 The scenario for sovereign guaranteed financing has been designed based on fiscal financing requirements. This scenario is tentative and is subject to the availability of Bank resources and to the annual programming exercises. It also assumes that an appropriate macroeconomic policy framework will remain in place, in accordance with the Bank's evaluation criteria. This scenario envisages average annual approvals of US$382 million, giving a total of US$1.528 billion for the period 2013-2016. In this scenario, the IDB's share of multilateral external debt would average 53% over this period. The country's debt with the IDB as a percentage of GDP would remain at around 3.9%. The envisaged financial scenario is consistent with a debt sustainability analysis (see Annex III).

V. STRATEGY IMPLEMENTATION

5.1 **Measures to enhance portfolio execution.** The main factors affecting execution of the investment programs in the Dominican Republic portfolio and constraining achievement of the desired outcomes are: (i) insufficient budget allocations (both in terms of channeling external resources and counterpart resources), which limits disbursement capacity, execution of external resources, and ultimately, project execution efficiency; and (ii) complex execution arrangements and/or fiduciary flows in some programs, hindering efficient process flow.

5.2 Proposed measures to improve resource execution include: (i) adequate programming of budgetary allocations, for which efforts underway in operations planning and monitoring need to be consolidated; (ii) monitoring resources required for execution and implementation of the Single Treasury Account for Bank-financed projects, through the Ministry of Finance; and (iii) reviewing program execution arrangements that need to be simplified to streamline execution.

5.3 **Use of country systems.** In the context of the new strategy, the country is expected to start the process of adopting International Public Sector Accounting Standards (IPSAS). As regards external control, the technical capacity of the Office of the Comptroller General is due to be strengthened to make it eligible to inspect externally financed projects. In the case of internal control, support will be given to implementation of the national internal control system and the government internal audit system. Regarding public financial management, support for SIGEF/UEPEX will continue, with a view to continuing its adaptation to integrated financial management standards. Additional ad hoc support will be given to the treasury and budgeting subsystems. To this end, the diagnostic assessments and recommendations made by the various studies conducted will be used, including the latest PEFA study (July 2012), performed in coordination with the government and other multilateral agencies.

5.4 Regarding procurement, the Bank will continue supporting the strengthening of the national public procurement system, with the implementation of the Public Resource Management Modernization Program.[52] As regards the use of public procurement and purchasing subsystems, analyses of the use of certain subsystems will continue.[53] Additionally, support to the Public Procurement Directorate will continue, with the strengthening of its role as the governing body for the national public procurement system. Technical assistance and teams are also envisaged for the establishment of the transactional portal, under the aegis of the Public Procurement Directorate (DGCP).

5.5 Lastly, the adaptation of current computer systems to international financial management and accounting standards, and their propagation to local government and local internal and external oversight bodies, is expected to be a significant challenge for country systems. Therefore oversight and supervision tasks will be closely linked to financial and management information produced through the adoption of international standards.

5.6 The table below summarizes the status of the Dominican Republic's country systems and anticipated developments during the strategy period.

Table 2: Country systems

Systems	Current level of use	Expected level of use	
	Number of projects (%)	Number of projects (%)	Envisaged actions
	2012	2016	
Financial management			
- Budget	100%	100%	Support the government in identifying and implementing SIGEF enhancements
- Treasury	100%	100%	
- Accounting and reporting	88%	100%	
- Internal audits	0%	25%	Support the country in strengthening this subsystem – implementation of international standards (Committee of Sponsoring Organizations of the Treadway Commission-COSO)
- External control	0%	10%	Support the audit office in institutional modernization following an institutional capacity assessment.

[52] The expected date of the last disbursement is June 2014.

[53] Price comparison, methods for individual consultant selection, and the country's official site for publication of business opportunities (procurement).

Systems	Current level of use	Expected level of use	Envisaged actions
	Number of projects (%)	Number of projects (%)	
	2012	2016	
Procurement management			
- Information system	0%	25%	The government will also be supported in developing and implementing a transactional procurement portal.
- Individual consultants	0%	25%	Sign an agreement with the Public Procurement Directorate (DGCP) to phase in use of these subsystems
- Price comparison (standardized goods and services)	0%	25%	
- Partial NCB	0%	25%	
- Advanced NCB	0%	0%	N/A

5.7 **Donor coordination.** The Bank has coordinated with other aid agencies in the country[54] to cofinance specific operations, participate actively in various international donor technical coordination committees, and recently to take part in the policy dialogue with the authorities held jointly with the World Bank. This coordination will continue to be actively pursued during implementation of the new country strategy.

5.8 Joint or parallel operations will include active coordination with the Spanish Agency for International Development Cooperation (AECID) in the water supply and sanitation sector, particularly in rural and periurban areas, for executing the loans in the portfolio. Coordination with the World Bank and the OPEC Fund for International Development (OFID) will continue in the electricity sector, through the electricity distribution grids rehabilitation program. In transportation, activities relating to road reconditioning and maintenance programs in execution will be coordinated with OFID. In the education sector, activities will be coordinated with other donors in the framework of the Dominican Initiative for Quality Education (IDEC).

VI. RISKS

6.1 **Macroeconomic risks.**[55] As a small and open economy, the Dominican Republic is extremely vulnerable to external shocks, which could increase the country's financing requirements. The country is exposed to the uncertainties of the global environment and the volatility of international commodity prices. A slowdown in growth in the United States, the country's main export market and its main source of

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[54] For more details, see Annex IV, Donor Coordination.

[55] As mandated in the agreement on the report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9), borrower countries' macroeconomic sustainability is assessed annually.

remittance and tourist flows, would have an adverse impact on economic growth, which could translate into tax revenues being lower than expected. Additionally, a significant rise in oil prices could put pressure on public expenditure (due to increased transfers to the electricity sector), worsen the current account balance, and increase inflationary pressures, which would have an impact on poverty levels. As mitigating measures, the Bank will work to make financial instruments and technical advice available to mitigate the adverse effects of such events.

6.2 **Natural disaster risk.** The Dominican Republic's location, in conjunction with population growth and social and economic factors, means it is exposed to a multitude of natural events, such as hurricanes, flooding, landslides, and earthquakes. If a natural disaster were to occur it could have an impact on the achievement of the outcomes envisaged in the strategy. Therefore, the Bank will maintain a dialogue with the country to identify natural disaster risk mitigation measures based on financial mechanisms such as contingency lines of credit, technical assistance, etc.

6.3 **Implementation risks.** The main risk concerns the executing capacity of the local counterparts. This could slow the rate of execution and have an impact on portfolio performance. To mitigate this risk, the Bank will support institutional strengthening actions to identify new program design and execution arrangements tailored to local capacity. The Bank will also continue working to strengthen the country's national financial administration and public procurement systems in order to make the program more transparent and maximize the impact of its support.

RESULTS MATRIX[56]

Government Priority	Sector	Strategic Objective	Expected Outcomes	Indicators	Baseline
Rationalization of incentives.	FISCAL MANAGEMENT	Improvements in domestic taxation	Reduction in tax expenditure due to tax incentives in corporate income tax.	Tax expenditure on corporate income tax (% of GDP)	0.40% (MH, 2012)
Maintain fiscal discipline by strengthening integrated government financial management with explicit monitoring, evaluation, and accountability mechanisms to make the administrative systems associated with the management of public finances more effective.	FISCAL MANAGEMENT	Consolidation of financial management systems	Increase in percentage of government expenditure under the supervision of SIGEF and Single Treasury Account.	% of central government expenditure directly under Treasury supervision	82% (PEFA, 2012)
				Interface between SASP and SIGEF established.	0 (MH, 2012)
		Strengthening public investment planning and priority setting systems.	Increased budget predictability.	PEFA aggregate indicator: Predictability and control of budget execution.[57]	2.6 (PEFA, 2012)
Management efficiency of government companies	ENERGY	Increase the operational efficiency and financial sustainability of the electricity sector	Increase in the cash recovery index (CRI).	% CRI[58]	61.3 (CDEEE, 2012)
Reducing total energy losses during distribution.			Reduction in % total losses during distribution.	% total distribution losses	35 (CDEEE, 2012)

56 The indicative targets will be reviewed or replaced, as appropriate, through the Country Programming Documents to be approved during the country strategy period.

57 The aggregate indicator corresponds to the simple average of the scores obtained on the nine subindicators (ID13 to ID21), analyzed in Public Expenditure and Financial Accountability (PEFA) assessment on predictability and control of budget execution supervision. Four points are assigned to score A, three to B, two to C, one to D and fractions for intermediate scores.

58 The formula for the cash recovery index is: (Power invoiced by the distribution company / Distribution company's total power) multiplied by (Electricity bills paid by consumers / Total electricity bills issued to consumers).

Government Priority	Sector	Strategic Objective	Expected Outcomes	Indicators	Baseline
Reducing and alleviating extreme poverty through an effective, efficient social protection system	SOCIAL PROTECTION	Making the social safety net more effective and efficient	Alleviation of poverty conditions of poor families.	Poverty gap.	12.1% (ENFT 2011)
			Improved levels of health and education among children and young people in the poorest families	Percentage of children ages 18-29 months in PROSOLI beneficiary households with vaccination schedule completed.	41.6% (EEPS 2011)
				ILAE[59] grant recipients ages 18-19 years who have completed 12 years of schooling	16.8% (EEPS 2011)
			More efficient social assistance spending.	Percentage of social assistance spending allocated using official targeting mechanisms.	53.1% (GCPS Technical Directorate, 2011)
Implementing a quality education system that teaches continuous learning, promotes human development, and fosters a responsible citizenry.	EDUCATION	Improving the quality of basic and secondary education in low-income areas	Improved effective promotion rates in basic and secondary education	Effective promotion rates in the first cycle of basic education at schools where interventions occur	For 4th grade: 87.1% (2011-2012, MINERD)
			Improved learning in reading, writing, and math in 3rd and 4th grade	Results of national tests on 4th grade reading and writing in schools where interventions occur	50.5% of 4th grade students perform adequately on reading/writing skills test (2012)[60]

59 The School Attendance Incentive (ILAE) is part of the PROSOLI conditional cash transfer program.
60 Education Quality Assessment Directorate (DGECE).

Government Priority	Sector	Strategic Objective	Expected Outcomes	Indicators	Baseline
		Expanding early education coverage among the poorest strata	Consolidation of national system of integral care and protection in early childhood.	Percentage of children ages 3 to 5 in quintiles 1 and 2 who attend early childhood care and development services.	46.5% (Household survey)
Improving the quality of health services and the efficiency of public spending on health.	**HEALTH**	Improving the quality of health services and the financial management and sustainability of the sector.	Improved access to preventive services.	Unmet demand for family planning among adolescents (15-19 years).	28% (ENDESA 2007)
				Percentage of population diagnosed with high blood pressure receiving treatment in line with national protocol.	92.6% (87% in the bottom quintile and 94% in the upper quintile) (ENDESA 2007)
			Better quality of maternal and infant care services	Percentage of healthcare facilities equipped to national quality standards.	35% (MSP 2013)
			Increased coverage of population's health insurance.	Percentage of population insured under contributory or subsidized health insurance regimes.	46% (SENASA 2013)
Boosting the efficiency and investment capacity of micro, small, and medium-sized enterprises (MSMEs) and raising the productivity, competitiveness, and environmental sustainability of agricultural supply chains.	**PRODUCTIVE DEVELOPMENT AND COMPETITIVENESS**[61]	Boosting the productivity of MSMEs with growth potential and increasing their market access	Better innovation performance by companies	Percentage of innovations reported by firms that are new to the Dominican or world market.	15% (MESCyT, 2010)[62]
			Improved access to credit for MSMEs	Percentage of small and medium-sized enterprises that have a credit line or bank loan.	Small/medium-sized enterprises 50%/65% (World Bank, 2010)[63]

[61] Interventions in this sector will be organized using a supply chain approach. See paragraph 3.31 for more details.
[62] National Innovation Survey, Ministry of Higher Education, Science, and Technology.
[63] Enterprise Surveys, World Bank. The survey defines a small (medium) enterprise as having between 5 and 19 (20 and 99) employees.

Government Priority	Sector	Strategic Objective	Expected Outcomes	Indicators	Baseline
Promoting the development of exports on the basis of competitive positioning in international markets			More MSMEs access export markets in various sectors and the economy as a whole, and they do so more efficiently	Percentage of MSMEs exporting	7% (FondoMicro, 2013)
				Number of shipments of agricultural products exported to the U.S. rejected due to failure to comply with sanitary and phytosanitary measures.	73 (Intrade IDB, 2011)

COUNTRY SYSTEMS MATRIX[64]

Strategic objectives	Expected outcomes during the country strategy period	Indicator	Baseline	Indicative targets	Frequency
Strengthening the country systems or subsystems	Public Procurement Information Subsystem, strengthened centrally.	Indicator 5(a) of MAPS diagnostic assessment (the country has a system to collect and disseminate procurement information) MAPS indicator 11(a) (information is published and distributed over available media with IT support for information when feasible)	Results of indicator 5(a), score: 1 Results of indicator 11(a), score: 1	The results for indicator 5(a) comply with classification criteria required to obtain a score of 3. The results for indicator 11(a) comply with classification criteria required to obtain a score of 3.	At the end of the country strategy period
	Internal audit subsystem strengthened	Internal control technical standards (NTCI) adapted to international standards	NTCI not adapted to international standards	NTCI adapted to international standards	At the end of the country strategy period

64 Outcome indicators measurable for the strategy period (2013-2016).

Strategic objectives	Expected outcomes during the country strategy period	Indicator	Baseline	Indicative targets	Frequency
Use of country fiduciary systems	Use of price comparison, partial national competitive bidding, and public procurement information subsystems in the portfolio of sovereign guaranteed loans.	% of the sovereign guaranteed portfolio using the price comparison, partial national competitive bidding, and public procurement information subsystems.	a) No diagnostic assessment; b) Intervention based on diagnostic assessment of price comparison and partial NCB subsystem; c) % of the sovereign guaranteed portfolio using the price comparison, partial national competitive bidding, and public procurement information subsystems.	a) Diagnostic assessment carried out; b) Confirmation of fulfillment of possible recommendations deriving from the diagnostic assessment; c) 25% of portfolio uses the price comparison subsystem, 25% of the portfolio uses the partial NCB subsystem, and 25% of the portfolio uses the public procurement information subsystem.	At the end of the country strategy period
	Begin use of the external control subsystem in the sovereign guaranteed loan portfolio	% of the sovereign guaranteed portfolio using the external control subsystem	0% of the sovereign guaranteed portfolio using the external control subsystem on 31 December 2012	10% of the sovereign guaranteed portfolio using the external control subsystem at end of the country strategy period	Annual

Main Economic and Social Indicators

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Social indicators									
Population (thousands)	8,873	9,033	9,195	9,361	9,529	9,700	9,874	10,051	10,231
Poverty rate	49.75	47.8	44.2	43.55	44.15	42.1	41.6	40.75	n/a
Extreme poverty rate	15.5	16.55	13.75	13.2	13.35	11.75	11.4	10.35	n/a
Unemployment rate	6.1	6.4	5.5	5.0	4.6	5.3	5.0	5.8	6.4
GDP per capita (US$)	2,548	3,739	3,904	4,404	4,798	4,816	5,232	5,538	5,762
Real Sector Indicators									
Real GDP (% growth)	1.3	9.3	10.7	8.5	5.3	3.5	7.8	4.5	3.9
Nominal GDP (US$ millions)	22,609	33,775	35,897	41,228	45,718	46,712	51,658	55,666	58,955
Fiscal indicators[1/] (% of GDP)									
Tax revenues	13.9	15.4	15.9	17.7	15.9	13.7	13.6	13.5	14.0
Total spending	17.3	16.1	17.0	17.6	19.3	17.2	16.2	16.1	20.6
Capital expenditure	4.2	4.2	4.2	4.6	5.1	3.6	3.8	3.6	6.5
Overall balance	-3.4	-0.6	-1.1	0.1	-3.5	-3.5	-2.5	-2.6	-6.6
Government debt	29.1	20.2	20.6	18.3	24.5	28.4	28.7	29.8	32.8
External debt	24.5	17.3	17.5	15.9	15.8	17.6	19.3	20.9	22.0
External indicators (% of GDP unless stated otherwise)									
Current account balance	4.6	-1.4	-3.6	-5.3	-9.9	-5.0	-8.4	-7.9	-6.8
Foreign direct investment	4.0	3.3	3.0	4.0	6.3	4.6	3.7	4.1	6.1
Family remittances	9.9	7.2	7.6	7.4	7.0	6.5	5.8	5.7	5.4
Net international reserves (US$ millions)	602	1,520	1,788	2,395	2,165	2,852	3,343	3,638	3,210
Monetary and exchange rate indicators									
Inflation rate (end of period)	28.7	7.4	5.0	8.9	4.5	5.8	6.2	7.8	3.9
Growth of monetary aggregates (M2)	19.0	3.6	6.1	17.4	4.4	13.7	9.8	10.3	9.0
Nominal exchange rate (average RD$/US$)	42.1	30.5	33.3	33.3	34.9	36.1	37.3	38.2	39.3
Real effective exchange rate (var. %, +dep.)	-1.0	-28.2	5.5	-2.3	-0.6	1.1	-1.6	-0.3	0.3

[1/] Fiscal data refer to central government. Public debt data refer to nonfinancial public sector (NFPS).

Sources: Central Bank of the Dominican Republic (BCRD), Government Credit Directorate (DGCP), Ministry of Economy, Planning, and Development (MEPyD), and the Central American Monetary Council (SECMCA).

INDICATIVE LENDING FRAMEWORK

Overall, 2012 was marked by a deterioration in the Dominican Republic's public finances. According to preliminary data from the Central Bank of the Dominican Republic (BCRD), the central government deficit came to 6.6% of GDP in 2012. This was substantially higher than the 2.6% registered in 2011 and the 0.9% projected in the original budget. This deterioration was mainly due to an increase in public spending associated with the electoral cycle, increased capital expenditure, [65] and larger transfers to the electricity sector, in conjunction with lower than expected tax revenues.

The new administration aims to pursue a fiscal consolidation strategy over the medium term aiming for a primary surplus as of 2014. The National Multiyear Public Sector Plan (PNPSP) 2013-2016 envisages an increase in the primary balance of the nonfinancial public sector (NFPS), with a surplus in 2014 onwards. Tax revenues will rise to 16% of GDP in 2015. At the same time, primary expenditure is expected to drop from 15.7% of GDP in 2013, to 12.9% in 2016, on the back of a reduction in current transfers and remuneration expenditure as a percentage of GDP of approximately 2.0 and 0.8 percentage points, respectively. Consequently, overall the central government is expected to reduce its estimated deficit from 6.6% of GDP for 2012 to a balanced budget (income and expenditure) in 2016.

Medium-term financing requirements. The NFPS's financing requirements are on a downward trend, in line with the gradual drop in the fiscal deficit over the medium term. For the period 2013-2016, financing requirements are expected to reach US$1.350 billion.[66] Nevertheless, any external shocks or natural disasters could lead to an increase in financing requirements (in particular, greater demand for external resources), given the Dominican economy's vulnerability to such events.

The scenario for sovereign guaranteed financing has been designed based on fiscal financing requirements. This scenario is tentative and is subject to the availability of Bank resources and to the annual programming exercises. It also assumes that an appropriate macroeconomic policy framework will remain in place, in accordance with the Bank's evaluation criteria. This scenario envisages average annual approvals of US$382 million, giving a total of US$1.528 billion for the period 2013-2016. In this scenario, the IDB's share of multilateral external debt would average 53% over this period. The country's debt with the IDB as a percentage of GDP would remain at around 3.9%. The envisaged financial scenario is consistent with a debt sustainability analysis.

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[65] Capital expenditure doubled in nominal terms due to the electoral context, rising from 3.6% of GDP in 2011 to 6.5% in 2012. Current transfers to the electricity sector came to 1.5% of GDP. This was substantially more than the 0.4% originally budgeted, due to the impact of high oil prices in 2012 (in conjunction with the rigid rate structure) on the electricity sector's operating deficit.

[66] International Monetary Fund, 2013.

SOVEREIGN DEBT FINANCIAL SCENARIO 2013-2016
(US$ millions)

	2013	2014	2015	2016	Total 2013-2016	Average 2013-2016
Approvals [1/]	**661.0**	**434.0**	**275.0**	**158.0**	**1,528.0**	**382.0**
Disbursements	582.3	449.4	367.0	202.0	1,650.6	412.7
Repayments	277.0	449.7	123.0	126.0	975.8	243.9
Net lending flow	305.3	49.6	244.0	75.9	674.9	168.7
Subscriptions	4.3	4.3	4.3	4.3	17.2	4.3
Net capital flow	301	45.3	239.7	71.6	657.7	164.4
Interest and fees	68.5	54.7	40.3	37.6	201.2	50.3
Net cash flow	232.5	(9.4)	199.3	34.0	456.5	114.1
Debt to IDB	2,525.3	2,574.9	2,818.9	2,894.8	-	2,703.5
IDB debt/GDP (%)	4.2	4.1	4.2	4.1	-	4.2
IDB debt/public external debt (%)	17.6	16.9	17.9	18.4	-	17.7
IDB debt/multilateral external debt (%)	51.9	50.5	55.1	59.2	-	54.2

Source: IDB.
[1/] Indicative amounts subject to the availability of the Bank's financial capital.

DONOR COORDINATION

On 25 January 2012 the National Congress passed the Law establishing the National Development Strategy (END) covering the period 2012-2030. This strategy's objectives define the framework for official development assistance. Specifically, Article 49 of the END states that "official development assistance received by the Dominican Republic must be targeted on achieving the National Development Strategy 2030 objectives, and the various donors must coordinate to enhance their efficiency, effectiveness, and transparency." In response to this requirement, international cooperation agencies have drawn up a map of interventions with their main intervention areas according to the END's priorities. This is summarized in Table 2 of this annex.

In order to support the country more efficiently, international cooperation agencies have established donor groups to coordinate their efforts in various areas. The Bank heads the roundtables on (i) social protection and (ii) energy, and it plays an active role in the coordination roundtables on (iii) governability, finance, and public administration; (iv) citizen security, administration of justice and gender-based violence; (v) health, nutrition, water and sanitation; (vi) education; (vii) competitiveness and employment; and (viii) agricultural and rural development.

In the education sector the Bank will also coordinate activities with other donors in the framework of the Dominican Initiative for Quality Education (IDEC), a joint effort by the government, civil society, and multilateral agencies that will have 10 roundtables producing agreements for implementing and monitoring the reform processes.

The IDB's strategy has also been developed in close coordination with the World Bank. Teams from both institutions carried out the sector diagnostic assessments in coordination. In March 2013 a Dialogue Day was held, with the participation of authorities from the country's main ministries and bodies. The national authorities, the IDB, and the World Bank presented diagnostic assessments of the country's growth challenges and the main sectors contributing to the country's economic and social development. Cooperation with the World Bank made it possible to identify areas of possible cooperation between their respective strategies.

Lastly, the IDB will continue its close coordination with the cooperation agencies with which it executes investment operations jointly or in parallel. It will continue coordinating the execution of the INAPA Drinking Water and Sanitation Investment Program (loan 2430/OC-DR) with AECID. This program finances investments in water and sanitation in rural and periurban areas and is cofinanced by AECID. The IDB will coordinate closely with OFID through the administration of the Electricity Distribution Grids Rehabilitation (loan 1281/OP-DR) and Highway Infrastructure (loan 1194/OP-DR) operations, which are being executed in parallel with similar Bank-financed operations.

TABLE 1. DONORS MAP—MAIN AREAS OF INTERVENTION

Country	Institution	Summary of the National Development Strategy															
		Public Administ.	Participatory Democracy	Security and Peaceful Coexistence	Education	Health and Social Security	Equal Rights, Social Protection	Territorial Cohesion	Decent Housing, healthy environment	Culture and Identity	Innovative and Environmentally Sustain. economy	Energy	Competitiv. of Innovation	Employment	Sectoral Productive Structure	Environ-ment	Risk Management
BILATERAL																	
Spain	AECID	■	■	■	■		■	■	■	■			■	■	■	■	■
France	AFD				■	■		■			■				■	■	■
Germany	GTZ															■	
Japan	JICA					■		■							■	■	
United States	USAID	■	■	■	■	■			■		■					■	
MULTILATERAL																	
CABEI	Multilateral										■						
World Bank	Multilateral	■			■	■	■		■		■	■	■	■		■	
FAO	Multilateral										■						
IMF	Multilateral																
OAS	Multilateral		■													■	■
IICA	Multilateral										■						
IOM	Multilateral																
WHO/PAHO	Multilateral					■											■
WFP	Multilateral																
UNDP	Multilateral	■	■	■		■	■	■			■				■	■	■
UNFPA	Multilateral																
UNICEF	Multilateral				■												
European Union	Multilateral	■		■	■	■	■	■		■	■		■			■	■

■ Aid areas by National Development Strategy (END) area

MACROECONOMIC CONTEXT

The Dominican economy's growth rate continued to slow in 2012. The country's economic performance was powerfully influenced by the electoral cycle. Primary public sector spending as a share of GDP rose by 4.2 percentage points from 2011 levels, to reach 18.2%. Despite this fiscal stimulus, the growth rate fell from 4.5% in 2011 to 3.9% in 2012, due to a slowdown in private activity associated with the uncertainty over the electoral process. The Central Bank of the Dominican Republic (BCRD) forecasts that, in the absence of any shocks, the country will grow at below-potential rates of 3% and 4.5% in 2013 and 2014, respectively.

Despite the deterioration in public finances in 2012, fiscal sustainability analyses show public debt levels to be sustainable in the near future. The central government deficit went from 2.6% of GDP in 2011 to 6.6% in 2012. This was due to three factors: (i) tax revenues were lower than expected; (ii) capital spending increased, outstripping its budgetary allocations; and (iii) transfers to the electricity sector grew. In this context, the new government has adopted a medium-term fiscal consolidation plan that aims to yield a primary surplus as of 2014, resting on an increase in tax revenues (resulting from the tax reform passed in November 2012), and a decrease in current transfers and remuneration spending as a share of GDP. However, these forecasts are subject to risks. On the revenue side, a bigger than expected impact of the tax reform on the growth rate could translate into revenue levels that fall short of expectations. Furthermore, the expenditure associated with transfers to the electricity sector could outstrip budget estimates if the oil price rises more than expected and/or the necessary reforms to improve the sector's operations are delayed. Under most stress scenarios, applied to the fiscal consolidation model proposed by the government, public debt would remain at sustainable levels. However, should a scenario arise in which slower growth is combined with a deviation from the fiscal consolidation plan, the debt-to-GDP ratio may take an upward path.

The external position has worsened. The deterioration in the fiscal position, together with the weakness of external demand, contributed to the current account's totaling 7.2% of GDP in 2012. Although this was slightly better than the 7.9% registered in 2011, it was still over the average for the previous 10 years (3.5%). This deficit was less than the capital and financial account surplus, leading to a reduction in international reserves. In December 2012, the stock of reserves covered only 2.2 months of imports, which was below the three-month threshold usually considered adequate. Additionally, the stock of reserves in December 2012 would cover 86% of external obligations in 2013 (including both long-term debt repayments and the stock of short-term debt). This suggests that in the event of a massive liquidity squeeze (and in the absence of multilateral support), the Dominican Republic could face external financing difficulties.

Prices in the country will remain stable over the short term. Inflation fell from 7.8% in 2011 to 3.9% in 2012, below the BCRD's target range (4.5%-5.5%) due to the economic slowdown and the easing of external inflationary pressures. According to BCRD forecasts, the impact of tax reform on price levels will cause only a moderate increase in inflation, due to the fact that it is a one-off adjustment and will be offset by the slower growth rate expected in 2013. Inflation is therefore expected to reach 5.4% in 2013, which is within the target range set for the period.

The financial system's capitalization, profitability, and portfolio quality indicators indicate that it remains sound. Nevertheless, there are risks that need to be monitored. In particular, if the rapid expansion in credit to the public sector is not reversed (it doubled in 2012), it could lead to systemic risk [67]. An increase in the dollarization of the credit portfolio has also been observed. This heightens the system's exposure to balance sheet effects in the event of a depreciation in the real exchange rate.

[67]. The portfolio of loans to the public sector went from 3.7% of the financial system's total assets in December 2011 to 6.8% in late 2012.

OFFICE OF EVALUATION AND OVERSIGHT CPE RECOMMENDATIONS[68]

Recommendation	Management response
1. Redefine the *programmatic approach for sector support*, so as to maintain a medium-term perspective but approving new loans only once all components of loans under execution have been substantially disbursed. The aim should be to ensure that there are no more than two active loans under a program at any one time. In *social protection* in particular, a new loan should only be approved when the components that are not related to cash transfers in the four operations approved from 2010 to 2013 have been substantially disbursed, and new operations should be structured so that all the components can move forward and be substantially completed before another operation is approved. Implementation of this recommendation requires greater flexibility in the country programming process to help establish a medium-term commitment, instead of proceeding with annual loan approvals. In the absence of such flexibility, annual operations under the medium-term support program should be designed so that all aspects of an operation can be substantially completed within the year leading up to the approval of a new operation.	**Disagree.** It is important to have a programmatic vision of the sector to guide Bank programming. However, implementation of a programmatic approach for sector support is contingent on the annual allocation of resources for Bank loans. Thus, in the case of the Dominican Republic, social protection and health loans, and their components, were coordinated based on the programmatic area, with approvals based on annual resource allocations. In this regard, loans that take a programmatic approach must be evaluated based on the priorities and work areas of each loan in the program, so as to determine whether they should be developed simultaneously or with one contingent on the other, before considering whether or not to approve new operations. As a result, under the current programming framework, establishing the programming of a future operation based on the % disbursed is not necessarily the appropriate criterion.
2. Continue with the strengthening of *public finances*. The main challenge faced by the current government is to deepen the process of consolidation of the public finances with a view to ensuring fiscal sustainability and creating the fiscal space necessary to meet social needs. Given the value placed by the country on technical expertise, and the Bank's ability to promote policy changes in this area, the Bank can play an important role by supporting the	**Agree.** Dialogue on this was initiated in the context of preparing the strategy. In the Bank's 2013-2016 country strategy, fiscal management was established as one of the priority sectors for Bank intervention; accordingly, the Bank will continue to support the country in strengthening public finances through actions defined and detailed in the strategy document. (See paragraph 3.8).

[68] These responses are based on the latest available draft of the *Country Program Evaluation: Dominican Republic 2009-2013,* distributed by the OVE on 27 August 2013.

Recommendation	Management response
government in its efforts to improve tax revenue levels and spending efficiency.	
3. Promote a reactivation of the policy dialogue in the *electricity sector*, with the aim of promoting the reform agenda required as a complement to investment programs. The operational and financial sustainability of the sector remains a critical issue for the country's competitiveness and development. The Bank should promote a sector dialogue aimed at creating the necessary policy conditions for simultaneous progress on both investment programs and other pending comprehensive reform measures, within a framework of close coordination with key sector stakeholders.	**Agree.** Dialogue on this was initiated in the context of preparing the strategy. The Bank will continue dialogue with the country in the electricity sector, which is considered a priority sector in the new 2013-2016 country strategy. The Bank's actions in the sector are defined and detailed in the strategy document. (See paragraph 3.12.)
4. Approve *nonsovereign guaranteed infrastructure* loans in the country once the fiscal risks and implications have been analyzed jointly by the relevant units in VPC, VPS, and VPP, and discussed with the Ministry of Finance.	**Disagree.** Management notes that proper coordination of the private sector windows with the public sector has been documented since the design of the previous strategy and continued in the different phases of processing the operations that were analyzed, and was even included in the analysis of fiscal impacts. The Bank already has the necessary review mechanisms that take into account the nature of each project to determine where and how to emphasize different technical and fiscal elements, among other things. However, Management acknowledges there is room to deepen coordination and collaboration between the Bank's public- and private-sector windows during preparation of new projects in both sectors. In terms of infrastructure, based on the nature of the specific project under consideration, emphasis will be placed on the need for joint analyses of the potential fiscal implications.

SUMMARY DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.
The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

COUNTRY STRATEGY: DOMINICAN REPUBLIC 2013-2016

STRATEGIC ALIGNMENT: *measures two dimensions: (i) the extent to which the strategy's objectives are consistent with the country's development challenges and the government's priorities and plans; and (ii) the use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action).*

Consistency of strategic objectives: *The strategy rests on three key pillars: (i) strengthening the human capital base through interventions in the social protection, education, and health sectors; (ii) macroeconomic stability and public spending efficiency through support to fiscal management and the efficiency and financial sustainability of the electricity sector; and (iii) productive development and competitiveness, with particular emphasis on linking different sectors and boosting MSMEs' productivity. Climate change and gender will be addressed as crosscutting issues in the strategy. All the areas selected address the country's development challenges and are consistent with the priorities set by the Government of the Dominican Republic. Moreover, the work areas are the outcome of the dialogue between the country and the Bank.*

Product mix and participation of other cooperation agencies:*the strategy proposes to use various different Bank instruments such as sovereign guaranteed operations, non-sovereign guaranteed operations, and technical cooperation. The strategy takes account of the interventions of other multilateral cooperation agencies, such as the AECID, the OFID, the World Bank and others.*

EFFECTIVENESS: *Measures whether the country strategy is likely to achieve its intended objectives, through an examination of four dimensions of effectiveness:*

(i) quality of the diagnoses on which the Bank's action rests in each area of work; (ii) the quality of the strategy results framework; (iii) the use and strengthening of country systems; and (iv) the analysis of the lending framework:

Effectiveness dimensions	%
I. Sector diagnostics	
- Identifies the main problems based on empirical evidence	83
- Identifies the main beneficiaries	100
- Identifies and measures the factors that contribute to the problems identified	83
- Presents the policy framework and a sequence for Bank intervention	100
- The diagnostic corresponds to the objectives presented in the strategy	100
II. Results matrix	
- The expected outcomes are clearly defined	100
- The indicators measure outcomes and are SMART	95
- The indicators have baselines	100

<u>Six sector notes were submitted to support the strategy</u>
All are validated.
- 83% of the notes clearly identify the main sector problems based on empirical evidence.
-100% of the notes identify the potential beneficiaries in each area of intervention.
- 83% of the notes raise or dimension the factors contributing to the problems identified.
-100% of the notes identify the policy framework and sequence for Bank actions.
-In 100% of the notes, there is consistency between the issues raised in the note and the Bank's strategic objectives.

<u>Results matrix:</u>

- 100% of the strategic objectives have a clear definition of the expected outcomes.

- 95% of the indicators are outcome indicators and are SMART; the remaining 5% are output indicators.

- 100% of the indicators have baselines.

<u>National systems:</u> All financial management and procurement subsystems have been assessed. Various strengthening actions are envisaged for some of the financial management and procurement subsystems. Some of the financial management and procurement subsystems will be used during the strategy period.

<u>Lending framework</u>: the strategy contains an analysis of the country's financing requirements, and provides an estimated scenario for the amount of sovereign guaranteed lending. The lending framework is consistent with the macroeconomic projections and the country's financing strategy.

***RISKS** (measures three dimensions: (i) identification of factors that actually do or might affect the attainment of the proposed objectives; (ii) definition of mitigation measures, and (iii) monitoring mechanisms):*

The strategy identifies risks associated with the Bank's involvement in each of the strategic sectors and identifies mitigation measures.. Risks associated with the economy's vulnerability to external shocks and natural disasters and the implementation capacity of the executing agencies are also raised.