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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED

LOAN

IN THE AMOUNT OF US\$60 MILLION TO

DOMINICAN REPUBLIC

FOR THE

STRENGTHENING MANAGEMENT OF PUBLIC FINANCES DEVELOPMENT POLICY LOAN

October 7, 2015

Governance Global Practice
Latin America and the Caribbean Region

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DOMINICAN REPUBLIC GOVERNMENT FISCAL YEAR

January 1–December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of September 16, 2015)

Currency Unit

US\$1.00 = DOP 44.8132

ABBREVIATIONS AND ACRONYMS

CESDEM	Center for Demographic and Social Studies - (<i>Centro de Estudios Sociales y Demográficos</i>)
CPS	Country Partnership Strategy
DHS	Demographic and Health Survey
DOP	Dominican peso
DPL	Development Policy Loan
EFI	Equitable Growth, Finance and Institutions
EU	European Union
GDP	Gross Domestic Product
GRS	Grievance Redress Service
ICF	Inner City Fund
IDEC	Dominican Initiative for Education Quality - (<i>Iniciativa Dominicana para una Educación de Calidad</i>)
IEG	Independent Evaluation Group
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
JIT	Just in Time
MEPyD	Ministry of Economy, Planning, and Development - (<i>Ministerio de Economía, Planificación y Desarrollo</i>)
MFMod	Macro-fiscal forecasting model
MOF	Ministry of Finance - (<i>Ministerio de Hacienda</i>)
MOH	Ministry of Health - (<i>Ministerio de Salud Pública</i>)
MSME	Micro, Small, and Medium Enterprise
NDS	National Development Strategy
NSME	National System for Monitoring and Evaluation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PSIA	Poverty and Social Impact Assessment
UNDP	United Nations Development Program
WBG	World Bank Group

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DOMINICAN REPUBLIC
Strengthening Management of Public Finances Development Policy Loan

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**SUMMARY OF PROPOSED LOAN AND PROGRAM
DOMINICAN REPUBLIC
STRENGTHENING MANAGEMENT OF PUBLIC FINANCES
DEVELOPMENT POLICY LOAN**

Borrower	Dominican Republic		
Implementation Agency	Ministry of Finance (MOF)		
Financing Data	<p>IBRD Loan Amount: US\$60 million Terms: US Dollar-denominated, commitment-linked, IBRD Flexible Loan with fixed spread, customized repayment schedule and a total repayment of 23 years, including a grace period of 11 years, with all conversion options selected and capitalization of the front end-fee. The repayment dates will be February 1 and August 1 of each year.</p>		
Operation Type	Stand-alone, single tranche development policy loan		
Pillars of the Operation and Program Development Objective	The program development objective of this development policy loan (DPL) is to support the Dominican Republic's efforts to (a) improve flexibility and transparency in the management of public debt; (b) strengthen planning, budgeting, and execution of public expenditures; and (c) enhance transparency and monitoring of government operations.		
Result Indicators	Indicator	Baseline FY14/15	Target FY16
	<i>Improved flexibility and transparency in the management of public debt</i>		
	1. Number of refinancing operations performed under the law that result in reductions in overall debt burden	0	1
	2. Consolidated public sector debt data publicly available	No data available	Data published twice a year
	<i>Strengthened planning, budgeting, and execution of public expenditures</i>		
	3. Number of persons registered to the primary health centers in Regions 1–5 since the inception of the implementation of the results-based financing mechanism	80,955	158,455
	4. Number of evaluations produced by the National System for Monitoring and Evaluation (NSME) on the performance of public programs within the context of the National Development Strategy (NDS)	0	1
	5. Number of budgetary institutions that adopt the e-Procurement portal	16	120

	<i>Enhanced transparency and monitoring of government operations</i>		
	6. Number of times official, verified national poverty statistics are published	0	2
	7. Number of publicly disclosed monitoring reports issued by the Monitoring and Evaluation Committee and the Social Accountability Committee as established by the Education Pact's official monitoring mechanism	0 (as of June 2015)	3
	8. Percentage of funds allocated to the nonprofit sector in the national budget for 2017 based on management and/or service delivery agreements that are in line with the newly established regulations	0	50
Overall Risk Rating	Moderate		
Climate and Disaster Risks	Not applicable		
Operation ID	P155425		

**IBRD PROGRAM DOCUMENT FOR A
PROPOSED LOAN TO
DOMINICAN REPUBLIC**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation is a stand-alone, US\$60 million DPL designed to support the Dominican Republic’s efforts to improve the management of public debt, strengthen the management of public expenditures, and enhance the transparency and monitoring of government operations.** The program has three pillars that stem from the reform agenda of the Government and the Country Partnership Strategy (CPS)¹ of the World Bank: (a) improved flexibility and transparency in the management of public debt; (b) strengthened planning, budgeting, and execution of public expenditures; and (c) enhanced transparency and monitoring of government operations. Building on the sound macro-fiscal framework that the country has established over the past three years, the operation aims at locking in policy actions that will improve the management of public finances over the medium term, ahead of the presidential elections of May 2016.

2. **The proposed operation constitutes the first budget support operation to the country since 2012.** The Standby Agreement with the International Monetary Fund (IMF) was declared off track in 2012 while the central government deficit surged, to about 6.5 percent of the gross domestic product (GDP). The operation reflects the notable improvements in fiscal and financial management observed since then and builds on past and ongoing Bank-supported initiatives in the country, including the Performance and Accountability of Social Sectors DPL series, which have yielded positive results in budget management, performance management, and civil society oversight in key social sectors.

3. **Over the past decade, the Dominican Republic has experienced strong economic growth, accompanied by a reduction in poverty.** Following a severe crisis in 2003 and 2004, which resulted in 1.5 million Dominicans falling into poverty, consistent economic growth at an average rate of 5.4 percent during the period from 2005 to 2013 allowed for a decline in incidence of moderate poverty from 49.9 percent in October 2004 to 41.8 percent as of October 2013, according to national poverty figures. In 2014, the Dominican Republic grew at 7.3 percent, the fastest among the Latin American and Caribbean economies. Limited upward social mobility, persistent regional disparities, gender inequalities, and low quality of public services have been among the factors that dampen the impressive growth record that the country has exhibited during this period.

4. **Despite improvements in macroeconomic management, there is limited fiscal space to effect pro-poor policies.** Fiscal consolidation efforts have enabled the Government to meet its central government deficit targets of below 3 percent of GDP in 2013 and 2014. However, public finances continue to suffer from insufficient revenue collection and a range of constraints on the expenditure side. While the introduction of a new tax package in November 2012 and the

¹ Report # R89551-DO, joint IBRD/IFC/MIGA Country Partnership Strategy (CPS) for the Dominican Republic for the period FY2015-18, discussed by the Board of Executive Directors on September 25, 2014.

renegotiation of the agreement with Barrick Gold² were able to increase tax revenue collection to 14.1 percent in 2014, from less than 13 percent in 2011, revenue collection remains approximately 2 percentage points below the regional average. On the expenditure side, inefficiencies in the electricity sector pose a severe financial burden with government transfers averaging 1.3 percentage points of GDP annually between 2009 and 2014. In addition, as a consequence of the 2003 crisis, the state has devoted around 1 percent of GDP to the recapitalization of the Central Bank, since 2007. The consolidated public sector debt expanded significantly, from 31.2 percent of GDP in 2007 to an estimated 51.3 percent in 2013, before starting to descend in 2014.³ The result is an increasing debt service burden that poses a potential threat to fiscal sustainability over the medium term.

5. **Systemic inefficiencies in the management of public finances affect negatively the quality of public service delivery.** Despite improvements in access to public services in recent years, weaknesses in public expenditure planning, execution, and monitoring continue to hamper the quality of public service delivery. The initial response of the Government to social discontent with the quality of public services has been to increase budgetary allocations for key sectors, to 4 percent of GDP for education and about 1.7 percent of GDP for health.⁴ While there has been a notable expansion in school enrollment and health service coverage in recent years, outcomes in both sectors continue to indicate underperformance. Persistent lack of quality in public services despite increasing coverage and budgetary allocations brings into question the extent to which public resources are managed effectively.

6. **A number of structural weaknesses in the overall public financial management (PFM) environment limit the effective management of public resources.** Public institutions display limited capacity to manage public expenditures in line with national development priorities. Weak coordination between the planning, monitoring, and evaluation functions across different government institutions affects the alignment between the National Development Strategy (NDS) and the national budget. There is continuing difficulty in establishing a multiannual perspective for planning and budgeting and implementing the strengthened legislation for the PFM system. There are considerable variances between the budgeted revenue and expenditure. Expenditure control and procurement systems are fragmented and enforcement is weak. Together, these issues represent a critical challenge for ensuring a strategic and controlled management of public finances, which this operation seeks to address.

7. **The Government has taken a number of measures to restore the sustainability of its public finances and contain debt service expenditure.** The Government's Multiannual Plan for the Public Sector for the period from 2013 to 2016 has called for initiatives to enable public sector institutions to improve their management of public expenditures and service delivery. These initiatives include the introduction of medium-term, results-based planning and execution practices in sector entities, especially in the health sector, where, with Bank support, results-based financing mechanisms are already producing promising results. The plan further calls for initiatives to improve controls in public expenditures and enhance transparency and accountability in the

² In September 2013, the Government compelled Barrick Gold to renegotiate the terms of its gold exploitation agreement, as a result of which fiscal revenue derived from this activity was expected to increase by a third.

³ These debt stock calculations do not net out intra-government debt, estimated in around 4.75 percent of GDP as of end 2014.

⁴ In Latin America and the Caribbean, average spending in each of these sectors amounts to around 4.5 percent of GDP. World Bank. 2015. World Development Indicators.

management of public resources through fostering greater civic engagement and oversight. To consolidate gains further, the NDS has called for three major pacts (in education, electricity, and fiscal issues) as mechanisms to forge broad social consensus on systemic, long-standing challenges. An Education Pact was signed in April 2014 across all segments of the stakeholders involved in the sector. An Electricity Pact is currently being pursued with a diverse range of stakeholders, with the overall objective to reduce electricity sector losses and improve service quality. The discussions for the Fiscal Pact, which aims at improving revenue collection and efficient use of public resources, are expected to take place in 2016.

8. **The policy measures supported under this operation are aimed at locking in the core elements of the PFM reform agenda.** Pillar 1 focuses on legal and institutional actions that aim to improve the flexibility and transparency of public debt management. Pillar 2 supports policy and legal actions that aim to expand results-based budgeting in the health sector, introduce a national system for monitoring and evaluation of public programs, and establish an e-procurement system for all public procurement processes. Pillar 3 focuses on legal and institutional actions that aim to improve the reporting of poverty statistics and monitor the use of public funds, including those allocated for the implementation of the National Education Pact and the non-profit sector. Together, these pillars will help to enhance the strategic allocation and results-orientation in the use of public resources and strengthen the enabling environment to engage in longer-term development planning.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

9. **In 2014, the Dominican Republic registered the highest growth rate in Latin America and the Caribbean, recovering from a slowdown in 2011 and 2012.** Driven by a recovery in internal demand and exports, growth accelerated to 4.6 percent in 2013 and an estimated 7.3 percent in 2014. The fastest-growing sectors in 2014 were mining and quarries, with 20.3 percent annual growth, and construction, at 13.8 percent. Strong expansion observed in the education sector during this period, at 8.4 percent, is partly a result of increased government spending in the sector.

10. **Stronger growth has boosted employment and has helped reduce poverty.** A total of 165,000 jobs were created between October 2013 and 2014, surpassing the 89,000 created in 2012 and 34,000 in 2013. The open unemployment rate decreased from 7 percent in 2013 to an estimated 5.9 percent in 2014. Participation rates averaged 55.5 percent in 2005-2014, remaining below regional levels. Official estimates, released in the absence of a formal approval by the Inter-Institutional Poverty Committee and therefore contested by some actors outside the Government, show a 5 percentage point drop in the headcount poverty rate in 2014 to 35.5 percent, after having been virtually stagnant since 2011. This decline has been attributed to higher incomes in rural areas as a result of microfinance projects and public investment in school construction.

11. **External imbalances have dwindled significantly as the country's deficit in goods and services halved between 2011 and 2014.** The current account has been fully financed by net foreign direct investment inflows. In early 2014, the Government issued two global bonds for a total amount of US\$1.5 billion and with a record 30-year maturity. The trade balance benefits from the current low international oil prices as oil accounts for 25 percent of imports and 10 percent of GDP. The narrowing in the external current account deficit reflects the coming on stream of gold exports from the new Pueblo Viejo Mine, revenues from tourism, and strong remittances. Economic

recovery observed in Europe and the United States since 2012 has resulted in an improvement in tourism receipts and remittances, which helped narrow the current account deficit, at around 3.3 percent of GDP in 2014. The Dominican Republic is the fifth largest remittance receiver in the Americas, with gross remittances representing close to 7 percent of GDP. Foreign direct investment has been rising over the past five years, with key investments in gold and nickel mining in 2011 and 2012. In 2014, foreign direct investment reached an estimated 4.4 percent of GDP, concentrated in manufacturing, energy, tourism, and real estate. The Dominican Republic continues to attract international capital inflows largely based on continuing economic and political stability, with portfolio inflows consistently averaging 0.7 percent of GDP for the period 2011 to 2014. To respond to the risk of potential external shocks, the Central Bank has been building up gross international reserves, which closed at US\$4.8 billion in 2014, equivalent to 3.6 months of the next year's imports coverage, compared to around 2.5 months of imports in 2012. As discussed further under section 2.2, external public sector debt expanded from 21.9 percent of GDP to 26.4 percent during this period.

12. **Investor and market confidence has strengthened based on the recent improvements in economic performance.** In the first half of 2015, the Government continued to rely heavily on financing from external private creditors. In January, the Government issued international bonds for an amount of US\$2 billion to finance the debt buyback from Venezuela under the PetroCaribe arrangements. In April, it followed up with two more international bond issues: a 10-year US\$500 million bond at an interest rate of 5.125 percent and a 30-year US\$500 million bond at 6.5 percent. In the second half of 2014, international bond spreads fell below 200 basis points for the first time since the 2000s. Fitch upgraded Dominican Republic's sovereign rating by one notch to B1 in October 2014, followed by a one-notch upgrade in S&P's rating to BB- in May 2015.

13. **Monetary policy has been consistent with the objective of achieving macroeconomic stability.** The Central Bank declared the introduction of an inflation targeting framework in January 2012. Since then, end-of-year inflation has been below yearly targets: 3.9 percent, 3.9 percent, and 1.6 percent in 2012, 2013, and 2014, respectively. However, monetary policy decisions sometimes reflect ad hoc considerations not related to inflation, including exchange rate stabilization. In May 2013, in the context of higher inflation, the Central Bank reduced the coefficient for legal bank reserve requirements by 3.5 percentage points with the objective of fostering economic growth, which injected into the economy DOP 20 billion (US\$500 million). In the light of the risk of deflation caused by low international oil prices as 12-month inflation turned negative in April 2015 to -0.04 percent, the Central Bank responded by reducing the benchmark interest rate by a total of 100 basis points between March and April 2015 (to 5.25 percent).

14. **Over the past few years, the Dominican Republic has maintained a 'crawling peg-like' exchange rate arrangement.** This policy has been successful in providing a nominal anchor to the economy as the currency depreciates smoothly over a predictable path. The Dominican peso depreciated rapidly in 2013 against the U.S. dollar, with an average monthly change of 6.3 percent, reflecting concerns about the U.S. Federal Reserve slowing down the monetary stimulus in the U.S. economy. Depreciation continued throughout 2014 and into the first half of 2015 but at slower rates, at 4.2 percent and 3.8 percent, respectively.

Table 1. Dominican Republic - Key Economic Indicators 2011–2018

	2011	2012	2013	2014 ^e	2015 ^f	2016 ^f	2017 ^f	2018 ^f
Real Economy	Annual percentage change, unless otherwise indicated							
GDP (nominal local currency, billion)	2,218	2,378	2,559	2,786	3,092	3,337	3,547	3,815
Real GDP	2.9	2.6	4.6	7.3	5.0	4.7	3.8	4.4
Per capita GDP (US\$, Atlas method)	5320	5570	5770	–	–	–	–	–
Contributions (percentage points)								
Consumption	2.4	3.5	1.0	3.6	4.0	3.6	2.9	3.6
Investment	-2.2	-1.5	0.5	3.0	0.9	1.1	0.7	1.0
Net exports	2.7	0.6	3.2	0.7	0.1	0.0	0.2	-0.2
Imports	1.2	4.1	-3.3	4.1	3.0	3.4	3.2	3.9
Exports	12.9	7.4	9.7	7.8	4.0	3.8	4.3	4.2
Unemployment rate (Open)	6.0	7.0	7.0	5.9	5.7	6.0	6.1	6.0
GDP deflator	9.1	4.0	3.0	2.2	5.0	3.0	2.4	2.5
CPI (end-of-period)	7.8	3.9	3.9	1.6				
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	15.9	20.5	17.6	17.6	17.4	17.8	17.4	17.5
Revenues	13.3	13.9	14.7	14.9	15.0	14.7	14.7	14.9
Primary balance	-0.5	-4.2	-0.6	-0.2	0.0	-0.7	-0.5	-0.4
Central government balance	-2.6	-6.6	-2.9	-2.7	-2.4	-3.1	-2.7	-2.6
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base money	6.8	8.2	0.2	9.5	8	8	8	8
Credit to nongovernment sectors	12.7	5.7	15.2	19.7	8.1	8.8	8.3	8.5
Interest (key policy interest rate, e.o.p.)	6.75	5	6.25	6.25	5.25	5.25	5.25	5.25
Balance of Payments*	Percent of GDP, unless otherwise indicated							
Current account balance	-7.9	-6.8	-4.1	-3.3	-1.8	-1.8	-2.2	-2.9
Imports of goods	30.3	30.0	28.1	27.5	24.0	23.7	24.1	24.6
Exports of goods	14.6	15.2	15.8	15.8	14.4	13.6	13.5	13.2
Services balance	5.1	5.4	6.2	6.7	5.0	5.8	6.4	6.8
Net remittances	6.7	6.6	6.9	6.9	6.6	6.4	6.2	6.1
Net foreign direct investment	3.3	3.3	4.2	4.4	2.9	2.9	2.9	3.0
Gross international reserves (US\$, millions, e.o.p.)	4,098.4	3,558.5	4,700.6	4,861.8	5,135.8	5,092.8	4,898.8	5,100.0
Gross international reserves (In months of next year imports)	2.8	2.5	3.3	3.6	3.6	3.4	3.1	3.1
External debt (public)	21.9	22.9	25.9	26.4	25.6	28.5	31.7	33.0
Terms of trade	100	94	101	103	87	88	89	89
Exchange rate (average)	38.2	39.3	41.8	43.5	45.2	46.6	48.2	49.7
Memorandum items:								
Poverty rate (US\$4 a day, PPP terms)	33.3	33.3	33	31	29.3	27.6	–	–
Nominal GDP (US\$, millions)	58,145	60,332	61,164	64,448	68,383	71,594	73,576	76,680

Note: * Balance of payments data under the Balance of Payment manual VI, based on Dominican Republic Central Bank data. Forecast using the Bank's MFM model; net remittances, net FDI, and Gross International Reserves forecasts based on the latest IMF article IV.
e - preliminary estimates; f - forecasts; PPP - Purchasing Power Parity; CPI - Consumer Price Index ; e.o.p - end of period.

Table 2. Dominican Republic - Key Fiscal Indicators 2011–2016

	2011	2012	2013	2014 ^e	2015 ^f	2016 ^f
	In percentage of GDP					
Overall balance	-2.6	-6.6	-2.9	-2.7	-2.4	-3.1
Primary balance	-0.5	-4.2	-0.6	-0.2	0.0	-0.7
Consolidated public sector balance	-4.5	-7.9	-5.0	-4.5	-4.2	-4.9
Total revenues	13.3	13.9	14.7	14.9	15.0	14.7
Tax revenues	12.8	13.4	14.0	14.1	14.5	14.2
Taxes on goods and services	7.9	7.6	7.9	7.9	8.0	7.8
Direct taxes	3.1	4.0	4.3	4.5	4.4	4.4
International trade	1.1	1.0	0.9	1.0	1.0	1.0
Other taxes	0.7	0.8	0.9	0.7	1.1	1.0
Non-tax revenue	0.3	0.3	0.6	0.7	0.3	0.3
Grants	0.2	0.2	0.1	0.1	0.2	0.2
Expenditures	16	20.5	17.6	17.6	17.4	17.8
Current expenditures	12.4	14	13.9	14.9	14.4	13.8
Wages and compensation	3.7	3.8	4.2	4.6	4.5	4.4
Goods and services	1.6	1.8	1.5	1.7	1.4	1.4
Interest payments	2.1	2.4	2.3	2.5	2.4	2.4
Current transfers	5	6	5.9	6.1	6.0	5.6
Of which electricity sector transfers	1.2	1.5	1.5	1.5	1.5	1.5
Capital expenditures	3.6	6.5	3.7	2.7	3.0	4.0
General government financing						
External (net)	3.1	2.1	3.4	1.3	2.9	1.0
Domestic (net)	-0.3	3.5	-0.5	1.4	0.1	2.1

Source: Dominican authorities and Bank staff forecasts using the MFMod.

Note: e - preliminary estimates; f - forecasts.

15. **Central government deficit targets were met in 2013 and 2014 although important vulnerabilities remain.** Fiscal consolidation efforts to date have been successful.⁵ Following a surge in 2012 to 6.6 percent of GDP, the central government deficit has been maintained below 3 percent of GDP. The tax reforms introduced in November 2012,⁶ together with the modification of the agreement with Barrick Gold in the spring of 2013, have helped enhance revenue collection over the past two years, even though revenue collection remains low compared to the regional average, primarily due to persistent tax exemptions. On the expenditure side, fiscal consolidation has been largely maintained by containing capital expenditure, while public payroll expanded significantly in 2013 and 2014, largely to accommodate an increase in teacher salaries, and spending on education increased from 2.2 percent of GDP in 2012 to an estimated 4 percent in 2014, in accordance with the Education Pact. The consolidated public sector deficit, including the quasi-

⁵ See IMF Assessment Letter on the Macroeconomic Framework, Annex 3.

⁶ The November 2012 tax reform introduced the following measures: a further increase in the value added tax rate from 16 percent (previously it was 12 percent) to 18 percent and a reduction in the number of exempted or zero rate products; an enlargement of the income tax base through the non-indexation to inflation of the threshold at which the minimal income rate applies; a 10 percent tax on dividends and interest; maintaining the corporate tax rate at 29 percent and the 1 percent tax on the banks' assets, which had been temporarily approved by a previous reform; and increasing the tax rate on domestic sales by companies in free trade zones from 2.5 percent to 3.5 percent.

fiscal balance of the Central Bank, reached an estimated 4.5 percent of GDP in 2014, compared to 5 percent in 2013 and 7.9 percent in 2012. However, quasi-fiscal losses at the Central Bank have come down by less than originally envisaged, partly due to the fact that central government transfers have not fully met the amounts originally agreed under the Central Bank recapitalization law of 2007. The electricity sector continues to pose a problem for public finances: deficits of public distribution companies have required transfers amounting to around 1.5 percent of GDP in the last three years. Additionally, according to figures provided by the National Council of the Private Enterprise, arrears to private generators amounted US\$850 million, or 1.2 percent of GDP, as of July 2015.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. **Economic growth is forecasted to remain solid in 2015 and 2016, on the basis of strengthening internal demand.** The economy grew at a rate of 6.6 percent in the first quarter of 2015. Nonetheless, a progressive deceleration is expected in the next couple of years as the economy is currently operating above full potential output according to model estimations using historical data for the past four decades. Private consumption will be the main contributor to growth over the next three years as low oil prices allow for higher domestic purchasing power. Inflation is expected to remain subdued against strong domestic demand. The contribution of net exports to the overall economy will depend on economic performance in the United States while overall it is expected to remain neutral as export growth moderates. On the supply side, services—particularly tourism—and construction are expected to provide the largest contributions to growth. These sectors, together with agriculture, will remain the most significant employment generators.

17. **In a context of solid growth, poverty is expected to continue its decline.** Projections based on internationally consistent data not comparable with the official estimates anticipate that the share of the population living on less than US\$4 a day (in purchasing power terms) will continue to fall, from 31 percent in 2014 to 27.6 percent in 2016. This assumes that the Government does not initiate new social transfer policies and there are no major structural changes that could encourage pro-poor growth. The decline in poverty reflects an anticipated rise in household incomes of 5.2 percent in 2015 and 4.8 percent in 2016, driven by higher labor participation, employment, earnings, and foreign remittances.

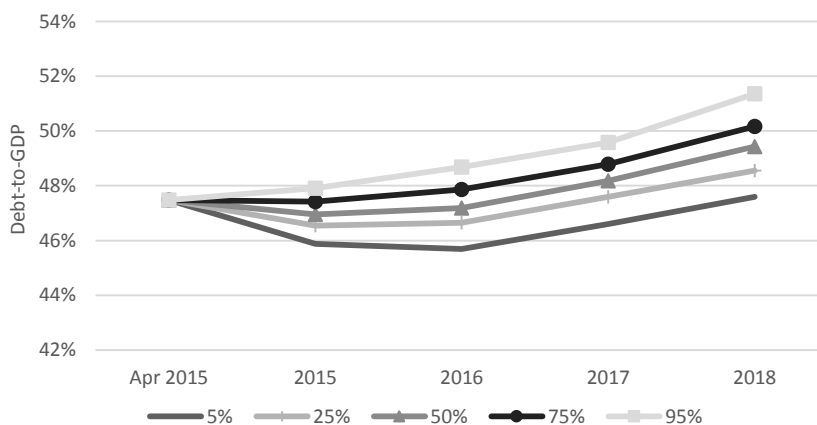
18. **On the external side, the current account deficit is expected to continue shrinking while international oil prices remain low.** In 2015, the current account deficit is expected to shrink below 2 percent of GDP as oil imports cost less. This will reduce dependency on foreign currency reserves and capital, with an overall positive impact on economic growth.

19. **The 2015 budget underscores social priorities.** The largest budgetary allocation is earmarked for education, followed by spending on health care, social transfers, rural development, and support to small and medium-sized enterprises. However, social spending continues to run the risk of being crowded out by debt service and a persistent electricity sector deficit. In 2016, the central government deficit is expected to grow only moderately compared with previous presidential election years, as a result of enhanced budgetary oversight, the introduction of quarterly budget ceilings, and other PFM reforms undertaken since 2013. At the same time, the consolidation in central government deficit achieved over the past three years may be offset by a large nonfinancial public sector deficit as a result of the ongoing construction of two power plants.

20. **The forecasted path for the consolidated public sector debt stock looks sustainable under the most likely scenarios, although some vulnerabilities remain.** Despite fast economic growth, consolidated public sector debt expanded significantly from 31.2 percent of GDP in 2007 to an estimated 51.3 percent in 2013 before declining slightly in 2014 for the first time in seven years. To further reduce exposure, in January 2015, the Dominican Republic raised US\$2.5 billion in international bonds, using US\$1.93 billion to prepay 98 percent of its PetroCaribe debt of over US\$4 billion at a 52 percent discount. This resulted in a net decrease in the consolidated public debt stock of around 3 percent of GDP as of April 2015. It is worth noting that this is likely to be recorded as a capital grant in the fiscal accounts and there could be pressures to spend these savings while maintaining the current fiscal targets.

21. **Drawing from the macroeconomic and fiscal forecasts presented here, a debt sustainability exercise has been performed.** As detailed in annex 4, under the baseline scenario, the public sector debt stock will remain between 47.4 and 51.2 percent of GDP in 2018. In this context, two main risks could threaten the sustainability of public finances: a possible exchange rate shock and growing and persistent primary deficits. The Central Bank is building up reserves to reduce the probability of the former, whereas a series of PFM reforms under implementation should help mitigate the latter risk.

Figure 1. Probability Bands under Debt Sustainability Analysis



Source: Dominican authorities and Bank staff forecasts using Analytica.

22. **Risks to the outlook are moderate.** Upside risks stem from a potentially larger demand response to lower oil prices, persistently low energy prices, and stronger tourism demand. On the other hand, should these favorable developments in the global economy be reversed, growth prospects will be hampered. A hike in oil prices will have a pronounced negative impact on both the external and fiscal accounts, the latter through higher subsidies to the electricity company. A slowdown in the U.S. economy will affect tourism, exports, and remittances. In addition, prospective hikes in U.S. interest rates can have a negative impact on the availability and cost of international financing to the Dominican Republic. On the structural side, slow progress in the finalization and implementation of the Electricity Pact will limit fiscal progress. There also remains the risk of a certain degree of fiscal slippage in the run-up to the May 2016 presidential elections.

23. **Overall, the macroeconomic policy framework is deemed adequate for a DPL.** The Government has observed a commitment to fiscal consolidation and the budget deficit target of 2.4 percent of GDP in 2015 is expected to be met. Fiscal responsibility has been underpinned by a series of reforms in debt management, budgeting, financial management, and procurement, some of which are supported by the proposed operation. In the medium term, it is expected that the Government will engage in additional revenue collection efforts to further enhance the sustainability of public finances, the core objective of the upcoming Fiscal Pact discussions. The cuts in the benchmark interest rate in the spring of 2015 are consistent with the observed low levels of inflation, and monetary and exchange rate policies have an established record of contributing to macroeconomic stability.

2.3 IMF RELATIONS

24. **In its Assessment Letter issued in August 2015, the IMF concluded that the macroeconomic outlook for the Dominican Republic is favorable.** The last Standby Agreement had closed in February 2012 with reviews seven and eight remaining incomplete. Since 2013, the IMF has engaged with the Government in post-program monitoring and Article IV consultations. The IMF has also been supporting the Central Bank in the elaboration of a new national accounts methodology, and is providing technical assistance on tax policy and administration. Over the past three years, the IMF and the World Bank have been meeting frequently to discuss macroeconomic challenges, identify macro-critical structural reforms, share information and data, and coordinate support to the Government, mainly on fiscal and public financial management issues. The latest Article IV, performed in April 2014, acknowledged a more favorable than expected macroeconomic performance in 2013 while highlighting vulnerabilities stemming from an increasing public sector debt ratio. The Assessment Letter issued in August 2015, included in annex 3, acknowledges successful fiscal consolidation and expects public debt levels to dip in 2015 following the PetroCaribe operation and to mildly rise in the medium term while remaining sustainable. The Assessment Letter maintains that the macroeconomic outlook is positive, with risks to the outlook being moderate and mainly stemming from changing global conditions. The letter advises an increase in exchange rate flexibility to mitigate potential external shocks. The next IMF mission is scheduled for the fall of 2015.

3. THE GOVERNMENT'S PROGRAM

25. **The four pillars of the NDS of the Dominican Republic focus on institutional, social, productive, and sustainable development.** The NDS calls for three major pacts (education, electricity, and fiscal issues) as mechanisms to forge broad social consensus on systemic, long-standing issues. An Education Pact was signed in April 2014 across all segments of the stakeholders involved in the sector and is now under implementation. An Electricity Pact is currently under discussion, with the objective to address the prevalence of technical and commercial losses that result in large deficits. Fiscal Pact discussions are likely to take place in 2016. Stemming from the institutional development pillar of the NDS, the Government's Multiannual Plan for the Public Sector for the period from 2013 to 2016 calls for initiatives to enable public sector institutions to improve their management of public finances and service delivery. These initiatives include the introduction of medium-term, results-based planning and execution practices in sector entities; the establishment of an e-Procurement portal to improve competition and controls in public procurement; the expansion of the coverage of the integrated financial management system to

consolidate PFM transactions; and mechanisms to foster greater civic engagement and oversight to enhance transparency and accountability in the management of public resources.

26. **The policies supported by the proposed operation are in line with the Government’s program.** They are aligned with the institutional and social pillars of the NDS and aim at contributing to attaining objectives 1.1 (an efficient, transparent, and results-oriented public administration), and 2.1 and 2.2 (quality health and education).

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **The program development objective of this operation is to support the Dominican Republic’s efforts to: (i) improve flexibility and transparency in the management of public debt; (ii) strengthen planning, budgeting, and execution of public expenditures; and (iii) enhance transparency and monitoring of government operations.** The program is founded on three pillars that support each of these stated objectives.

28. **The conceptual framework of the proposed operation stems from the premise that a good PFM system is essential for the implementation of public policies and the achievement of development objectives by supporting aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.**⁷ Effective controls of the budget and the management of fiscal risks contribute to maintaining aggregate fiscal discipline; planning and executing the budget in line with government priorities contributes to the implementation of the Government’s objectives; and managing the use of budgeted resources transparently contributes to efficient service delivery and value for money. The reforms that this operation will support in the context of sustainable debt management, results-oriented budgeting, competitive public procurement, and regular monitoring and evaluation of public programs are expected to have a direct positive impact on achievement of the Government’s budgetary goals and outcomes.

29. **The proposed operation targets improvements in the management of key social sectors toward quality of public services, which is expected to benefit the poor and vulnerable.** Despite improvements in access to public services in recent years, weaknesses in the PFM continue to hamper the quality of public service delivery. Despite having high coverage rates for prenatal care at 99 percent and births assisted by skilled professionals at 98.5 percent, maternal mortality rate was at 100 per 100,000 live births in 2013. In education, while net enrollment rates are now 36 percent in preschool, 89 percent in basic, and 62 percent in intermediate education, poor student learning outcomes prevail as Dominican students consistently perform below regional averages in all subject areas. The persistent lack of quality in public services despite increasing coverage and budgetary allocations brings into question the effectiveness with which public resources are managed.

30. **Pillars 1 and 2 are aimed at strengthening the management of public finances.** Pillar 1 is built on policy actions that relate to improving flexibility and transparency in the management of public debt, while Pillar 2 focuses on strengthening planning, budgeting, and execution of public expenditures. The improvements in medium-term debt management, planning, budgeting, and

⁷ Public Expenditure and Financial Accountability (PEFA) Public Financial Management Performance Measurement Framework, revised January 2011.

expenditure management practices are expected to contribute to establishing an enabling environment for a more strategic allocation of public resources, as well as a more orderly execution of public finances in line with development priorities.

31. **Pillar 3 focuses on enhancing transparency and monitoring in the management of government operations.** The focus of this pillar on making official poverty figures regular and public will ensure the availability of objective and verifiable national statistics on poverty, a crucial input to the design and monitoring of development programs and interventions. Publicly monitoring the performance of initiatives under the Education Pact will enhance the accountability of the actors involved in reforming this important sector that receives significant public funds. Similarly, a results-oriented allocation of public funds to the nonprofit sector will enhance transparency and citizen engagement in a sector that plays a highly visible role in public service delivery.

32. **The preparation of this DPL was informed by lessons learned from the performance of previous Bank programs.** The 2011 Implementation Completion and Results Report for the US\$150 million stand-alone Public Finance and Social Sector DPL (P115145) observed that an alignment of DPL objectives with the Government’s reform program produces the most rewarding outcomes and advised that reforms supported through DPLs should be accompanied by targeted technical assistance. It also observed that in the Dominican context, a DPL policy matrix with clearly defined results indicators that are within the control of the Government works best. The Independent Evaluation Group (IEG) Project Performance Assessment Report on the abovementioned DPL emphasized the importance of having an updated political economy assessment.⁸ The proposed operation is underpinned by an Institutional and Governance Review for the Dominican Republic that was produced in 2014. Furthermore, a recent IEG learning product on ‘The Quality of Results Frameworks in Development Policy Operations’⁹ notes that the quality of prior actions is critical to a robust results framework, emphasizing in particular that prior actions that do not support significant policy change and are unrelated to Bank engagement with the client country should be avoided. The composition and design of the program, detailed in section 4.2 of this document, has fully taken into consideration these lessons learned.

4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

Pillar 1: Improved flexibility and transparency in the management of public debt

33. **The public sector debt stock of the Dominican Republic has expanded rapidly over the past eight years.** Against a backdrop of increasing debt service payments, which constrain the fiscal space available for public policies and programs, the Government was called into action to embark on initiatives to improve debt management practices. Under this pillar, Prior Action #1 facilitates refinancing operations to take advantage of better market conditions in a timely manner and Prior Action #2 focuses on improving the institutional arrangements associated with debt management practices.

Prior Action #1: The Borrower has adopted a Public Debt Law that provides flexibility in conducting liability management operations.

Evidence: Borrower’s Law No. 548-14 published in the Official Gazette on December 18, 2014

⁸ Report No. 78787, IEG Public Sector Evaluation dated June 27, 2013.

⁹ Dated June 24, 2015.

34. **A key constraint that impeded the ability of the Government to refinance its debt service in a fast-changing international financial environment was the requirement to seek congressional approval for every debt transaction.** Responding to calls for swifter action to take advantage of favorable international financial conditions, the Government enacted in December 2014, the Public Debt Law (548-14) that allowed, for the first time, the possibility of conducting large liability management operations. This law introduced provisions that permitted the MOF to issue, without seeking congress approval, international bonds amounting up to 10 percent of the nonfinancial public sector debt stock to exchange or repurchase existing debt liabilities, on the condition that the operations reduce the public debt stock and/or debt service.

35. **An example of successful and timely intervention, this law made possible a prepayment on PetroCaribe obligations.** Since the signing of the PetroCaribe agreement on June 29, 2005, the bilateral debt stock with Venezuela had expanded at a yearly rate of 55 percent until 2014. The reliance on PetroCaribe financing had been increasingly perceived as a risk by international investors, particularly as the economic and political environment in Venezuela deteriorated. The law enabled the Government to swiftly issue 10- and 30-year maturity bonds in the amount of US\$2.5 billion. This enabled the prepayment of 98 percent of its PetroCaribe debt of over US\$4 billion by disbursing only US\$1.93 billion—less than half the amount owed originally—in January 2015. Authorities estimate that the operation has generated more than US\$550 million in financial savings to the country in net present value terms and resulted in an immediate decrease in the total debt stock equivalent to 3.3 percent of GDP.

36. **The Expected Result of Prior Action #1 is an enhanced ability to renegotiate debt under more favorable conditions, ultimately leading to a reduction in the debt burden.** The impact of this action will be measured by the number of refinancing operations completed, which take advantage of the flexibility introduced by the law.

Prior Action #2: The Borrower's Public Debt Council has established an Inter-Institutional Technical Committee on Debt charged with the development and implementation of a coordinated debt management agenda.

Evidence: (i) Minutes of the Public Debt Council meeting of June 27, 2014 (Acta 01-2014, resolution VI), which establishes an Inter-Institutional Technical Committee on Debt charged with the elaboration of a debt management agenda; and (ii) Minutes of the first meeting of the Inter-Institutional Technical Committee on Debt of May 15, 2015 (Acta 01-2015)

37. **Despite an adequate legal framework and the Public Debt Council that is responsible for debt management decisions, challenges remain in public debt management.** Law 06-2006 of Public Credit created the Public Debt Council, a high-level body composed of the Governor of the Central Bank; the Minister of Finance; the Minister of Economy, Planning, and Development; and the Director for Public Credit as Executive Secretary. Reporting to the president, the council determines the debt management strategy and authorizes the financial agents that participate in public credit operations. Despite the strategic framework established by this council, both the MOF and the Central Bank issue debt in an uncoordinated way, with each institution following its own guidelines to determine the nature and terms of the debt. Furthermore, both the PEFA report of 2012 and the IMF Article IV issued in April 2014 highlighted that a portion of the internal public debt is facing registration and coverage difficulties and there are no consolidated public sector debt

records. The absence of information on the consolidated debt stock makes it difficult to analyze fiscal sustainability accurately and the unavailability of this information runs the risk of negatively affecting the credit profile of the country.

38. **To address these deficiencies in debt management practices, the Public Debt Council Act of June 2014 (Act 01-2014) incorporated provisions to establish an Inter-Institutional Technical Committee on Debt.** Coordinated by the Under-Director for Public Credit, this committee is composed of technical representatives of the Central Bank, the Ministry of Economy, Planning, and Development (*Ministerio de Economía, Planificación y Desarrollo* [MEPyD]), and the MOF. The objective of the committee is to improve coordination among the different actors. In this context, the committee is charged with supporting the elaboration and implementation of a common debt management agenda to address key issues such as the amendment of the Central Bank Capitalization Law,¹⁰ the coordination of domestic bond issuances, and the application of special data dissemination standards. The committee is also responsible for publication of the consolidated debt stock in observance of international standards, which this operation seeks to support.

39. **The Expected Result of Prior Action #2 is improved transparency in public debt management.** Among the different elements in the agenda of the committee, the joint determination and publication of consolidated public sector debt data has been selected as an indicator to measure progress. Regular publication of consolidated debt stock information will further signal enhanced coordination between the Central Bank and the MOF, an important condition for strengthening the sustainability of public finances over the long term.

Pillar 2: Strengthened planning, budgeting, and execution of public expenditures

40. **Public institutions in the Dominican Republic continue to suffer from limited capacity to plan, budget, and execute public expenditures in line with national development priorities.** Public programs are primarily ‘output’ driven, largely aiming for ‘products’ and ‘outputs’ rather than ‘outcomes’ and ‘results’. The traditionally low level of coordination between the planning, monitoring, and evaluation functions, which reside in the MEPyD, and the budgeting functions, which reside in the MOF, affect the alignment between the NDS and the budget. Expenditure control and procurement systems are fragmented. Pillar 2 will support results-based, orderly planning, execution, monitoring, and evaluation of public expenditures, particularly in the health sector.

Prior Action #3: The Borrower has initiated the implementation of multiannual, results-based financing in the health sector.

Evidence: (i) *Borrower’s Law No. 527-14 of November 12, 2014 (National Budget Law of 2015); and (ii) IFMIS reports documenting the budget commitments that have been made available to designated Regional Health Services (Servicio Regional de Salud) for the implementation of the results-based financing agreements signed in 2013 between the Ministry of Health and Regional*

¹⁰ Under this law, the central government is mandated to make a transfer to the Central Bank to cover recapitalization. This amount should be equivalent to 0.5 percent of GDP in 2007, and increase by 0.1 percent each year, until reaching 1.4 percent in 2016 (and at least 1 percent of GDP afterwards). In recent years, however, transfers have been below 1 percent of GDP. It is worth noting that these transfers have generated quasi-fiscal deficits that affect the domestic debt stock. This is an example of how debt management and debt dynamics are interrelated (and thus, also Prior Actions #1 and #2).

Health Services at primary care level in the Borrower's administrative/geographical Regions 1 through 5

41. **In its efforts to improve service delivery through better planning and execution, the health sector has been among the champions of results-based planning and budgeting.** Starting in 2009, the MOH introduced results-based financing agreements at the primary level of care in three regions (Regions 6, 7, and 8) with the support of the World Bank's Health Sector Reform Project APL2 (P106619). These agreements involve results-adjusted capitation payments based on the achievement of targets for coverage and quality. Since the implementation of these agreements, the three regions have steadily demonstrated improvements. In 2014, these regions accounted for at least 74 percent of nationwide registrations in the Clinical Management System, which allows the ministry to monitor the compliance of primary health service providers with national health protocols and guidelines. In addition, from the target population, the percentage of children less than 15 months of age with complete vaccination scheme based on national protocols increased from 0.001 percent in 2011 to 76 percent in 2014, while the percentage of pregnant women with risk evaluation based on protocols completed before the 15th week of pregnancy increased from 0.43 percent in 2011 to 46 percent in 2014.

42. **Based on these results, the MOH has committed to expanding the results-based financing mechanism to additional pilot regions before considering adopting the mechanism as official policy.** In December 2013, the MOH and the National Health Insurance signed agreements with five more Regional Health Services, which started implementation in mid-2014. An additional agreement was signed in December 2014 covering the National District. In addition, a follow-up Health Sector Reform Project APL3 (152783) that is currently under preparation will build on lessons learned during the implementation of the Health APL2 in implementing results-based financing for the implementation of the Ministry of Health's new Model of Care, which prioritizes strengthening the service delivery capacity of primary health care facilities and improving the health system referral-counter-referral system, as well as supporting the National Health Services (NHS), the new health entity created by Law 123-15. The NHS is responsible for coordinating the public network of health services while the Ministry of Health continues to perform its stewardship function. The proposed operation will acknowledge the implementation progress achieved under this promising RBF scheme, as evidenced by reports issued by the Government's official integrated financial management system indicating the payments made from the national budget during FY14 that were specifically earmarked for financing the achievement of health sector results stipulated under these agreements. Likewise, the National Budget Law of 2015 will also evidence the continuing commitment of the Government to this scheme through allocations made specifically to financing these agreements.

43. **The Expected Result of Prior Action #3 is improvements in results orientation of interventions in the health sector.** This outcome will be measured through improvements in the number of citizens formally assigned to primary care centers and the quality of information pertaining to these citizens, which are essential in the implementation of the results-based financing agreements with the Regional Health Centers. Through this step, the participating centers would have a more realistic estimate of their target population (the list of registered persons will also be periodically verified by an independent technical audit) and map them to their respective primary care units, registering electronically all the required household socioeconomic and health information, taking note of the poor and the uninsured for follow-up by health personnel.

Improvements in the results orientation of public expenditures in the health sector are expected to enable the country to improve the effectiveness of its interventions in the sector.

Prior Action #4: The Borrower has established a national system for monitoring and evaluation of public programs with national development objectives.

Evidence: Decree No 267-15 dated September 18, 2015

44. **A culture of systematic monitoring and evaluation constitutes the backbone of ensuring the consistency of public programs with national development objectives.** The Dominican Republic has numerous social programs and public investment projects, whose implementation progress is measured through different systems. There is no formal mechanism to ensure the consistency between budgetary allocations, institutional plans, and development priorities. The MEPyD, the Ministry of Public Administration, the MOF, and the Ministry of the Presidency each has different approaches for monitoring performance and results, with no visible citizen feedback mechanisms built into the ministries. The fragmentation of performance monitoring approaches makes it difficult to track progress toward the achievement of higher-level development objectives and imposes additional reporting burden on institutions that are already overwhelmed with multiple requirements of often inefficient administrative management systems.

45. **The NDS mandates the MEPyD with the development of the NSME, formalized through a presidential decree.** The NSME defines the institutional arrangements that will produce information for systematic review of the progress, goals, efficiency, quality, impact, and sustainability of the policies, programs, and projects that are ongoing or upcoming within the framework of the national public investment system, which stems from the NDS. The overarching objective of the NSME is to bring coherence and consistency across the different and fragmented performance monitoring systems, with the ultimate aim to better inform decisions about public policies and programs. The Bank has been assisting the MEPyD in developing the conceptual framework of the NSME, as well as the functional requirements for development of an information technology solution to support the implementation of the NSME.

46. **The Expected Result for Prior Action #4 is improved results orientation in the planning and execution of public programs.** The achievement of this outcome will be tracked through the number of evaluations produced under the NSME in the course of the year. An NSME that mandates coordinated action between key public sector institutions to monitor and manage for results will improve the Government's ability to ensure that public resources are used effectively.

Prior Action #5: The Borrower has developed an e-procurement portal within the General Directorate of Public Procurement of the Ministry of Finance in line with international standards.

Evidence: Letter signed by the Minister of Finance dated September 23, 2015 certifying the completion of the software for the e-procurement portal and its introduction in at least 16 budgetary institutions

47. **About 40 percent of all government expenditures pass through the public procurement system.** The Government has launched an ambitious reform agenda over the past several years, centering on initiatives to strengthen the legal and institutional framework for public procurement

and concessions, dilute concentration in the set of vendors who usually receive public contracts, and enhance citizen oversight in public procurement.

48. **The Government has been strengthening the legal framework for public procurement.** A decree on implementing the regulations for the Law on Public Procurement (543-12), signed in 2012, required compulsory disclosure of all public procurement processes; introduced procedures for positive discrimination toward micro, small, and medium enterprises (MSMEs); and mandated the publication of annual procurement plans. Since then, the number of public procurement processes that have been published online has increased exponentially, from 1,910 in 2011 to 6,505 in 2012; 60,169 in 2013; and 69,197 in 2014. Progress has been somewhat slower in the formulation and publication of annual procurement plans by budgetary entities: in 2013, 37 procurement plans were published, representing a total amount of approximately US\$600,000 in procurement, while this number grew to 95 in 2013 and 111 in 2014, representing a total procurement of US\$1.6 million and US\$2 million, respectively.

49. **To further refine and institutionalize these ongoing practices, the General Directorate of Public Procurement has been leading an effort to introduce modifications to the existing regulations.** The proposed modifications, which are at the public hearings stage and are expected to include the obligatory use of an e-Procurement portal by budgetary entities, as well as new provisions on contracting procedures for emergencies, single source providers, and exclusiveness of goods and services.

50. **The introduction of an e-Procurement portal that is in line with international standards will contribute substantially to improving controls in procurement.** The development of the portal has been an official, publicly disclosed institutional goal of the General Directorate of Public Procurement and the Government has allocated considerable funds from the national budget for 2014 to purchase and implement it. A vendor was selected in 2014 for development and deployment of the portal and clear progress has been registered to date, with the software fully developed in accordance with technical specifications that are in line with international standards. A deployment plan has been developed and the first version of the portal has already been introduced in 16 budgetary institutions. Approximately 120 Government institutions are expected to adopt the portal by the end of 2016. The Bank continues to provide technical assistance for implementation of the portal through the Dominican Republic Public Expenditure Management Project. Full implementation of the portal by the end of 2016 will ensure that a significant amount of public resources are managed within a transparent and regulated environment with built-in controls that ensure compliance with the regulations and norms.

51. **The Expected Result for Prior Action #5 is improvements in controls in public procurement.** These improvements will be measured by the number of budgetary institutions where the e-Procurement portal is fully operational. The orderly execution of public procurement processes will significantly improve the PFM environment, which continues to suffer from discretionary commitment and spending practices.

Pillar 3: Enhanced transparency and monitoring of government operations

52. **The Government has taken important steps since 2013 to enhance transparency and accountability in the management of public resources.** A number of legal and policy initiatives that were launched, including the pact on education and the discussions for the electricity pact, the

Citizens' Portal to the Budget, and the establishment of Civic Oversight Commissions to monitor public procurement processes, seek to enhance citizen engagement and oversight on issues that have broad implications for the public. The reforms under Pillar 3 will enhance transparency in government operations through improved monitoring of the use of public funds and will support making accurate information regularly and publicly available, which will allow for more informed and evidence-based design and evaluation of public programs.

Prior Action #6: The Borrower has established the Inter-Institutional Poverty Committee charged with the transparent and reliable publication of official poverty statistics.

Evidence: Presidential Decree No. 112-15 of April 29, 2015.

53. **The existence of an official poverty measurement methodology that is objective, accurate, and widely accepted is instrumental in informing policy decisions.** Following the signing of an inter-institutional cooperation agreement in November 2010, the Bank, the Economic Commission for Latin America and the Caribbean, and the United Nations Development Program provided technical assistance to seven Dominican institutions toward the development of an official poverty measurement methodology. The objective of this effort was to establish the official national poverty figures and to avoid the discretionary use of different poverty lines depending on political circumstances, as had occurred in the past. In July 2012, a national poverty measurement methodology, endorsed by 10 national and international institutions that had participated in its elaboration, was launched publicly, along with the poverty incidence figures through 2011.

54. **Since then, poverty statistics have not been published regularly.** Neither in the fall of 2012 nor during 2013 were poverty figures released as the National Labor Force Survey was made available. Only in July 2014, when data showed a decrease of 4 percentage points in the incidence of poverty, from 40.5 percent in April 2013 to 36.2 percent in April 2014, were poverty figures made available to the public. This information was released in the absence of a consensus among the different institutions that were involved in the development of the national poverty measurement methodology and some of these institutions requested additional analysis to better understand the drivers of this decrease in incidence of poverty.

55. **Responding to calls for more transparency in the preparation of poverty statistics, the Government established an Inter-Institutional Poverty Committee with the responsibility to provide regular and transparent preparation and publication of official poverty figures.** A decree formalizing the institution and establishing the procedures for publication of official poverty figures was signed in April 2015. Formal establishment of a committee of this nature ensures the validation of the data and reports prepared by the Poverty Measurement Team, which is composed of the technical staff of the MEPyD and the National Statistics Office. The committee will provide the oversight necessary to prevent political interference and to ensure the quality and consistency of poverty data, a crucial input for designing national development programs, identifying the drivers of poverty and inequality, and targeting social policies and programs.

56. **The Expected Result for Prior Action #6 is transparent and regular publishing of duly validated poverty statistics.** This will be measured by whether or not official poverty statistics, as prepared and verified by the Inter-Institutional Poverty Committee, are published regularly. Improved accuracy and transparency in poverty statistics will enhance evidence-based, long-term development planning, and will improve the public's ability to hold the Government accountable.

Prior Action #7: The Borrower has established a mechanism to monitor the progress achieved under the Education Pact.

Evidence: (i) *Presidential Decree No. 84-15 of April 6, 2015, establishing the mechanism for monitoring the implementation of the Education Pact; and (ii) Minutes of the Borrower's Economic and Social Council second meeting of the Plenary Assembly for the Education Pact of June 15, 2015, outlining the methodology for the application of the monitoring mechanism and the associated accountability and oversight arrangements*

57. **In October 2012, an amount equivalent to 4 percent of GDP was mandated to be allocated in the annual national budget to address the structurally low levels of investments in education.** At the same time, the Government established the Dominican Initiative for Education Quality (*Iniciativa Dominicana para una Educación de Calidad [IDEC]*) to identify quick wins through multi-stakeholder technical working groups. In parallel to the IDEC, the Education Pact was launched to include a broader set of actors under the auspices and coordination of the Economic and Social Council, the inter-institutional arrangement charged with the responsibility to manage multi-sectoral interventions that have broad socioeconomic impact. Signed in April 2014, the Education Pact aims at the universalization of pre-tertiary education and expansion of tertiary education, ensuring adequate financing and infrastructure for the system, reforming the teaching career, improving the quality of teaching, and adopting a culture of evaluation and accountability.

58. **A strong monitoring mechanism will be instrumental in holding the multi-stakeholder structure of the pact accountable to the commitments each party has made.** Previous attempts at reforming the education sector have typically failed to deliver due not only to limited financial resources but also to limited transparency and accountability in the reform process, including a lack of broad-based support in the implementation phase. A decree signed in April 2015 calls for the establishment of a formal, transparent, and results-oriented monitoring mechanism that facilitates regular dialogue between social parties and enables stakeholders to evaluate and follow up on the implementation of the pact. The Economic and Social Council formally approved a monitoring methodology during its plenary session held on June 15, 2015.

59. **The Expected Result of Prior Action #7 is improved achievement of commitments made under the Education Pact.** The degree of achievement will be measured through the number of publicly disclosed monitoring reports issued by the Monitoring and Evaluation Committee and the Social Accountability Committee as established by the Education Pact's official monitoring mechanism. The institutionalized monitoring mechanism, clearly and publicly demonstrating the progress achieved under the pact will enhance transparency in the utilization of public resources invested in the education sector.

Prior Action #8: The Borrower, through the Ministry of Economy, Planning and Development, has issued the regulations for the transparent and results-oriented allocation and management of funds for non-profit organizations.

Evidence: *Resolution 11-2015 of September 14, 2015 from the Ministry of Economy, Planning and Development, that regulates the allocation, use, and monitoring of public funds allocated to the*

60. **The Government adopted a law in 2005 that regulates the nonprofit sector, with the objective to promote citizen participation.** In 2008, a decree was signed establishing the Center for the Development and Promotion of Non-Profit Associations, housed in the MEPyD, with the responsibility to manage the allocation of budgetary resources set aside for the promotion of the nonprofit sector. Despite the existence of a legal basis, the center has lacked the necessary regulatory framework to allocate public resources to the nonprofit sector efficiently and in line with national development priorities and effectively monitor the results achieved by this highly visible sector that is engaged in the delivery of some key public service delivery arrangements.

61. **In the period between 2008 and 2015, the center allocated an average of approximately US\$30 million per year to about 1,500 organizations in the nonprofit sector.** These organizations become eligible for receiving funding following a selection process by a sector ministry. Some organizations address their request for funding directly to the center, while others are recommended by the Ministry of the Presidency. The selection process is largely discretionary and prone to abuse. Among the more than 1,500 beneficiary organizations, 50 absorb 43 percent of the total funds available for the sector. The distribution of the remaining 57 percent of the funds is characterized by significant fragmentation, which considerably limits the capacity of the center to monitor results.

62. **The allocation of public resources attributed to the promotion of the nonprofit sector can be improved significantly by introducing mechanisms for competitive and transparent allocation of resources.** In September 2015, the MEPyD issued a resolution that regulates the funds allocation system, mandates a mechanism for monitoring results, and compels institutions that receive funds to make public their use of funds and the results they achieve. The Bank has been working closely with the MEPyD, providing technical assistance in the development of the guidelines for better allocation and monitoring of resources.

63. **The Expected Result of Prior Action #8 is enhanced transparency in the strategic use of public funds allocated to the nonprofit sector.** Improvements in this context will be measured through the percentage of funds allocated to the nonprofit sector, based on management and/or service delivery agreements that are in line with the newly established guidelines.

Table 3. DPL Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Improved flexibility and transparency in the management of public debt	
<p>Prior Action #1</p> <p>The Government has adopted a Public Debt Law that provides flexibility in conducting liability management operations.</p>	<p>World Bank. 2014. "Public Expenditure Management and Financial Accountability Review."</p> <p>World Bank. 2013. "República Dominicana - JIT Policy Notes 2013: notas de política para República Dominicana." Washington D.C. World Bank Group. (P130538)</p>

¹¹ Non-profit organizations in the Dominican Republic are defined by the Presidential Decree 40-08, articles 2 and 6. This decree applies to "all types of associations created voluntarily by individuals or corporations, that pursue a common interest, and whose activity is non-profit." Associations covered under this definition include public benefit associations, or third party service associations; mutual benefit associations; mixed associations; and associated bodies or non-profit organizations. Trade unions, cooperatives, and temporary enterprise unions are excluded.

	<p>Key findings and recommendations:</p> <p>The debt-to-GDP ratio has been significantly rising and debt service is increasingly burdening public finances.</p> <p>The most important challenge the Dominican Republic faces in terms of external debt management is reducing the cost of financing in international markets.</p>
<p>Prior Action #2</p> <p>The Government’s Public Debt Council has established an Inter-Institutional Technical Committee on Debt charged with the development and implementation of a coordinated debt management agenda.</p>	<p>World Bank. 2014. “Public Expenditure Management and Financial Accountability Review.”</p> <p>IMF. 2014. “Staff Report for the 2014 Article IV Consultation and Second Post-Program Monitoring.”</p> <p>PEFA Secretariat “Report on Public Expenditure and Accountability in Performance Measurement (PEFA) in the Dominican Republic.” 2012.</p> <p>Key findings and recommendations:</p> <p>The need to integrate missing data from the nonfinancial state-owned enterprises, autonomous entities, and municipalities and to expand the coverage of public debt accounting to the financial public sector.</p> <p>International financial institutions agree on the need for resuming the recapitalization of the Central Bank.</p>
<p>Pillar 2: Strengthened planning, budgeting, and execution of public expenditures</p>	
<p>Prior Action #3</p> <p>The Government has initiated the implementation of multiannual, results-based financing in the health sector.</p>	<p>World Bank. 2013. “República Dominicana - JIT Policy Notes 2013: notas de política para República Dominicana.” Washington D.C. World Bank Group. (P130538)</p> <p>World Bank. 2010. “Health Sector Reform APL2 Project Appraisal Document.” (P106619)</p> <p>World Bank. 2015. “Health Sector Reform APL2 Supervision Mission Aide Memoire.” (P106619)</p> <p>CESDEM and ICF International. 2013. Encuesta Demográfica y Salud. Centro de Estudios Sociales y Demográficos (CESDEM), Inner City Fund (ICF)</p> <p>Key findings and recommendations:</p> <p>The objective of the new primary care model is that 80% of the demand is initially attended in primary care centers. However, in practice only 30% of the poor (uninsured or insured through the subsidized regime) has access to public health centers.</p>

<p>Prior Action #4</p> <p>The Government has established a national system for monitoring and evaluation of public programs with national development objectives.</p>	<p>Khattri, N. 2012. “The Institutional Architecture of Country M&E Systems: Some Perspectives for the Dominican Republic.” In <i>Improving the Quality of Public Expenditure in the Dominican Republic</i>. World Bank, 43-46.</p> <p>World Bank. 2014. “Public Expenditure Management and Financial Accountability Review.”</p> <p>Key findings and recommendations:</p> <p>Revising the monitoring and evaluation system conceptual model and establishing of a unified monitoring and evaluation methodology will be advisable at this stage of development in the country systems.</p>
<p>Prior Action #5</p> <p>The Government has developed an e-procurement portal within the General Directorate of Public Procurement of the Ministry of Finance in line with international standards.</p>	<p>Veiga, J., and E. Hazim. 2012. “How Procurement Contributes to Increasing the Efficiency of Public Expenditure in the Dominican Republic.” In <i>Improving the Quality of Public Expenditure in the Dominican Republic</i>. World Bank. 31-34.</p> <p>World Bank. 2014. “Public Expenditure Management and Financial Accountability Review.”</p> <p>Ministerio de Hacienda. 2015. “Informe sobre Avances en la Gestión de Finanzas Públicas a Diciembre de 2013.”</p> <p>Key findings and recommendations:</p> <p>The use of the transactional e-Procurement portal by government institutions is helping improve publication and competition of public biddings, in line with the law.</p>
<p>Pillar 3: Enhanced transparency and monitoring in the management of government operations</p>	
<p>Prior Action #6</p> <p>The Government has established the Inter-Institutional Poverty Committee charged with the transparent and reliable publication of official poverty statistics.</p>	<p>Baez, J. E., M. E. Sanchez Martin, and R. Schutte. 2013. The Dominican Republic's Poverty Committee Experience. Washington D.C. World Bank.</p> <p>World Bank. 2014. “When Prosperity is Not Shared.”</p> <p>World Bank. 2013. “P115175 Dominican Republic Living Standards Measurement -Implementation Completion and Results Memorandum.”</p> <p>Oficina Nacional de Estadística, 2012. “Metodología Oficial para el Cálculo de la Pobreza monetaria en la República Dominicana.”</p> <p>Key findings and recommendations:</p> <p>The formalization of the Inter-Institutional Poverty Committee and the standardization of the procedures conducted toward the regular approval and publishing of poverty figures will avoid political interference in the process.</p>

<p>Prior Action #7</p> <p>The Government has established a mechanism to monitor the progress achieved under the Education Pact.</p>	<p>World Bank. 2013. “República Dominicana - JIT Policy Notes 2013: notas de política para República Dominicana.” Washington D.C. World Bank Group. 88-97. (P130538)</p> <p>Government of the Dominican Republic. 2014. “Pacto Nacional para la Reforma Educativa en la República Dominicana.” Santo Domingo.</p> <p>Key findings and recommendations:</p> <p>Challenges in terms of education quality and outdated curricula highlighted in analytical work were incorporated into the Education Pact.</p>
<p>Prior Action #8</p> <p>The Government, through the Ministry of Economy, Planning and Development, has issued the regulations for the transparent and results-oriented allocation and management of funds for non-profit organizations.</p>	<p>World Bank. 2014. “Patronage or Reform? The Political Economy of Reform in the Dominican Republic. An Institutional and Governance Review.” Washington, D.C.</p> <p>Levy, Brian, and Rachel Ort. 2014. “Problem-Driven Political Economy Analysis: The World Bank's Experience.” Washington, D.C. World Bank. Chapter 4.</p> <p>Key findings and recommendations:</p> <p>Studies highlight the role of the nonprofit and civil societies in enhancing public accountability.</p>

4.3 LINK TO CPF, OTHER BANK OPERATIONS, AND THE WORLD BANK GROUP STRATEGY

64. **The proposed operation is in line with the Bank CPS for the Dominican Republic for FY15–18 (Report No. 89551-DO).** The DPL will contribute to the achievement of the CPS Results Area 4, “promoting equitable, efficient, transparent, and sustainable management of public resources,” and, indirectly, to Results Area 5, “strengthening social services delivery.” The objectives of the operation are aligned with the ongoing Bank operations in the country, as well as the Bank’s strategic goals of reducing poverty and promoting shared prosperity¹².

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

65. **The Government has established a mechanism of building consensus around comprehensive reform processes through pacts, which are intensive, consultative processes that involve the whole of the Dominican society.** The operation is already supporting the Education Pact and the actions it will stimulate in the PFM and fiscal sustainability themes will contribute to the discussions leading up to the Fiscal Pact.

66. **In preparing the operation, the Government has closely consulted with the key actors who define the PFM agenda in the country.** The actions stem from Government initiatives that the Bank has supported in the education, health, and PFM sectors. The DPL policy matrix has been discussed and endorsed through a consultative process that brought together different government

¹² Dominican Republic Health Sector Reform Project APL2 (106619), Dominican Republic Support to the National Education Pact Project (P146831), and Dominican Republic Public Expenditures Management Technical Assistance Project (P125894).

institutions to foster the understanding that improvements in public resource management require holistic approaches across central government agencies as well as the different sectors.

67. **The Dominican Republic has an active community of development partners.** The Bank has contributed significantly to coordinating donor assistance and advancing the body of diagnostic research in the country. The Bank facilitated the appropriate application of the PEFA methodology in the preparation of the PEFA Reports in 2007, 2010, and 2012, which were sponsored by the European Union (EU). During this period, the Bank also played an active role in the Participatory Initiative on Anti-Corruption, which was led by the Government and involved 13 international partners. The Bank has supported the Supreme Audit Institution by facilitating the interactions between this institution and a project implemented by the United Nations Development Program and financed by the EU. The Bank and the EU are supporting PFM reform through a trust fund operation, which started in November 2011 and is closing in December 2015¹³. Many of the actions that this operation embodies stem from the initiatives that are being unfolded under this Trust Fund on Public Expenditure Management.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

68. **The poverty and social impact of the operation is expected to be positive.** A detailed Poverty and Social Impact Assessment is presented in annex 5.

69. **The operation addresses vulnerabilities of different parts of the economy, which will contribute to poverty reduction and shared prosperity.** Pillar 1 policy measures will contribute to preventing excessive indebtedness. Pillar 2 aims at increasing the efficiency and effectiveness of public spending. Weak management of public finances lowers the quality of service delivery and, as the less well-off are often unable to opt out of public services, low-quality public services translate into inequities, constraining the set of human ‘opportunities’ of the poor. The establishment of the NSME will further enhance efficient use of public resources toward the desired ends, reduce waste, and increase coverage of the targeted poor and vulnerable population.

70. **The implementation of results-based financing mechanisms at the primary care level is likely to have a direct positive impact.** Since health coverage is lower for the poor, the focus on primary care is expected to provide incentives for individuals of lower income levels to seek preventive treatment such as medical checkups more often. Data collected through the Clinical Management System¹⁴ showed that, as of May 2014, pregnant women in regions with performance agreements had 35 percent more consultations compared to those in regions without performance agreements (that is, 2.43 relative to 1.8). Regions with performance agreements also had a higher average of checkups (1.98 relative to 1.35) to monitor the growth of children. In the light of this evidence, the implementation of the results-based financing mechanisms is expected to have positive impact in terms of coverage of health services and access to consultations and treatment in Regions 1 through 5. The poor would be the main beneficiaries since more than 80 percent of them opted for receiving treatment through public health facilities in 2013.

¹³ Dominican Republic - Public Expenditures Management Technical Assistance (P125894).

¹⁴ The MOH uses data from the Clinical Management System as its main information system tool to monitor whether health providers in primary care facilities adhere to protocols during consultations.

71. **The impact of the reforms supported under Pillar 3 are expected to be indirect but positive in the medium to long term.** The adoption of mechanisms to enhance accuracy and transparency in the publication of poverty information will allow for a better estimation of the magnitude of the poor population and its geographic location, which should improve policy targeting, monitoring, and program evaluation. A mechanism to formally monitor the implementation of the Education Pact is likely to increase transparency and efficiency in the achievement of its different objectives. Similarly, the efforts to improve the allocation of public resources to the nonprofit sector should enhance the Government's ability to rationalize the strategic allocation of resources while enhancing the accountability of outcomes in a sector that has high visibility in key social sectors that impact the poor and the vulnerable.

5.2 ENVIRONMENTAL ASPECTS

72. **The DPL is expected to have a neutral environmental impact.** The reforms are designed to improve the institutional and policy framework of the Government as they relate to improving the governance of public resources and, as such, have no direct bearing on the environment.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

73. **The PFM and procurement systems of the Dominican Republic are strong.** The 2007, 2010, and 2012 PEFA assessments and the 2009 Update Report on the Observance of Standards and Codes on Accounting and Auditing have acknowledged the progress that the Government has made in advancing reforms in the PFM legal framework. The slow pace of reform implementation that these reports have highlighted has improved with enhanced intra- and inter-institutional coordination in the last few years. While budget execution and monitoring have improved over the years, defragmentation of planning and monitoring of public programs continues to be a challenge. The Budget Law is available in electronic format on the MOF's web page.

74. **The Central Bank has well-established procedures that ensure the integrity of its operations.** In its 2010 Staff Report for the 2009 Article IV Consultation and Request for a Standby Arrangement, the IMF commended the Dominican Republic authorities on the progress made in addressing institutional weaknesses. Annual audit reports of the Central Bank are publicly available. The last audit report on the Central Bank, performed in 2014, contained unqualified (clean) audit opinions on its financial statements.

75. **The MOF will follow the disbursement procedures of the Bank to handle DPL proceeds.** The proceeds of the loan will be disbursed against maintenance of an adequate macroeconomic policy framework, satisfactory implementation of the development policy program, including compliance with prior actions, and will not be tied to any specific purchase. Once the DPL is approved by the Board and the loan becomes effective, the MOF may submit a withdrawal application requesting the Bank to deposit the proceeds of the loan into a designated budget account at the Central Bank that is acceptable to the Bank. Within 30 days of the funds transfer, the MOF will provide the Bank with a written confirmation that the loan proceeds were received into its foreign currency account at the Central Bank and an equivalent amount was credited to the budget management system. If the proceeds of the loan are used for ineligible expenditures as defined in the loan agreement, the Bank will require the MOF to promptly, upon notice from the Bank, refund an amount equal to the amount of the payment. Amounts refunded to the Bank upon such request will be cancelled.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

76. **The results indicators selected to monitor and evaluate implementation progress and the achievement of program outcomes stem from the institutional reform agenda of the particular institution that takes the lead for that prior action.** In all cases, the indicators are already being tracked by the associated institution and are used as results indicator in their institutional progress reports submitted regularly to the presidency or the congress. In this context, the operation builds on the existing monitoring and evaluation systems of the Government, which should ensure that program performance is monitored at no additional burden to the institutions. The General Directorate of Public Credit within the MOF will be the main counterpart with the primary responsibility to monitor program progress and to ensure the accountability of relevant institutions to the commitments made.

77. **Grievance redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a Bank development policy operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaints to the Bank's Inspection Panel which determines whether harm occurred, or could occur, as a result of the Bank's noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS

78. **The overall risk to the operation is assessed as moderate.** The most relevant risks to the achievement of the program development objective include the political and governance environment, the macroeconomic environment, and the institutional capacity for ensuring reform implementation and its sustainability over the medium term.

79. **Risks associated with political and governance environment are moderate.** An amendment to the constitution introduced in April 2015 allows now for two consecutive presidential terms. This is likely to increase competition in the primary elections for the ruling party, which could result in incumbents involved in the political process decreasing the intensity of reform implementation over the next months. While not all risks associated with this dimension can be mitigated, the recent actions undertaken by the Government to establish participatory platforms through the formation of National Pacts to engage in consultations on wide-ranging sectoral reforms in education, electricity and fiscal issues, are likely to ensure some level of risk mitigation. The positive trajectory that the Government's governance reform agenda has displayed in the past few years with support from international partners, and the demand that this has created from citizens for good governance, are also likely to constitute mitigating measures for risks associated with the governance environment. In addition, the proposed DPL operation will help institutionalize mechanisms that consolidate citizen demand for good governance.

80. **While macroeconomic outlook remains positive, a number of downside risks persists that indicate a moderate level of risk in the macroeconomic environment.** The recent improvements in economic performance are partly the result of favorable developments in the global economy, which could reverse as a result of potential external shocks to the macroeconomic environment. On the structural side, slow progress in the finalization of the Electricity Pact could imply that fiscal accounts and competitiveness continue to be dragged. Other risks include a possible exchange rate shock and a potential fiscal slippage during the election cycle in 2016. Dominican Republic has built sufficient buffers through the accumulation of foreign exchange reserves over the past two years, which could serve to mitigate potential macroeconomic risks due to external shocks. A series of PFM reforms that the Government has implemented in recent years, such as the introduction of quarterly budget commitment ceilings and the strengthening of public procurement regulations, are likely to mitigate risks of fiscal slippage in this context.

81. **Risks associated with institutional capacity for implementation and sustainability are moderate.** The Government has shown moderate capacity to design and implement public sector reform programs that span different institutions and a long-term implementation horizon. Risks pertaining to the limited capacity of the Government to implement reforms and sustain them in the medium term would be mitigated through recent Government efforts to build capacity in certain sectors, including in PFM, health, education, and social protection. The proposed operation supports a number of policy actions in PFM, which are expected to be achieved within 2015. The introduction of a results-based financing mechanism in primary care centers was initially piloted with the support of the Bank and implementation continues to be underpinned by the Health Sector Reform Project (P106619). The recently approved Support to the National Education Pact Project (P146831) will complement the country’s efforts in the education sector.

Risk Categories	Rating
1. Political and governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Low
4. Technical design of project or program	Low
5. Institutional capacity for implementation and sustainability	Moderate
6. Fiduciary	Low
7. Environment and social	Low
8. Stakeholders	Low
9. Other	Not applicable
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Results Indicators
Pillar 1 - Improved flexibility and transparency in the management of public debt	
<p>Prior Action #1 The Government has adopted a Public Debt Law that provides flexibility in conducting liability management operations.</p> <p>Evidence:</p> <p>(i) Borrower’s Law No. 548-14 published in the Official Gazette on December 18, 2014.</p>	<p>Expected Result: Enhanced ability to refinance debt under more favorable conditions</p> <p>Indicator:</p> <p>1. Number of refinancing operations performed under the law that result in reductions in overall debt burden.</p> <p style="text-align: center;">Baseline (2014): 0 Target (2016): 1</p>
<p>Prior Action #2 The Government’s Public Debt Council has established an Inter-Institutional Technical Committee on Debt charged with the development and implementation of a coordinated debt management agenda.</p> <p>Evidence:</p> <p>(i) Minutes of the Public Debt Council meeting of June 27, 2014 (Acta 01-2014, resolution VI), which establishes an Inter-Institutional Technical Committee on Debt charged with the elaboration of a debt management agenda; and</p> <p>(ii) Minutes of the first meeting of the Inter-Institutional Technical Committee on Debt of May 15, 2015 (Acta 01-2015)</p>	<p>Expected Result: Improved transparency in debt management by the Dominican Republic Central Bank, the MOF, and the MEPyD</p> <p>Indicator:</p> <p>2. Consolidated public sector debt data publicly available</p> <p style="text-align: center;">Baseline (2015): No data available Target (2016): Data published at least twice a year</p>

Pillar 2 - Strengthened planning, budgeting, and execution of public expenditures	
<p>Prior Action #3 The Government has initiated the implementation of multiannual, results-based financing in the health sector.</p> <p>Evidence:</p> <ul style="list-style-type: none"> (i) Borrower’s Law No. 527-14 of November 12, 2014 (National Budget Law of 2015); and (ii) IFMIS reports documenting the budget commitments that have been made available to designated Regional Health Services (Servicio Regional de Salud) for the implementation of the results-based financing agreements signed in 2013 between the Ministry of Health and Regional Health Services at primary care level in the Borrower’s administrative/geographical Regions 1 through 5 	<p>Expected Result: Improvements in coverage and the estimation of the target population in the health sector, enabling more informed design and monitoring of health interventions</p> <p>Indicator:</p> <ul style="list-style-type: none"> 3. Number of persons registered to the primary health centers in Regions 1–5 since the inception of the implementation of the results-based financing mechanism <p>Baseline (2015): 80,955 Target (2016): 158,455</p>
<p>Prior Action #4 The Government has established a national system for monitoring and evaluation of public programs with national development objectives.</p> <p>Evidence:</p> <ul style="list-style-type: none"> (i) Decree No 267-15 dated September 18, 2015 	<p>Expected Result: Improved results orientation in the planning and execution of public programs</p> <p>Indicator:</p> <ul style="list-style-type: none"> 4. Number of evaluations produced under the NSME on the performance of public programs within the context of the NDS <p>Baseline (2015): 0 Target (2016): 1</p>

<p>Prior Action #5 The Government has developed an e-procurement portal within the General Directorate of Public Procurement of the Ministry of Finance in line with international standards.</p> <p>Evidence:</p> <p>(i) A letter signed by the Minister of Finance dated September 23, 2015, certifying the completion of the software for the e-procurement portal and its introduction in at least 16 budgetary institutions</p>	<p>Expected Result: Improvements in controls in public procurement</p> <p>Indicator:</p> <p>5. Number of budgetary institutions that adopt the e-Procurement portal</p> <p>Baseline (2015): 16 Target (2016): 120</p>
<p>Pillar 3 - Enhanced transparency and monitoring of government operations</p>	
<p>Prior Action #6 The Government has established the Inter-Institutional Poverty Committee charged with the transparent and reliable publication of official poverty statistics.</p> <p>Evidence:</p> <p>(i) Presidential Decree No. 112-15 of April 29, 2015</p>	<p>Expected Result: Transparent and regular publishing of poverty statistics</p> <p>Indicator:</p> <p>6. Number of times official, verified national poverty statistics are published</p> <p>Baseline (2014): 0 Target (2016): 2</p>
<p>Prior Action #7 The Government has established a mechanism to monitor the progress achieved under the Education Pact.</p> <p>Evidence:</p> <p>(i) Presidential Decree No. 84-15 of April 6, 2015, establishing the mechanism for monitoring the implementation of the Education Pact; and</p> <p>(ii) Minutes of the Borrower’s Economic and Social Council second meeting of the Plenary Assembly for the Education Pact of June 15, 2015, outlining the methodology for the application of the monitoring mechanism and the associated accountability and oversight arrangements</p>	<p>Expected Result: Improved achievement of commitments made under the Education Pact</p> <p>Indicator:</p> <p>7. Number of publicly disclosed monitoring reports issued by the Monitoring and Evaluation Committee and the Social Accountability Committee as established by the Education Pact’s official monitoring mechanism</p> <p>Baseline (June 2015): 0 Target (2016): 3</p>

<p>Prior Action #8 The Government, through the Ministry of Economy, Planning and Development, has issued the regulations for the transparent and results-oriented allocation and management of funds for non-profit organizations.</p> <p>Evidence:</p> <p>(i) Resolution 11-2015 of September 14, 2015 from the Ministry of Economy, Planning and Development, that regulates the allocation, use, and monitoring of public funds allocated to the Non-Profit Organizations</p>	<p>Expected Result: Enhanced transparency in the strategic use of public funds allocated to the nonprofit sector</p> <p>Indicators:</p> <p>8. Percentage of funds allocated to the nonprofit sector in the national budget for 2017 based on management and/or service delivery agreements that are in line with the newly established regulations</p> <p>Baseline (2015): 0 Target (2016): 50</p>
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ANNEX 2: LETTER OF DEVELOPMENT POLICY



República Dominicana

Ministerio de Hacienda
"Año de la Atención Integral a la Primera Infancia"

Santo Domingo, D.N

DM/ **6064**

23 SEP 2015

Señor
Jim Yong Kim
Presidente
Banco Mundial
Washington D.C., USA

Referencia: Carta de Políticas de Desarrollo para el Fortalecimiento del Manejo de las Finanzas Públicas

Estimado Señor Kim:

Cortésmente me dirijo a usted, en nombre de la República Dominicana, para manifestar el interés y compromiso del Estado Dominicano en priorizar y acelerar las reformas del sector público que buscan mejorar la eficiencia y el uso de los servicios y el gasto público. De igual modo, se busca la creación del espacio fiscal requerido para proporcionar recursos a los programas prioritarios sociales y programas de inversión esenciales para el desarrollo de nuestra economía. Este préstamo de Políticas de Desarrollo sobre Fortalecimiento del Manejo de las Finanzas Públicas nos apoyará a implementar aspectos claves de estas prioridades.

I. Visión del Gobierno

El Gobierno Dominicano continúa ejecutando una profunda agenda de reformas institucionales que impactan las áreas de presupuesto, planeación del gasto por resultados y ejecución de programas, tesorería, compras y contrataciones públicas, manejo de la deuda pública, educación y transparencia de la información macroeconómica y estadística. Es importante destacar que las reformas mencionadas se encuentran enmarcadas dentro de la Estrategia Nacional de Desarrollo (END), lo cual consolida una visión de largo plazo.

Este préstamo permitirá apoyar de manera concreta tres de los ejes principales identificados tanto en la END, como en la Estrategia de País desarrollada junto al Banco Mundial. Estos tres pilares son: (i) mejorar la flexibilidad y transparencia en la gestión de la deuda pública; (ii) fortalecer la planeación, ejecución y presupuesto del gasto público; e (iii) incrementar la transparencia en las operaciones del gobierno. Este préstamo constituye la primera operación de apoyo presupuestario del Banco Mundial al país desde el año 2012 y es, por tanto, un importante hito.



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II. Conducción Macroeconómica

Basado en el adecuado manejo macro-fiscal que el gobierno dominicano ha venido llevando a cabo en los últimos 3 años, junto al compromiso mostrado en fortalecer el manejo de las finanzas públicas, esta operación responde a acciones de política pública que deberán mejorar el manejo de los recursos del estado en el mediano plazo.

En el 2014, la República Dominicana registró la mayor tasa de crecimiento en la región de Latinoamérica y el Caribe, recuperándose de una desaceleración en el 2011 y 2012. El crecimiento se aceleró de un 4.6% en 2013 a 7.3% estimado durante el 2014. Recientemente, el crecimiento ha sido impulsado por una fuerte demanda interna, con un aumento de la contribución del consumo interno y la inversión para el crecimiento. La fuerte expansión observada en el sector de la educación durante este período, de un 8.4%, es en gran medida resultado de un aumento del gasto del Gobierno en el rubro.

Este crecimiento ha impulsado el empleo y la reducción de la pobreza. Un total de 165,800 puestos de trabajo netos fueron creados entre octubre 2013 y octubre 2014, superando los 51,000 puestos de trabajo creados en 2012 y 70,000 en 2013. Las estimaciones oficiales muestran un notable descenso de un 5% en la tasa de recuento de la pobreza en 2014, para un 35.5%, después de haber estado prácticamente estancada desde el 2011. El Gobierno atribuyó la reducción de la pobreza en 2014 a ingresos más altos en las zonas rurales gracias a proyectos de micro-finanzas y la inversión pública en la construcción de escuelas.

Las vulnerabilidades externas han disminuido significativamente, tras una reducción del déficit comercial en bienes y servicios, a menos de la mitad entre 2011 y 2014, reflejando esto resultados positivos en la exportación y una política de importaciones más contenida. Esta reducción responde en gran medida a una mejora en los términos de intercambio, incluyendo más recientemente, la disminución de los precios internacionales del petróleo. La recuperación económica observada en Europa y los Estados Unidos con respecto a 2012 se ha traducido en una mejora de los ingresos por turismo y las remesas, lo que ayudó a reducir aún más el déficit de la cuenta corriente a un 3.2% del PIB en 2014. La República Dominicana es el quinto país más grande receptor de remesas en las Américas, con remesas brutas que representan el 7.3% del PIB en 2014. Los flujos de inversión extranjera directa han ido en aumento en los últimos cinco años, con inversiones clave en la minería en 2011 y 2012. En 2014, la inversión extranjera directa alcanzó un estimado del 3.5 % del PIB, con una concentración en la fabricación, energía, turismo y bienes raíces.

La República Dominicana sigue atrayendo flujos internacionales de capital, en gran parte basado en la continua estabilidad económica y política, con inversiones de cartera promediando un 0.7% del PIB para el período de 2011 a 2014. Con el fin de responder a los riesgos de potenciales choques externos, el Banco Central ha ido acumulando reservas internacionales brutas por un monto de US \$4.8 mil millones, equivalente a 3.3 meses de cobertura de importaciones en 2014, en comparación con sólo 2.5 meses de importaciones en el 2012.



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Desde el punto de vista fiscal, después del aumento en el déficit del Gobierno Central en 2012, que alcanzó el 6.5% del PIB, el Gobierno ha sido exitoso en su reducción hasta el 3.1% de PIB en 2013 y 2.8% en 2014. El déficit del sector público consolidado, incluyendo el balance cuasi-fiscal del Banco Central, se redujo de 7.9% del PIB en 2012 a 4.6% en 2014. En cuanto a los gastos, la consolidación fiscal se ha mantenido en gran medida por la contención del gasto de capital, mientras que el gasto corriente se reestructuró para priorizar el gasto social.

Se prevé que el crecimiento económico permanecerá sólido en el 2015 y 2016, sobre la base del fortalecimiento de la demanda interna. Sin embargo, se espera una desaceleración progresiva de la tasa de crecimiento en los próximos años, dado que la economía está operando por encima de la producción potencial. El consumo privado será el principal contribuyente al crecimiento en los próximos tres años, ya que los precios bajos del petróleo permiten mayor poder adquisitivo local. En este contexto, se espera que la inflación se mantenga moderada en contraste con la fuerte demanda interna. La contribución de las exportaciones netas a la economía en general dependerá de los resultados económicos de los EE.UU. Por el lado de la oferta, se espera que los servicios, especialmente el turismo y construcción, proporcionen las mayores contribuciones al crecimiento. Estos sectores, junto con la agricultura, seguirán siendo los más importantes generadores de empleo.

III. Programa de Gobierno

Los cuatro pilares de la END se centran en el desarrollo institucional, social, productivo y sustentable. El END exige tres pactos principales (educación, electricidad y fiscal) como mecanismos para forjar un amplio consenso social sobre temas que permanecen vigentes en el diálogo sobre políticas públicas. El Pacto de Educación fue firmado en abril 2014 con todos los actores involucrados en el sector, y se encuentra actualmente en fase de ejecución. El Pacto eléctrico se está debatiendo actualmente, con el objetivo de abordar la prevalencia de las pérdidas técnicas y comerciales que se traducen en persistentes déficits en las empresas eléctricas estatales. Las discusiones sobre el pacto fiscal probablemente se llevarán a cabo luego de las próximas elecciones presidenciales, las cuales se llevarán a cabo en mayo del 2016. En cuanto al objetivo de desarrollo institucional estipulado en la END, el Plan Plurianual del Gobierno para el Sector Público en el período 2013-2016 busca impulsar las iniciativas que permitan a las instituciones del sector público mejorar la gestión de las finanzas públicas y la prestación de servicios. Estas iniciativas incluyen la introducción de prácticas de mediano plazo, basadas en los resultados de planificación y ejecución de las entidades del sector, especialmente en el sector salud, donde con el apoyo del Banco Mundial, los mecanismos de financiación basados en los resultados ya están produciendo resultados prometedores.

Más allá de lo previamente expuesto, el plan busca continuar apoyando las iniciativas dirigidas a mejorar la competencia y los controles en las contrataciones y compras públicas a través de la creación de un portal transaccional, mejorar los controles en el compromiso del gasto público a



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través de la consolidación de las cuentas públicas en una cuenta única de tesorería, la cual se encuentra en su segunda fase de implementación, agilizar la contabilidad pública a través de la introducción gradual de las normas contables internacionales del sector público, la consolidación de las operaciones de gestión financiera pública a través de la expansión de la cobertura del Sistema Integrado de Gestión Financiera, y aumentar la transparencia y la rendición de cuentas en la gestión de los recursos públicos fomentando una mayor participación y vigilancia ciudadana, incluyendo la dedicación de recursos del Presupuesto Nacional para el desarrollo y promoción del sector sin fines de lucro.

Las políticas apoyadas por la operación propuesta están en línea con el programa del Gobierno. Ellas están alineadas con los pilares institucionales y sociales de la END, y tienen como objetivo contribuir a alcanzar una administración pública eficiente, transparente y orientada a resultados. Además de las acciones ya cumplidas en el momento de redactar esta Carta, el Estado Dominicano ofrece al Banco Mundial su firme compromiso con la implementación del Portal Transaccional de Compras Públicas, en relación con la acción previa número 5 de este préstamo de Políticas de Desarrollo para el Fortalecimiento del Manejo de las Finanzas Públicas.

Visto este programa, el soporte financiero del Banco Mundial a través del préstamo de apoyo presupuestario por USD60 millones cobra particular relevancia, y se enmarca dentro de la estrategia de financiamiento del Presupuesto de la Nación.

Luego de agradecer el continuo apoyo brindado por el Banco Mundial, me despido con sentimiento de alta consideración y estima personal.


Lic. Simón Lizardo Mézquita
Ministro



[SEAL]

Dominican Republic

Ministry of Finance

Santo Domingo

September 23, 2015

DM/6061

Mr. Jim Yong Kim

President

World Bank

Washington D.C.

USA

Reference: Letter of development policy for strengthening of public finance management

Dear Mr. Kim,

I am writing to you on behalf of the Dominican Republic to convey the interest and commitment of the Dominican Government to prioritize and accelerate public sector reforms aimed at improving the efficiency and use of services and public expenditure. The goal is also to create the fiscal space needed to provide resources for priority social programs and essential investment programs for the development of our economy. The development policy loan for strengthening of public finance management will help us to address key aspects of these priorities.

I. The Government's vision

The Dominican Government is continuing to implement a far-reaching agenda of institutional reforms affecting the areas of budgeting, results-based expenditure planning and program execution, treasury, public procurement and contracting, public debt management, education, and transparency of macroeconomic and statistical information. It should be noted that these reforms are part of the National Development Strategy (NDS), which embodies a long-term vision.

The loan will provide specific support for three of the main pillars identified in the NDS and in the country strategy implemented jointly with the World Bank. These three pillars are (i) greater flexibility and transparency in public debt management; (ii) improved planning,

execution, and budgeting of public expenditure; and (iii) increased transparency in government operations. This loan is the first budget support operation of the World Bank in the country since 2012 and therefore represents an important milestone.

II. Macroeconomic performance

As a result of the appropriate macro-fiscal management implemented by the Dominican Government over the past three years, together with the demonstrated commitment to strengthening public finance management, this operation reflects public policy actions that should improve the management of State resources in the medium term.

In 2014, the Dominican Republic had the highest growth rate in the Latin America and Caribbean region, recovering from a downward trend in 2011 and 2012. The growth rate improved from 4.6 percent in 2013 to an estimated 7.3 percent in 2014. Recently, growth has been spurred by strong domestic demand, in which domestic consumption and investment for growth accounted for a larger share. The strong expansion observed in the education sector during this period (8.4 percent) is largely the result of increased government spending on the sector.

This growth was good for employment and poverty reduction. A net total of 165,800 jobs were created between October 2013 and October 2014, representing an increase over the 51,000 jobs created in 2012 and 70,000 jobs created in 2013. Official estimates show a considerable reduction (5 percent) in the poverty headcount for 2014, which was 35.5 percent, after remaining practically unchanged since 2011. The Government attributed the 2014 poverty reduction to higher incomes in rural areas resulting from micro-finance projects and public investment in school construction.

External vulnerabilities have declined significantly, after the goods and services trade deficit was more than halved between 2011 and 2014, reflecting positive export results and a more circumscribed import policy. This reduction mainly reflects an improvement in terms of trade, including the recent decline in world oil prices. The economic recovery in Europe and the United States in 2012 led to an increase in revenue from tourism and remittances, which helped to reduce the current account deficit still further, to 3.2 percent of GDP in 2014. The Dominican Republic is the fifth largest recipient of remittances in the Americas, with gross remittances accounting for 7.3 percent of GDP in 2014. Foreign direct investment flows have been increasing over the past five years, with key investments in mining in 2011 and 2012. In 2014, foreign direct investment reached an estimated 3.5 percent of GDP, concentrated in manufacturing, energy, tourism and real estate.

The Dominican Republic continues to attract international capital flows, mainly because of its continuing economic and political stability, with portfolio investments averaging 0.7 percent of GDP for the period from 2011 to 2014. In order to cover the risks of potential external shocks, the Central Bank has accumulated gross international reserves amounting to

US\$4.8 billion, equivalent to 3.3 months' coverage of imports in 2014, compared with only 2.5 months' imports in 2012.

In the fiscal area, following the increase in the Central Government deficit in 2012, which reached 6.5 percent of GDP, the Government succeeded in reducing the deficit to 3.1 percent of GDP in 2013 and 2.8 percent in 2014. The consolidated public sector deficit, including the quasi-fiscal balance of the Central Bank, was reduced from 7.9 percent of GDP in 2012 to 4.6 percent in 2014. As regards expenditure, fiscal consolidation was maintained, mainly by containing capital expenditure, while current spending was restructured to prioritize social spending.

Economic growth should hold steady in 2015 and 2016, thanks to stronger internal demand. However, a gradual slowing of the growth rate is expected over the next few years, since the economy is operating above potential output. Private consumption will be the main contributor to growth over the next three years, since low oil prices improve local purchasing power. In this connection, inflation is expected to remain moderate, in contrast to strong domestic demand. The contribution of net exports to the economy in general will depend on the economic situation in the United States. As regards supply, services, and particularly tourism and construction, are expected to make the biggest contributions to growth. These sectors, together with agriculture, will continue to be the most important sources of employment.

III. The Government's program

The four pillars of the NDS are institutional, social, productive and sustainable development. The NDS emphasizes three main pacts (education, electricity and fiscal) as mechanisms for forging a broad social consensus on issues that remain in the forefront of the dialogue on public policies. The Education Pact was signed in April 2014 with all sector stakeholders and is currently being implemented. The Electricity Pact is currently being discussed, with the goal of addressing the prevalent technical and commercial losses that are causing persistent deficits in the State electricity companies. Discussions on the Fiscal Pact will probably be held after the next presidential elections to be held in May 2016. With regard to the goal of institutional development included in the NDS, the Government's Multiyear Plan for the Public Sector in the period 2013-2016 seeks to promote initiatives enabling public sector institutions to improve public finance management and service delivery. These initiatives include the introduction of medium-term practices based on the planning and execution results of entities in the sector and especially in the health sector, where with World Bank support results-based financing mechanisms are already yielding promising results.

In addition to these measures, the plan aims to continue support for initiatives designed to improve competitiveness and monitoring of public procurement and contracting by the creation of a transaction website, improve monitoring of public spending commitments by consolidating public accounts in a Treasury Single Account, which is in the second implementation phase, streamline public accounting by gradual introduction of international accounting standards in the public sector and the consolidation of public finance management operations by expanding the coverage of the Integrated Financial Management Information System, and enhance transparency

and accountability in the management of public resources by encouraging greater citizen participation and oversight, including allocation of resources from the national budget to the development and promotion of the not-for-profit sector.

The policies supported by the proposed operation are in line with the Government's program. They are aligned with the institutional and social pillars of the NDS and are designed to create an efficient, transparent and results-oriented public administration. In addition to the actions already taken at the time of drafting this Letter, the Dominican Government makes a firm commitment to the World Bank to implement the Public Procurement Transaction Website, in connection with prior action No. 5 of this development policy loan for the strengthening of public finance management.

In view of this program, financial support from the World Bank through the budgetary support loan of US\$60 million is particularly important and reflects the national budget financing strategy.

With gratitude for the continuing support provided by the World Bank, I remain,
Very truly yours,

Simón Lizardo Mézquita

/s/

Minister

ANNEX 3: FUND RELATIONS ANNEX

DOMINICAN REPUBLIC—ASSESSMENT LETTER FOR THE WORLD BANK

(AUGUST 7, 2015)

This letter updates the assessment in the 2014 Article IV Consultation staff report dated April 28, 2014 and the press release from the staff visit of November 3–12, 2014. The next Article IV mission is scheduled for November 2015.

The economy remains dynamic and the economic outlook is favorable:

- *Growth.* The 7½ percent growth in 2014 —among the highest in Latin America and the Caribbean—was broad based, and supported by strong domestic demand and external tailwinds from the US recovery and lower oil prices. As the output gap closes and the economy begins to face capacity constraints, growth is projected to slow to about 5 percent in 2015 and to gradually converge towards its potential of about 4 percent over the medium term.
- *Inflation.* Despite strong domestic demand, inflation was muted by the fall in oil and food prices, and moderate depreciation. Overall inflation fell to 0.6 percent yoy in June 2015 and core inflation to 2.3 percent yoy, but both are projected to recover to the target band of 3–5 percent in 2016.
- *External position.* The external current account deficit narrowed considerably to some 3 percent of GDP in 2014, from an average of 4.5 percent of GDP over the past decade, supported by buoyant tourism inflows, a surge in gold exports, and a lower oil bill. The external deficit is expected to remain in the 3–5 percent of GDP range going forward, financed largely by FDI inflows.
- *Financial system.* The overall banking system remains sound, well-capitalized, and with strong asset quality. Capital adequacy averaged 15 percent at end-May 2015, and non-performing loans continued to decline despite strong credit growth over the past two years, falling to 1½ percent of total loans by end-May.

Risks to the outlook are moderate and broadly balanced. Upside risks stem from a potentially larger demand response to lower oil prices, persistently low energy prices, and stronger tourism demand. At the same time, tighter or more volatile global financial conditions, structurally weaker growth in advanced and emerging economies and, in the longer term, the opening of the US-Cuba tourism, may make policy management more challenging and dampen growth prospects.

Policies have been geared towards achieving the inflation target and continuing the fiscal consolidation:

- The monetary policy stance remained broadly neutral. The tightening of reserve requirements in early 2015 in response to depreciation pressures was broadly offset by the subsequent interest rate cuts —from 6.25 percent in March 2015 to 5 percent in June —aimed at bringing inflation up to its target range. Inflation expectations for 2015 and 2016 remain well-anchored within the authorities' inflation target range.
- A significant fiscal consolidation was achieved during 2013–14. The deficit of the consolidated public sector was reduced to 4½ percent of GDP in 2014 from 5 percent in 2013 and 7¾ percent in 2012. The authorities aim at continued consolidation at the central government level in 2015, but this is expected to be offset by higher deficits in the rest of the non-financial public sector due to the construction costs of new power plants. As a result, the fiscal impulse is expected to be mildly expansionary in 2015 and broadly neutral in

subsequent years. However, there may be pressures to spend the large windfall grant in 2015 (3.1 percent of GDP) while maintaining the existing budget targets, implying that the fiscal impulse this year could turn strongly expansionary.¹

- Public sector debt reached 48½ percent of GDP in 2014, but is expected to dip in 2015 due to the restructuring of the PetroCaribe debt with Venezuela. On broadly unchanged policies, the public debt ratio will rise mildly over the medium term and the financing needs should remain manageable.

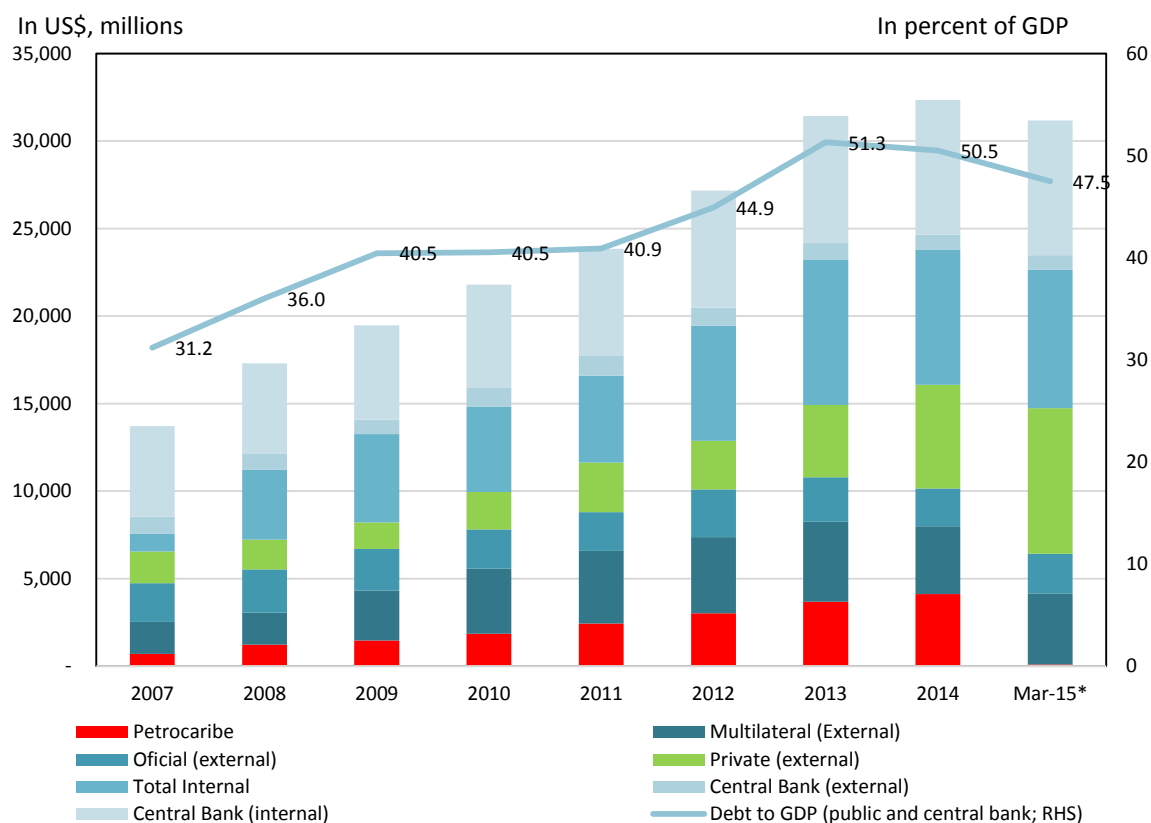
The main challenges going forward remain how best to strengthen policies to build buffers and make growth more inclusive. On the fiscal side, a continued strengthening of the fiscal position would improve debt dynamics and reduce financing needs. In the near term, avoiding an increase in spending in response to this year's windfall grant from debt restructuring would also prevent an excessively expansionary impulse to domestic demand. On the structural side, addressing long-standing problems in the energy sector to reduce their fiscal drag and widening the tax base would create space for a recovery in public investment and social spending that are needed to support inclusive growth. On the monetary side, allowing greater exchange rate flexibility and limiting interventions to episodes of ample external inflows would help the Central Bank improve the international reserves coverage, reinforce external buffers in the face of shocks and strengthen the inflation targeting framework. In view of risks stemming from the global and domestic environment, it would be prudent for the central bank to stand ready to react, including through tighter monetary policy if appropriate.

¹ Following the *PDVSA* debt buy-back operation in January 2015, the face value reduction of the debt was recorded as a capital grant in the fiscal accounts.

ANNEX 4: DEBT SUSTAINABILITY ANALYSIS

1. **Following steady increase since 2007, public debt levels in the Dominican Republic significantly declined after the prepayment of most of PetroCaribe debt stock in January 2015.** Consolidated public sector debt expanded from an estimate of 31.2 percent of GDP in 2007 to 51.3 percent of GDP in 2013, before slightly declining in 2014.¹⁵ In the last week of January 2015, the Dominican Republic prepaid 98 percent of its PetroCaribe debt of just over US\$4 billion at a 52 percent discount, disbursing only US\$1.93 billion—or less than half the amount originally owed to Venezuela. According to official sources, this operation is estimated to result in a decrease in the total debt stock equivalent to 3.3 percent of GDP. This discounted prepayment was financed by an issue of 10- and 30-year maturity bonds in the amount of US\$2.5 billion, under average interest rates of 5.5 and 6.85 percent, respectively. The PetroCaribe stock of debt represented 6.4 percent of GDP in 2014 and now represents 0.1 percent of GDP. This operation resulted in a net decrease in the consolidated public stock of debt of around 3 percent of GDP as of April 2015.

Figure 4.1. Evolution of the Debt Stock by Source



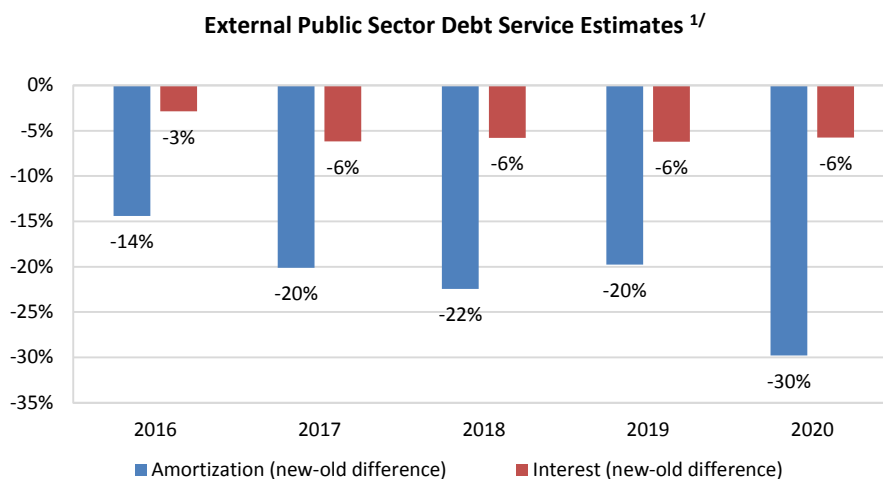
Source: MOF; Department of Public Credit, and Dominican Republic Central Bank.

2. **After increasing to 4.9 percent of GDP in 2014, debt service payments are forecasted to remain closer to 4 percent of GDP from 2015 to 2018.** The authorities estimate that the operation will generate more than US\$550 in financial savings to the country in net present value

¹⁵ These debt stock calculations do not net out intra-government debt, estimated in around 4.75 percent of GDP as of end 2014.

terms. The forecasted amortization and interest payments on external debt for 2016–2020 would decrease by 21 percent and 5 percent, respectively, compared to previous estimates (figure 4.2).

Figure 4.2. Public Sector Debt Service Estimated Reduction Following the PetroCaribe Operation



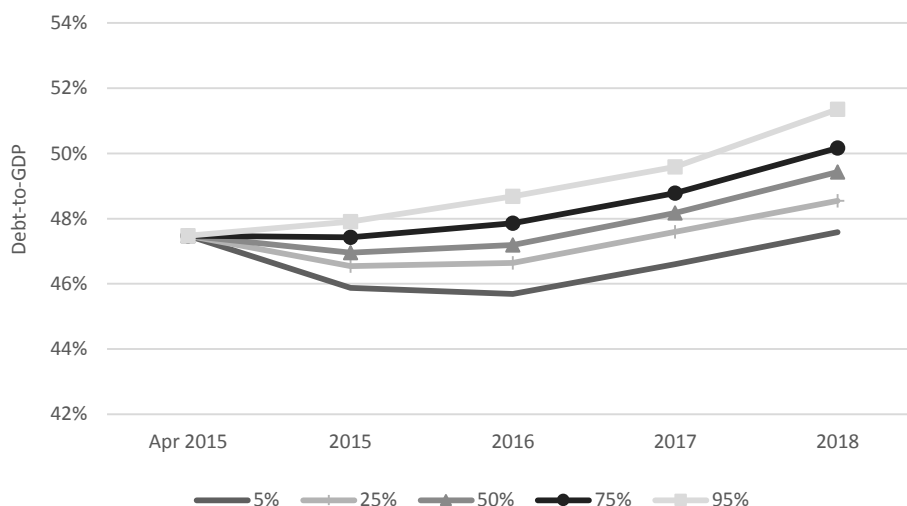
Source: Dominican Republic General Directorate for Public Credit.

Note: 1/ New estimates made in 2015; old in 2014.

3. **A debt sustainability analysis has been conducted for the Dominican Republic.** It draws from the latest available data on debt and fiscal projections by the Dominican Republic Central Bank and the General Directorate for Public Credit. Both a deterministic model and a stochastic approach introducing Monte-Carlo simulations have been applied using the Analytica software. The model draws from the framework built by Ley and Ngoc-Bich (2010), with certain modules and scenarios adapted to reflect the specificities of the Dominican economy. A consolidated stock of debt that includes central government debt, nonfinancial public sector debt, and Dominican Republic Central Bank debt is considered. It is worth noticing that nonfinancial public sector debt information as presented by the General Directorate for Public Credit may be partial (lacking data on the electricity sector holding and municipalities, among others).

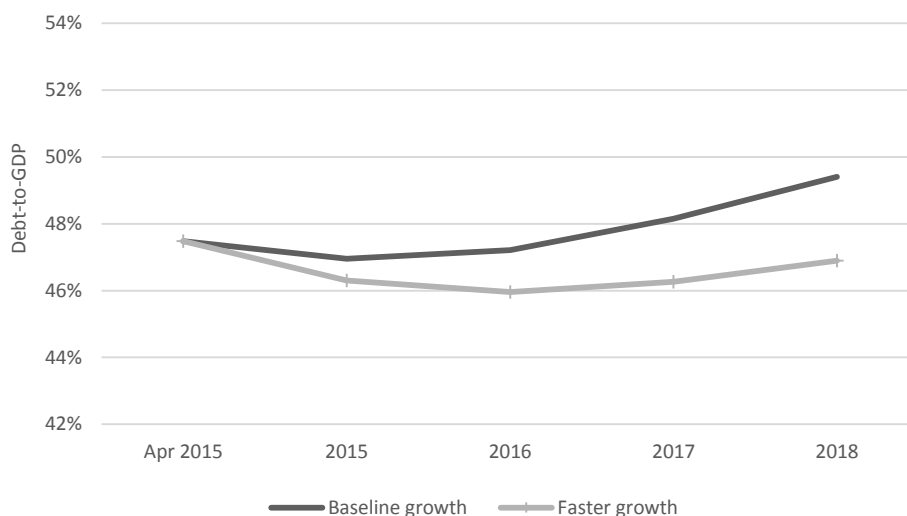
4. **The baseline scenario indicates that the forecasted path for the Dominican consolidated public sector debt stock will be slightly above 49 percent by 2018.** Drawing from the macroeconomic and fiscal forecasts presented in section 2.1, a debt sustainability exercise for the Dominican Republic has been elaborated. In the baseline scenario, public sector debt stock will remain between 47.4 and 51.2 percent of GDP in 2018 (90 percent probability). This scenario assumes an average growth rate of 4.6 percent during 2015–2018 and a central government deficit of 2.7 percent of GDP. In an alternative scenario of faster economic growth, public debt levels will in fact decline. Assuming a 1.5 percent higher growth rate in the projected real GDP, debt to GDP is expected to fall to 46.8 percent of GDP by 2018, compared to 49.3 percent of GDP under the baseline growth rate projection.

Figure 4.3. Probability Bands under Debt Sustainability Analysis



Source: Dominican authorities and Bank staff forecasts using Analytica.

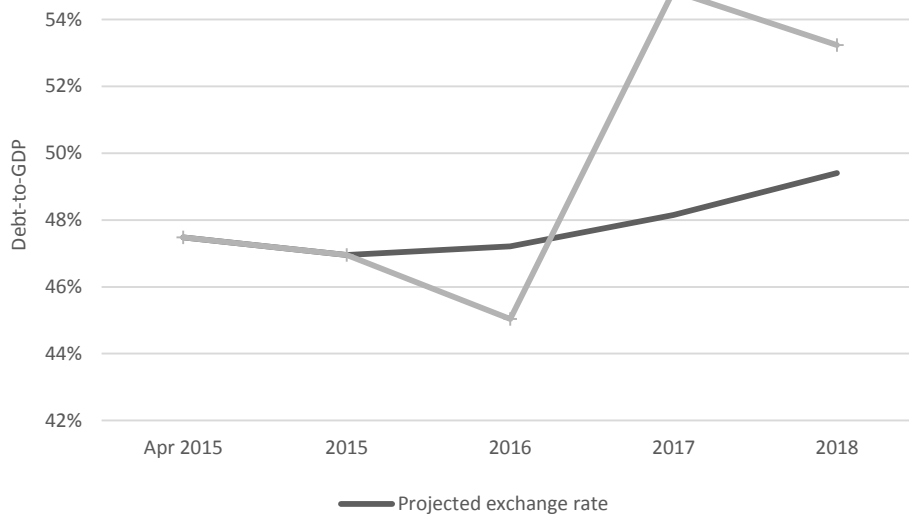
Figure 4.4. Alternative Growth Rate Scenarios



Source: Dominican authorities and Bank staff forecasts using Analytica.

5. Should the Dominican peso suffer from an exchange rate shock, the public debt path could turn unsustainable. Under this unlikely scenario, the model assumes a 30 percent depreciation of the Dominican peso with respect to the U.S. dollar in 2016 that is maintained in time. This will result in the debt-to-GDP ratio increasing to 55.2 percent in 2017 and 53.1 percent in 2018. The observed strength of the U.S. dollar over the past months may make it difficult to maintain the ‘crawling peg-like’ exchange rate regime maintained by the Dominican Republic. To mitigate the risk of a potential exchange rate shock, the Dominican Republic will need to strengthen its external position and ensure that reserve levels remain above 3 months of imports.

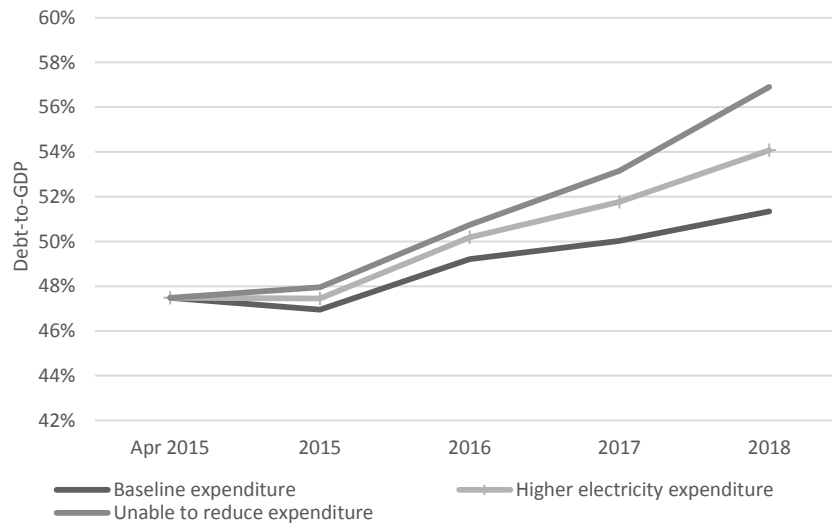
Figure 4.5. Public Debt Trajectory with Exchange Rate Shock



Source: Dominican authorities and Bank staff forecasts using Analytica.

6. **Maintaining a positive primary balance at the central government levels over the next three years will help ensure the sustainability of public debt.** Assuming an increase in capital expenditure to 6 percent of GDP occurred in 2016, as in 2012, the debt-to-GDP ratio will rise to 56.7 percent of GDP by 2018. With the remaining expenses contained, the public sector debt path will still be sustainable. However, when capital expenditure in 2016 is combined with a power sector deficit that is higher than expected (+0.5 percent of GDP in the coming years) or the inability to contain other current spending, the trend of public debt to GDP becomes markedly upward. This illustrates the importance of effective expenditure management from the Government, as well as the need to remain committed to observing fiscal deficit targets, as it has been the case in 2013 and 2014.

Figure 4.6. Alternative Expenditure Scenarios



Source: Dominican authorities and Bank staff forecasts using Analytica.

7. **In conclusion, under the most likely scenarios, public sector debt in the Dominican Republic seems to follow a sustainable path.** The recent liability management operation that resulted in the prepayment of most of the PetroCaribe debt stock has resulted in a significant decrease in debt service payments over the next five years. Under the baseline, the consolidated public sector debt stock of the Dominican Republic will slightly increase in that period while remaining sustainable. Two main risks could threaten the sustainability of public finances: (a) an exchange rate shock scenario and (b) a potential fiscal slippage in 2016. The Central Bank is building up reserves to reduce the probability of the former, whereas a series of PFM-related measures that are being introduced will help in mitigating the latter risk. Some of the measures supported by the proposed operation in the areas of debt management and planning and budgeting of expenditures also help in supporting the sustainability of public finances.

ANNEX 5: POVERTY AND SOCIAL IMPACT ASSESSMENT

1. **This Poverty and Social Impact Assessment (PSIA) is developed according to Bank guidelines and is designed to provide an analysis of the potential welfare effects of the Government's program.** In particular, it documents the expected impact of each of the policy actions with regard to the key objectives of this operation: (a) improve flexibility and transparency in the management of public debt; (b) strengthen planning, budgeting, and execution of public finances; and (c) enhance transparency in government operations. The PSIA analyzes how these outcomes have potential effects on poverty, shared prosperity, and equity.

2. **Quantitative analyses specific to the policies supported by this operation were performed along with a literature review of previous studies relevant to the prior actions.** Useful information to define parameters and assumptions to perform the quantitative analysis, as well as to organize the literature review, was gathered from previous evaluations by the Bank and other multilateral organizations and from academic research papers. Several World Bank Group Global Practices also provided valuable inputs for this assessment.

3. **The PSIA summarizes the results of studies analyzing the potential effects on poverty and equity of the proposed prior actions for strengthened management of public finances and enhanced transparency in government operations.** Findings suggest that the policies supported by the first pillar will have positive impacts on poverty reduction and equity in the Dominican Republic. Avoiding potential financial crises will likely have positive poverty and social impacts as social spending is typically one of the first items to be cut when crises hit and the poor are more vulnerable to crises. The second pillar concerning strengthened planning, budgeting, and execution of public expenditures, including key social policies, is likely to allow for more efficient use of resources toward the desired ends, avoid waste, and increase impact and coverage of the targeted poor and vulnerable population. Finally, Pillar 3 will enhance transparency and monitoring in government operations, whose impact on poverty is likely to be indirect.

Pillar 1: Improved flexibility and transparency in the management of public debt

Prior Action #1: The Government has adopted a Public Debt Law that provides flexibility in conducting liability management operations.

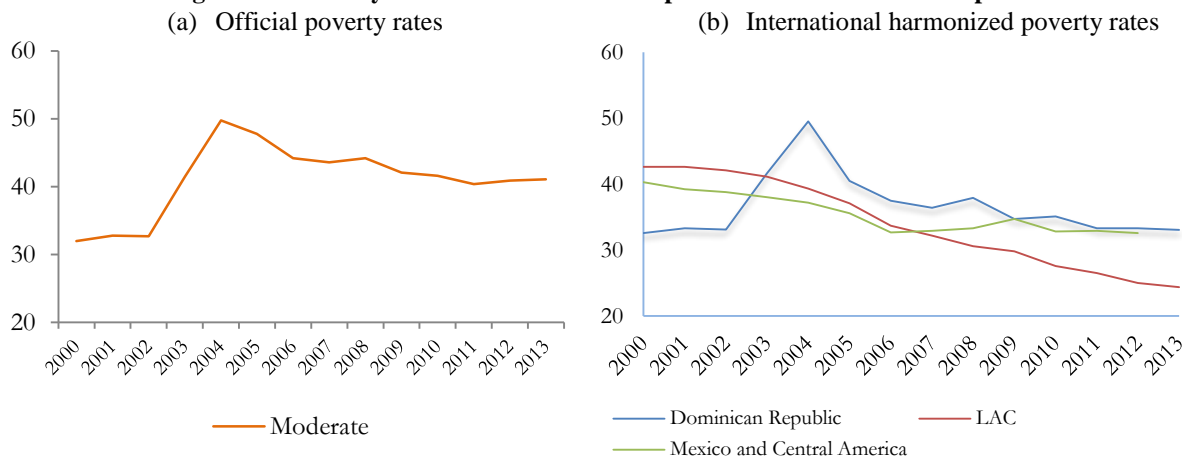
Prior Action #2: The Government's Public Debt Council has established an Inter-Institutional Technical Committee on Debt charged with the development and implementation of a coordinated debt management agenda.

4. **Pillar 1 policy measures are expected to have a positive or neutral poverty and social impact.** The improvements in terms of debt management under this pillar aim at ensuring the sustainability of public debt and enhancing debt management. This policy is likely to prevent excessive indebtedness, attain debt sustainability, and hold debt quality and costs at desirable levels to avoid excessive volatility and potential crises. Crises typically limit a government's budget and crowd out other expenditures that are much needed by the poor. Thus, avoiding potential crises will likely have positive poverty and social impacts as social spending is typically one of the first items to be cut when crises hit and the poor are more vulnerable to crises (World

Bank 2000).¹⁶ In addition, high levels of debt can slow down growth and transfer the financial burden to future generations (Reinhardt and Rogoff 2010). On the other hand, countries with limited resources may borrow today to invest in physical and human capital (by investing in roads, schools, health centers, and so on), in the context of institutional and governance strengthening, expecting to improve equity conditions and the foundations for robust, sustainable, and inclusive growth in the future.

5. Given the country’s high poverty rates and weak equity conditions, better management of its debt will mitigate potentially negative impacts of future crises. In 2013, official poverty (41.2 percent) remained above the level recorded at the start of the 2000s (30 percent). This jump in poverty is largely explained by the domestic crisis that hit the Dominican Republic in 2003–04, which pushed poverty up to 50 percent. Even though the Dominican Republic has one of the highest growth rates in Latin America and the Caribbean, it still faces one of the highest poverty rates. Comparable poverty levels for the region in 2013, measured at US\$4 per day, indicate poverty in the Dominican Republic (33 percent) was 8 percentage points higher than the average of Latin America and the Caribbean (25 percent). This contrasts with the start of the 2000s where poverty in the Dominican Republic was lower than in Latin America and the Caribbean. In addition to limited poverty reduction, people have had limited opportunity for social and economic mobility to reach the middle class, with just under 2 percent of the population in the Dominican Republic experiencing upward socioeconomic mobility, in contrast to 41 percent in Latin America and the Caribbean (figure 5.1). Improvements in terms of debt sustainability, together with other measures included in the proposed operation aimed at strengthening public finances, will help prevent internal crises such as that of 2003, which had a dramatic negative impact on poverty.

Figure 5.1. Poverty Has Fallen Less than Expected in the Dominican Republic



Source: Dominican authorities.

Source: LAC Equity Lab tabulations of the Socio-Economic Database for Latin America and the Caribbean
 Note: LAC = Latin America and the Caribbean.

¹⁶ World Bank. 2000. *World Development Report 2000/2001: Attacking Poverty*. Washington, D.C.

Pillar 2: Strengthened planning, budgeting, and execution of public expenditures

Prior Action #3: The Government has initiated the implementation of multiannual, results-based financing in the health sector.

6. **The expansion of the implementation of the results-based financing mechanisms at the primary care level by the MOH aims at enhancing management and monitoring of commitments and outcomes in the health sector.** In 2009, the MOH signed the first two performance agreements based on indicators that measure both coverage and quality of care with two Regional Health Services, Regions 6 and 8, and then expanded it to Region 7 in 2013. The MOH currently aims at expanding the performance agreements to at least four more regions, given the success of the first pilots. Since the implementation of these agreements, these three regions have increasingly demonstrated improvements in coverage of vaccination rates and prenatal care that are based on the protocols of care. This reform is likely to have positive poverty and social impacts because while health coverage for most services is not significantly different across income quintiles, improving the quality of health services in public facilities is expected to benefit the poor who tend to use public facilities more than the rich. The focus on primary care will likely provide incentives for individuals of lower income levels to seek preventive treatment such as medical checkups more often.

7. **Despite recent improvements, some health outcomes in the Dominican Republic are weak compared to countries with similar levels of public expenditures.** The country has one of the highest maternal mortality rates in the region (150 per 100,000 live births), well above the average for Latin America and the Caribbean (81 per 100,000 live births). At the same time, although infant and under-five child mortality rates have decreased, they are also relatively high by regional standards—22 (infant) and 28 (under-five) per 1,000 live births in the Dominican Republic, versus 19 (infant) and 22 (under-five) per 1,000 live births on average for Latin America and the Caribbean.

8. **The bottom 40 percent, which corresponds to the poor, primarily seek medical attention in public sector facilities.** In 2013, the majority of individuals who reported a disease or condition that required medical attention used public sector facilities (70 percent), an increase of nearly 20 percent since 2007 (57 percent). In contrast, private medical providers were used by less than a third and over a quarter of the population in 2007 and 2013, respectively. The poorest seek public sector facilities more than the average Dominican: in 2013 over 80 percent went to a public center for treatment, an increase of 12–14 percentage points for the bottom two quintiles since 2007 (figure 5.2). Even though less than a third of the richest quintile use this service, the share has increased since 2007, especially for the fourth income quintile where nearly two-thirds use public health centers. All regions except Region 5 increased use of public health facilities during this period (figure 3).

9. **In terms of prenatal care, coverage has remained nearly universal across all regions and income groups.** Between 2007 and 2013, the share of women visiting a gynecologist/obstetrician for prenatal care increased by nearly 8 percentage points while the share visiting a general doctor decreased, possibly indicating that women are seeking more specialized care during their pregnancies. This pattern was consistent throughout all regions but increased the most for the poorest groups. For the bottom 40 percent in Region 6, the share of women receiving

prenatal care from a gynecologist/obstetrician more than doubled, going from 31 percent in 2007 to over 64 percent in 2013. Similarly, in Region 8 the same share increased by nearly a third. Nonetheless, nearly 2 percent of women belonging to the bottom 40 in Region 6 received no prenatal care, a rate that remained unchanged since 2007 (figure 5.4). The share of births delivered at public medical facilities actually decreased from 77.5 percent in 2007 to 71.5 in 2013 (figure 5.5). This has been compensated partly by the increase in use of private facilities for births.

Figure 5.2. Percentage of Individuals who were Treated in a Public Health Facility 30 Days before the Survey, by Year and Income Group

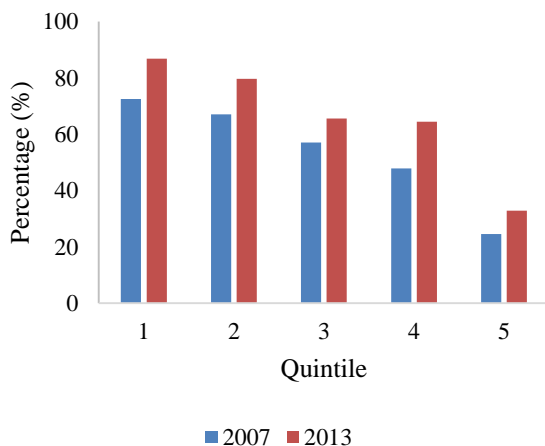
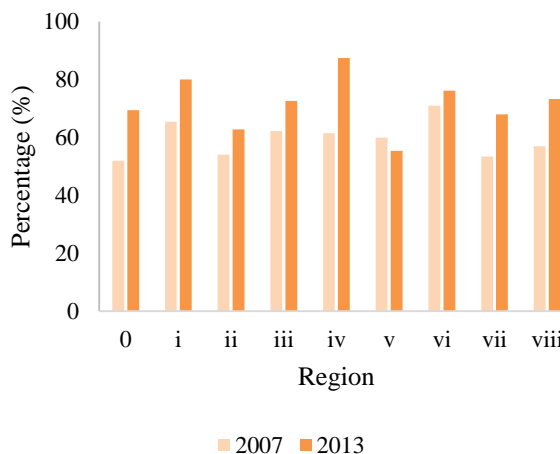


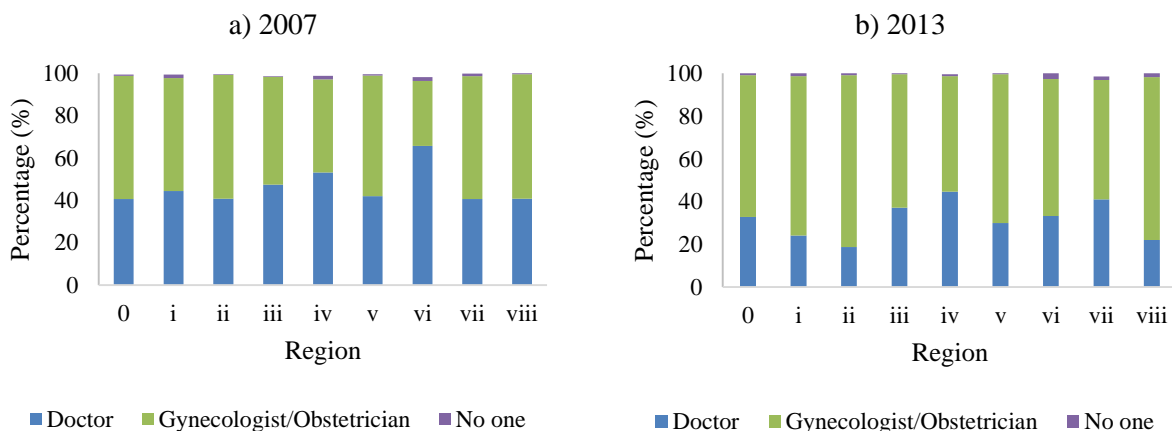
Figure 5.3. Percentage of Individuals who were Treated in a Public Health Facility 30 Days before the Survey, by Year and Region



Source: Demographic and Health Survey (DHS) 2007 and 2013 surveys, Dominican Republic.

Note: For 2007, public health facilities include hospitals from the public network of the *Secretaría de Estado de Salud Pública y Asistencia Social* (SESPA) and rural clinics from SESPA. For 2013, these include the public network of the Ministry of Public Health (MSP) and rural clinics and primary care centers from the MSP.

Figure 5.4. Prenatal Care for the Bottom 40 by Region and Year

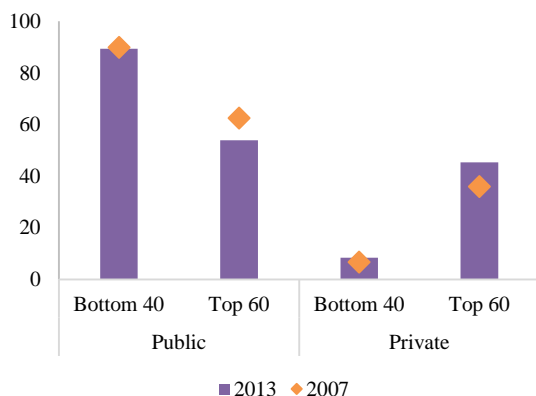


Source: DHS 2007 and 2013 surveys, Dominican Republic.

Note: The bottom 40 represents individuals in the two lowest quintiles of the income distribution, whereas the top 60 represents individuals from the top three quintiles.

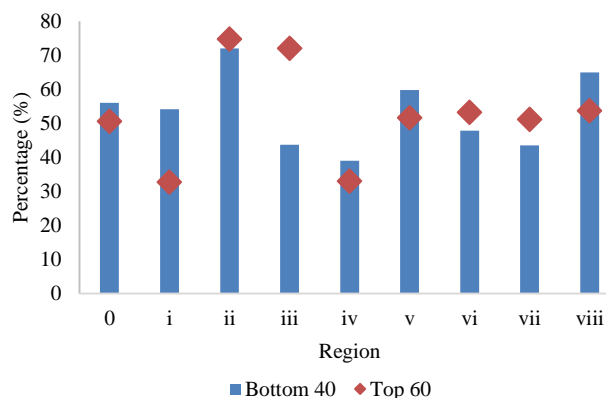
10. **Vaccination rates have moderately improved in regions with performance agreements with the MOH.** Between 2007 and 2013 the vaccination rate for children aged between 18 and 29 months (53 percent) remained unchanged. Similarly, in both years, only 6 percent of children were not fully immunized. During the same time period, five of the nine health regions in the country saw a decrease in their immunization rates. Region 6 and 8, those with performance agreements with the MOH, had approximately 45 and 56 percent, respectively, of children with all the required vaccines.¹⁷ By 2013, these rates increased by nearly 3 percentage points for Region 6 but remained unchanged for Region 8. The lowest income quintile also remains the socioeconomic group with the lowest vaccination rate (42 percent). However, as of 2013 the second income quintile had the highest vaccination rate (65 percent) an increase of nearly 15 percentage points from its 2007 rate. In Region 8, the bottom 40 percent of the income distribution observed greater vaccination coverage (65 percent) than the top 60 percent (53 percent). This increase in coverage is consistent with the improvements in vaccination observed in rural areas and the Government's efforts to improve health indicators for vulnerable populations.¹⁸ Nonetheless, the bottom 40 still presents lower coverage than the top 60 in five of the nine health regions in the country, indicating that more needs to be done to improve health outcomes.

Figure 5.5. Births by Type of Facility by Income Group, 2007 and 2013



Source: DHS 2007 and 2013 surveys, Dominican Republic.

Figure 5.6. Vaccination Rates, Children 18–29 months old, 2013



Source: DHS 2013 survey, Dominican Republic.

Note: The figure includes children aged 18–29 months who received all the required vaccines.

11. **Evidence suggests health providers in primary care facilities with performance agreements are adhering to protocols during consultations.** As of May 2014, the Clinical Management System¹⁹ showed that pregnant women in regions with performance agreements had 35 percent more consultations compared to those in regions without performance agreements (that is, 2.43 relative to 1.8). In addition, the percentage of pregnant women who had more than three prenatal consultations in performance-based regions was double the percentage of those in regions

¹⁷ All basic vaccinations include BCG, measles (or triple viral), and three doses each of DPT (or pentavalent) and polio vaccine (excluding polio vaccine given at birth).

¹⁸ In rural areas, vaccination coverage increased from 55.5 percent in 2007 to 63.6 percent in 2013.

¹⁹ The MOH uses data from the Clinical Management System as its main information system tool to monitor whether health providers in primary care facilities adhere to protocols during consultations.

without performance agreements (23 relative to 10.7 percent). Regions with performance agreements also had a higher average of checkups (1.98) to monitor the growth and healthy development of children (1.35). Overall, the quality of registration of consultations for pregnant women was more complete in the regions with performance agreements. However, registrations for monitoring growth and development of young children were more complete in the regions without performance agreements.²⁰

Prior Action #4: The Government has established a national system for monitoring and evaluation of public programs with national development objectives.

12. **The establishment of the National System for Monitoring and Evaluation aims at increasing capacity for medium-term expenditure planning and execution through the regular monitoring and evaluation of the performance of sectoral programs.** By tracking public policies' results in social sectors, this reform is likely to allow for more efficient use of resources toward the desired ends, avoid waste, and increase impact and coverage of the targeted poor and vulnerable population. Targeted programs provide, on average, 25 percent more resources to the poor than would random allocations. Nonetheless, design and implementation details matter for distributive outcomes.²¹ It is worth noting that the NSME will be one of the main tools to measure progress on the NDS.

Prior Action #5: The Government has developed an e-procurement portal within the General Directorate of Public Procurement of the Ministry of Finance in line with international standards.

13. **Improved controls in public procurement are likely to result in savings to the public finances and if the procurement criteria are robust, improvements in service delivery can be achieved.** The introduction of the e-Procurement portal is expected to help reduce the number of noncompetitive biddings. By increasing competition in public procurement processes and more rigorously assessing whether competing firms meet the requirements, the Dominican Republic is expected to attain savings in public expenditure, the extent of which is difficult to extrapolate ex ante. This will generate some additional room to guarantee or even expand social spending, potentially generating a positive impact, provided the quality standards of the projects granted by competitive bidding are equal or higher than under single source processes.

14. **In summary, under Pillar 2, the enhancement of the management of public expenditure through improved medium-term planning, budgeting, and execution is likely to have a positive poverty and social impact.** These reforms are expected to strengthen the quality of public spending, improve the provision and quality of public goods and services, and, ultimately, expand economic opportunities, especially among the poor and vulnerable.

²⁰ World Bank. Forthcoming (2015). "Programa de Apoyo a la Reforma del Sector Salud 2 (PARSS2) Componente 1: Análisis de algunas evidencias."

²¹ Coady, Grosh, and Hoddinott summarize targeting outcomes from 122 targeted social assistance programs in 48 countries.

Pillar 3: Enhanced transparency and monitoring of government operations

Prior Action #6: The Government has established the Inter-Institutional Poverty Committee charged with the transparent and reliable publication of official poverty statistics.

15. **The adoption of the mechanisms to enhance accuracy and transparency in the publication and use of poverty information is expected to enhance the quality of information to effectively monitor poverty and other social welfare indicators.** It is likely to improve the process of poverty calculation and allow for better estimation of the magnitude and size of the poverty population as well as their geographic location to improve policy targeting, monitoring, and program evaluation. The Dominican Republic has made substantial progress in improving its official methodology to measure poverty. The country set up a technical poverty committee in 2010 to ensure consensus around the official poverty measurement methodology and consistency with international best practices. However, the committee was an informal body of national and international institutions and thus lacked the necessary legitimacy. A formal institutionalization of the committee through a presidential decree ensures the sustainability of transparent, best-practice methodologies for estimating household welfare, poverty, and shared prosperity. It will also prevent political interference in the publication and use of poverty information.

16. **As the poverty measurement methodology in the Dominican Republic solidifies and progress is measured transparently and communicated accurately and clearly, policymakers can focus more on addressing the country's key challenges of high poverty and on promoting prosperity for all.** Poverty estimates provide governments the necessary information to target interventions aimed to alleviate poverty, monitor and evaluate relevant projects and policy interventions, and evaluate the effectiveness of institutions whose objective is to help the poor. Thus, a clear process to produce credible and transparent measures is central for governments to track progress toward achieving their social agenda. The methodology and dissemination of data used is crucial to guarantee the quality of the poverty estimates and reliability of policies designed to target poverty. A trustworthy and high-standard measure must be technically solid, operationally viable, and easily replicable. Through the Inter-Institutional Poverty Committee, the Dominican Republic will be able to periodically update the coherence and comparability of the measurement process to allow for comparisons across time and regions to design more effective policies.

Prior Action #7: The Government has established a mechanism to monitor the progress achieved under the Education Pact.

17. **The adoption of the mechanism to formally monitor the implementation of the Education Pact is aimed at enhancing management and monitoring of commitments and results made under the Education Pact.** This reform is likely to increase transparency and efficiency on the attainments of the different objectives of the Education Pact, including universalization of pretertiary education and expansion of tertiary education, ensuring adequate financing and infrastructure for the system, reforming the teaching career and improving the quality of teaching, and adopting a culture of evaluation and accountability. Provided that the different components of the pact are progressive (universalization of pretertiary education and the construction of 28,000 classrooms to extend full-time schooling to the entire system in the next

few years, to improve access for students attending public education), this reform will likely have a positive poverty and social impact.

Prior Action #8: The Government, through the Ministry of Economy, Planning and Development, has issued the regulations for the transparent and results-oriented allocation and management of funds for non-profit organizations.

18. **Regulation for transparent, results-oriented allocation and management of funds for the not-for-profit sector is likely to have an indirect positive impact on poverty and shared prosperity.** Approximately 1,500 nonprofit organizations exist in the Dominican Republic and receive close to U\$30 million per year through the MEPyD. These organizations play an important role as providers of services to vulnerable individuals and communities. Through the new competitive and transparent allocation of resources, nonprofit organizations will have stronger incentives to deliver good-quality services and minimize resource waste. This reform is expected to strengthen the quality of public spending in the nonprofit sector and thus improve the provision and quality of goods and services provided by these entities and ultimately expand economic opportunities for the poor and vulnerable.