



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-May-2020 | Report No: PIDC29654



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Dominican Republic	P174145	Dominican Republic COVID-19 Crisis Response Support (P174145)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	18-Jun-2020	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Dominican Republic	Ministry of Finance		

Proposed Development Objective(s)

The Program’s development objective is (i) support the capacity of the health system; (ii) provide income support to poor and vulnerable households; and (iii) reduce the tax burden on households and firms during the COVID-19 crisis.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

This proposed single-tranche US\$100 million Development Policy Operation (DPO) will support the efforts of the Government of the Dominican Republic (GoDR) to limit the adverse impact of the COVID-19 pandemic on its hard-won gains in poverty reduction and shared prosperity. The GoDR is responding to the pandemic and the associated economic slowdown with a program focused on public health, social spending, and support to the private sector. The package ramps up health spending and service delivery, providing resources to the Government to finance coronavirus tests and equipment and supplies for in-patient hospital care, and providing tax benefits to the health sector. It also includes a substantial expansion of social support, scaling up existing programs to deliver emergency cash transfers to vulnerable households and workers, and developing new programs to protect independent workers. In addition, it sets the stage for the recovery by supporting the private sector through tax breaks and liquidity support provided through the banking system. The proposed operation supports the GoDR as it strives to cope with the devastating impact of the COVID-19 pandemic by (i) strengthening the capacity of the national healthcare system, (ii) providing income and nutrition support to poor and vulnerable households, and (iii) maintaining liquidity for firms.

Relationship to CPF

This operation is also in line with the Country Partnership Strategy (2015-2019) results area aiming at strengthening social services and equipping the Government with tools to build resilience to external shocks. In agreement with the authorities, the under preparation new CPF will be finalized with the new administration after elections (postponed from May to July 2020 on account of COVID19). The CPF will align with country and SCD priorities and is expected to maintain a strong focus on building human capital and resilience.

C. Proposed Development Objective(s)

The development objective of the proposed DPO is to (i) support the capacity of the health system; (ii) provide income and nutrition support to poor and vulnerable households; and (iii) reduce the tax burden on households and firms during the COVID-19 crisis and facilitate tax compliance. The operation provides financing to support the GoDR in facing a shock of an unprecedented nature, the fiscal cost of which could not be anticipated, and with the potential of devastating effects on the economy and poverty. The measures supported by the operation are aligned with the three components of the government's program: upgrading the healthcare system, strengthening social protection policies, and providing liquidity support to the private sector.

Key Results

Measures supported by the proposed DPO are expected to contribute to important results under each of its three pillars. Pillar 1 (Support the Capacity the Health System) will contribute to a reduction in the time required to issue contracts for health-related equipment by the Ministry of Health; increased transparency and accountability in health emergency procurement processes; increase the capacity of the health system to treat COVID-19 cases; and facilitate the acquisition of medical articles identified by the WHO as essential to combat COVID-19. Pillar 2 (Provide Income and Nutrition Support to Poor and Vulnerable Households) will help provide income and nutrition support through cash transfer programs for vulnerable households and families affected by the crisis. Pillar 3 (Reduce the tax Burden on Households and Firms during the COVID-19 Crisis and Facilitate Tax Compliance) will contribute tax measures aimed at facilitating tax compliance and providing temporary financial relief to households and businesses.



D. Project Description

The proposed operation will support the efforts of the GoDR to limit the adverse impact of the COVID-19 pandemic on its hard-won gains in poverty reduction and shared prosperity. The operation is part of a donor-coordinated initiative with the Inter-American Development Bank (IDB), the French Development Agency (AFD), and the Japanese International Cooperation Agency (JICA). Short-term measures supported by the operation are aligned with the three components of the government’s program: upgrading the healthcare system, strengthening social protection policies, and providing liquidity support to the private sector.

Under Pillar 1, the operation supports the rapid strengthening of the Dominican Republic’s (DR) health system capacity to deal with the COVID-19 pandemic. Measures supported include i) authorizing the use of emergency processes for the purchase and contracting of goods, works and services related to health care; ii) approving measures related to the COVID-19 emergency that strengthen transparency and accountability mechanisms for resources associated with procurement and contracting management; iii) establishing a COVID-19 Contingency Plan to respond rapidly to the increasing number of COVID-19 cases; and iv) establishing measures to release the importation of key medical articles from the import duty and tax on goods and services during the emergency period.

Under Pillar 2, the operation aims to support GoDR’s efforts to mitigate the impact that the crisis can have on household income and poverty rates. Measures supported are i) the creation of a job stability and income program, the “Workers Technical Support Fund” (FASE), to support vulnerable formal workers and offset the economic impacts of the COVID-19 pandemic. This program is expected to benefit at least 700,000 formal employees with a wage subsidy between c. US\$93 and c. US\$158. Support will also be provided for the creation of the “Stay Home” program to deliver an emergency transfer to vulnerable households identified through the existing “Eating First” program and the national Unique Beneficiary System database.

Pillar 3 of the operation supports measures to provide temporary financial relief to households and firms by deferring tax payments. This will help cushion the immediate impact of the crisis on households and increase firm liquidity to help them stay in business and retain their employees. At the same time, as the measures do not reduce the total tax liability of the firms, it is not expected that they will have a negative impact on overall tax collection levels.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (MoF) is the main agency counterpart of the World Bank for the proposed operation. The Ministry of Economy, Planning and Development (MEPYD) is also involved in the coordination and monitoring of the proposed operation for its position as Governor of the World Bank. The implementation of the program remains a shared responsibility with the MoF, the MEPyD, and other agencies involved, such as the Ministry of Health and the Gabinete de Coordinación de Políticas Sociales. The monitoring and evaluation of the operation will also be carried out through the ongoing policy dialogue and technical assistance in the context of the COVID-19 crisis response.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Poverty and social impact - The overall poverty and social impacts of the policies supported by the program are



expected to be positive. The anticipated scale of this crisis makes timely adoption of protection and recovery measures key in containing potentially large impacts on employment, household income, and poverty, and would shorten the transition back to the pre-crisis livelihoods. Mitigating measures to reduce the impact of the crisis on the poor and vulnerable can yield long-term benefits, which is a lesson from the most recent economic crisis in the country. In the early 2000s, when poverty rates increased from 32 to 50 percent and added more than 1.5 million people to the number of poor, it took more than 10 years to go back to pre-crisis poverty levels. The “Stay Home” cash transfer combined with the FASE program are expected to reduce the size of poverty increases as a result of the crisis by 8 percentage points, equivalent to preventing 800,000 people from falling into poverty.

Environmental, Forests, and Other Natural Resource Aspects

The prior actions supported by this operation are likely to have significant and positive impact on the long-term welfare of the overall population and do not pose an environmental risk to DR’s environment, forests, water resources, and natural habitats. Measures included in this operation are not causing significant direct environmental effects as they are primarily aimed at supporting the GoDR to face shocks of an unprecedented nature. Nevertheless, the increase in medical waste derived from the increment of people treated through the enhancement of medical services supported by the DPO as a whole is the main environmental and public health concern. Indirect long term negative environmental impacts could be generated if the medical waste generated by the increased capacity to provide health care is not adequately managed. Solid waste management is inadequate across the DR due to deficient waste collection and disposal. The DR enacted in 2009 a Medical Waste Management Regulation (Reglamento sobre los Desechos y Residuos Generados por los Centros de Salud y Afines). While the 2009 Regulation calls for medical waste separation and treatment before it reaches sanitary landfills, according to the National Statistics Institute (ONE), the medical waste management remains untreated and toxic and organic waste is intermingling in the deposit areas increasing the risk for the spread of infectious diseases. According to ONE, the Ministry of Public Health does not record data on the management of hazardous wastes or wastes that are generated in health facilities. As such, the resulting increase in medical waste will likely cause higher levels of air, ground and water pollution in areas such as La Duquesa dump site in Santo Domingo and increased risk of health risks to population near the dumpsites or benefiting from collecting waste from the dumpsites. The World Bank under its Regional Caribbean initiative on Solid Waste Management (SWM) and Marine Environment Protection is providing cross-sector collaboration spanned across solid waste management, integrated urban planning, disaster risk management and water resource management, and environmental conservation. The initiative includes policy recommendations to enhance regional coordination, maximize resources, and assist with transboundary marine pollution control at the source.

G. Risks and Mitigation

The overall risk of the proposed operation is assessed as Substantial, owing to the High Macroeconomic risk and to the Substantial risk for the categories Political and Governance, Institutional Capacity for Implementation and Sustainability, and Fiduciary. The GoDR’s program of measures to address the COVID-19 impact was made public. The risk of diverting the resources mobilized towards objectives that may be foreign to the emergency is mitigated by the fact that measures were announced, and the methodology to roll them out publicly outlined, notably the cash transfer and the jobs support measures. Upcoming general elections may affect the Government response plan and delay some activities although most of the latter are expected to be implemented before the next Government takes charge. In addition, the World Bank has maintained consultations with political stakeholders.

Macroeconomic risks are deemed high due to uncertainties regarding duration and costs of the GoDR’s policy responses and to the risk that contingent liabilities materialize. The proposed operation is subject to significant downside risks. The



financing gap is based on revised budget projections that were prepared during a period of economic uncertainty and may not fully account for contingent liabilities. These projections assume a fall in tax revenue of 2 percentage points and additional public expenditure of 1 percentage point of GDP compared to the original projections. Depending on the length of the COVID-19 crisis, there may continue to be a financing gap for a longer time, the size of which may need to be reassessed later in the year. The contingent liabilities of the liquidity support provided by the Central Bank to the commercial banks appears manageable as private banks are well capitalized with low NPLs. The authorities have announced plans for implementation of the Guarantee and Financing Fund jointly with the Central Bank, but the legal framework has not yet been finalized.

The authorities have taken measures to mitigate the risks. Monetary policy is eased gradually allowing space for further policy measures. Foreign exchange rate interventions have smoothed a depreciation of the currency. Current reserves, credit lines and available SWAP lines provide adequate financing to continue existing monetary policies. Further monetary policy easing will also smoothen market access for domestic bonds if continued fiscal stimulus is required. The experience from the 2009 crisis as well as updated economic models suggest risks are limited. However, a deepening international crisis as well limited experience with the economic impact of social distancing measures lead to high-risk macroeconomic risk classification.

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APPROVAL

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Approved By

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