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PROJECT PERFORMANCE ASSESSMENT REPORT

DOMINICAN REPUBLIC

PUBLIC FINANCE AND SOCIAL SECTOR DEVELOPMENT POLICY LOAN
(IBRD-77790)

June 27, 2013

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Dominican Pesos

2008	US$1.00	$35.5
2009	US$1.00	$36.1
2010	US$1.00	$37.9
2011	US$1.00	$38.8

Abbreviations and Acronyms

ADESS	Administradora de Subsidios Sociales (Social Subsidies Administration)
APL	Adaptable Program Loan
CDEEE	Dominican Corporation of State Electrical Enterprise
DPL	Development Policy Loan
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
IFIs	International Financial Institutions
PPAR	Project Performance Assessment Report
PRA	Programa de Reduccion de Apagones (Program for Reduction of Blackouts)
SIUBEN	Sistema Unico de Beneficiarios (Unified System of Beneficiaries)

Fiscal Year

Government: January 1st – December 31st

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Contents

This report was prepared by Juan J. Fernández-Ansola, who assessed the project in November – December 2012. The Task Manager for the report is Navin Girishankar. The report was peer reviewed by Eric Bell and panel reviewed by Nils Fostvedt. Yezena Yimer provided administrative support.

Boxes

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Principal Ratings

	*ICR**	*ICR Review**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Substantial	Significant	Significant
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that seeks to independently verify the findings of the ICR.

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IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://ieg.worldbankgroup.org).

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Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This is the Project Performance Assessment Report for the US$150 million Dominican Republic Public Finance and Social Sector Development Policy Loan, which was approved on November 17, 2009 and closed on December 31, 2010, as scheduled. The loan was fully disbursed on December 3, 2009.

This report was prepared by Juan J. Fernández-Ansola, IEG consultant, who visited Santo Domingo November 19-24, 2012 and met with officials from the Ministry of Education, Ministry of Health, Ministry of Finance, Ministry of Economy and Planning, Single System of Beneficiaries (SIUBEN), Social Subsidies Administration, the Social Cabinet, and representatives of International Financial Institutions. This project performance assessment report is based on information gathered during that mission, as well as on other sources, such as the World Economic Forum's Competitiveness Report and the United Nation's Millennium Development Goals. The IEG mission wishes to thank the authorities and all other counterparts for their cooperation and hospitality during the mission.

This report is part of a group of project evaluations that contribute to the planned review of World Bank support to middle-income countries. The countries in the PPAR cluster—Grenada, Dominican Republic, Jamaica, and St Lucia—represent an important group of middle-income countries that face the particular problems of smaller states.

Following standard IEG procedure, the report was sent to the government of Dominican Republic for comments, but no comments were received.

Summary

The $150 million Public Finance and Social Sector Development Policy Loan responded to the adverse effects of the global financial crisis on the Dominican Republic in 2009. The role of this operation, together with financing from other international financial institutions (IFIs), was to mitigate the worst effects of the crisis. After four years of one of the strongest economic performances in Latin America, the global crisis hit the country hard causing GDP growth to slow from 5½ percent in 2008 to 3½ percent in 2009. Moreover, prospects were for a further slowdown in a setting where private market perceptions had deteriorated markedly. Substantial financial support from the World Bank, the International Monetary Fund (IMF), and the Inter-American Development Bank helped reverse the economic decline. But key structural issues—such as reform of the electricity sector—needed to be addressed for a sustainable recovery. This operation also addressed such issues, and promoted better targeting of social policies and improvements in expenditure efficiency.

The contribution of the Bank to the financing package consisted of two development policy loans (DPLs) for the health sector, and the public finance and social sectors, respectively. Preparing two development policy operations simultaneously taxed the administrative and institutional capacity of the country, which had little experience negotiating and implementing them. The urgency to finalize the negotiations to deliver the external financing militated against opening a dialogue on longer term reforms, and promoted a focus on issues that were already part of the ongoing dialogue.

The early results of the coordinated effort by the international financial institutions were striking on the macroeconomic front. Supported by a fiscal stimulus of about 1 percent of GDP, the economy expanded by 7½ percent in 2010 and 12-month inflation remained contained at 6 ¼ percent, against a central bank target of 6-7 percent.

The *objectives* of the operation to improve the efficiency of budget processes, especially for social protection and public health, and fiscal sustainability were *substantially relevant*. They fit well with the government agenda to protecting the most vulnerable sectors in the face of a crisis and opening space in the budget for social protection expenditure while maintaining the budget deficit on a sustainable trend. The operation's design relevance was *modest,* primarily because it lacked metrics or indicators to measure progress towards better expenditure efficiency.

Monitoring and evaluation (M&E) was not fully designed by the operation, as input, output, and impact evidence anticipated in the design was not collected and analyzed in a sound and timely manner by the Bank or the government. This in turn led to blind spots in supervision of the project. Monitoring was mostly done by the Bank and its partners, particularly the IMF through its regular program reviews. The M&E that required government involvement was less effective, and the Bank team missed opportunities to modify certain targets because of poor follow-up on the development of the operation's indicators. This outcome points to the need for M&E to be an integral part of the design of the operation, rather than relying on other partners, which may or may not be reliable in monitoring the activity.

The **outcome** of the project is rated ***moderately satisfactory***. It achieved its objective to promote fiscal sustainability. The Program to Reduce Blackouts was eliminated and replaced by targeted subsidy programs. This was a significant achievement because of the political resistance to the measure, which achieved permanent fiscal savings. Although the target of households for BONOLUZ, the new targeted electricity subsidy, was not achieved in 2010, today over 500,000 households receive BONOLUZ. While electricity tariffs were raised for a combined 25 percent in 2009 and 2010, transfers to the electricity sector increased due to non-payment by consumers, higher consumption, and higher world oil prices. The objective to continue improving the efficiency of budget processes was modestly achieved. While efforts were launched —program budgeting for results; improving the targeting of social program and subsidies; controlling inefficient budget transfers—results are taking much longer to materialize than the one-year period of this operation. At the same time, the operation launched policies in the education, health, and social sectors that have been followed up by other Bank interventions and are starting to show results now.

The **risk to development outcome** is ***significant***. Cutting budget transfers to the electricity sector remains a challenge because of vested interests, and political pressures have been too strong to introduce sustained reforms in the electricity sector. It also remains unclear how the incipient reforms on budget processes are being cemented institutionally and if they can be sustained. **Bank performance** is rated ***moderately satisfactory***. The Bank responded to a financing crisis in the Dominican Republic and coordinated closely with other IFIs. The design of the operation displayed a tension between the Bank's corporate imperative to deliver funding quickly and the development imperative that required embedding the program design within a longer term reform concept. Taking into account this tension and the time constraint under which the program was prepared, there was a degree of care in program preparation except for M&E that was given a cursory treatment and performed poorly. **Borrower performance** is rated ***moderately satisfactory***. The government did not have much experience with preparing and implementing a social sector development policy loan, and this operation represented a major challenge. Government ownership and commitment was strong from the outset in light of the significant exceptional financing needs of the budget. The Social Cabinet—led by the Vice-President—coordinated effectively the main effort of design and implementation of the operation.

Since the operation closed at the end of 2010 macroeconomic policy has gone off-track, underscoring the significant risk to development outcomes. The IMF stand-by arrangement was suspended in mid-2011, mainly because the Dominican Republic did not bring electricity prices into alignment with cost recovery as envisaged. A new government elected in 2012 has not made completely clear its intentions with respect to increasing electricity tariffs, but the consensus seems to be that tariffs will not be increased. Owing significantly to transfers to the electricity sector, the deficit is estimated at 8½ percent of GDP in 2012, against the target of one-to-two percent of GDP in the stand-by arrangement's original macroeconomic framework. The IMF left a strong message in a November 2012 visit to Santo Domingo, emphasizing the need for fiscal consolidation to sustain macroeconomic stability.

Lessons

Five lessons emerge from implementation of this operation:

- The imperative to respond at a time of crisis can be in conflict with starting a dialogue on requirements for longer term reform.

- An overly complex design—typical of a normal development policy loan—without short term indicators that can be monitored (for reforms that will take far longer than the duration of the operation) can detract from efficacy.

- In light of the previous two lessons, a development policy loan may be the wrong instrument to support a country in a financial crisis.

- The lack of updated political economy analysis can hamper reforms and Bank value added.

- A critical mass of Bank interventions in a country can act as a "shock absorber" for shortcomings in individual operations and help deliver results at times of crisis.

Caroline Heider
Director-General
Evaluation

1. Background and Context

MACROECONOMIC BACKGROUND

1.1 During 2004-08 the Dominican Republic experienced a remarkable economic performance as a result of buoyant external conditions, fairly good policies, and private sector optimism about the country's prospects. Real gross domestic product (GDP) grew by 40 percent—the best performance in a quarter century, and one of the largest expansions in Latin America; annual inflation fell from over 50 percent to 4½ percent; fiscal deficits were cut in half to 4½ percent of GDP; and the public debt ratio was reduced from 60 percent of GDP in 2004 to 35 percent in 2008 (IMF 2010).

1.2 The global financial crisis hit the country hard in 2009: capital inflows slowed down considerably, external demand became much weaker, and domestic demand also slowed, with private investment and public spending showing the largest deceleration. As a result, annual GDP growth slowed to 3½ percent from 5½ percent in 2008, and prospects were for a further slowdown in a setting where private market perceptions of the Dominican Republic had deteriorated significantly.

1.3 In this context, in mid-2009 the authorities approached the World Bank, the Inter-American Development Bank, and the International Monetary Fund (IMF) in the hope of obtaining prompt external financing that would cover the significant balance of payments need, finance a widening fiscal gap, and pursue a countercyclical policy that would contain the adverse effects of the global financial crisis on economic growth. The budget in particular was in dire need of financing to avoid a drastic adjustment that would have led the economy into recession.

1.4 The resulting program of financial support for the budget amounted to US$1.1 billion in 2009 and US$0.6 billion in 2010. The budget support financing commitments were split virtually evenly for 2009-10 between the World Bank, the Interamerican Development Bank, and the IMF (Table 1). In addition the IMF committed a further US$1.3 billion to strengthen the international reserves of the central bank. The main channels for World Bank financing in 2009 were the Public Finance and Social Sector development policy loan (DPL), assessed in

Table 1. Program Support to the Dominican Republic from International Financial Institutions for Budget and International Reserves (billion US$)

	Budget Support		*Central Bank International Reserves*		
	2009	**2010**	**2009**	**2010**	**2011**
World Bank	0.4	0.2	--	--	--
Interamerican Development Bank	0.4	0.2	--	--	--
IMF	0.3	0.2	0.4	0.7	0.2

Source: IMF, 2010.

this document, and the first programmatic DPL (series of three) on Performance and Accountability of the Social Sectors.[1]

1.5 In the absence of such exceptional multilateral financing, the economy would have stagnated in 2009 and probably contracted in 2010. The multilateral program supported a macroeconomic framework containing a significant fiscal stimulus to offset slowing private sector demand and a drastic slowdown of capital inflows. The macroeconomic situation improved significantly following the coordinated multilateral effort. Supported by a fiscal stimulus of about 1 percent of GDP, the economy expanded by 7½ percent in 2010; 12-month inflation remained contained at 6¼ percent against a central bank target of 6-7 percent for the year. The external current account deficit widened somewhat to 7½ percent of GDP in 2010 (IMF 2011).

1.6 The World Bank, IMF, and Inter-American Development Bank teams coordinated closely their interventions and discussions with the government. A key focus of the cooperation was on electricity sector reform, an important part of the World Bank- and IMF-promoted structural reforms. Discussions also included broad macroeconomic issues including fiscal and tax administration reforms, as well as poverty alleviation and external financing. In the fall of 2009, teams from all three international financial institutions met with President Leonel Fernández to establish a path for electricity sector reform, which eventually led to the official reform strategy of the government.

THREE KEY AREAS: ELECTRICITY, SOCIAL PROTECTION, AND TAXATION

1.7 Mitigating the impact of the global crisis on growth was a priority of the financial program supported by the international financial institutions (IFIs). The consolidated public sector exhibited a large deficit in 2008, but the IFIs and the government still felt that there was a strong case for relaxing the fiscal stance further in the latter part of 2009 and the first half of 2010, and then start a process of fiscal consolidation once the world economy strengthened and the economy got closer to capacity. Three sets of issues underpinned fiscal policy for this period, and were core policies of this operation to attain the objectives of improved fiscal sustainability and better public expenditure efficiency:

- **Social protection**. The government was concerned that the coverage of existing safety nets was insufficient to mitigate the impact of the global crisis on the most vulnerable. Thus under this operation it intended to strengthen the social protection response and open fiscal space for such a response. Increases in spending would be focused on social expenditures to protect the poor and on capital expenditures for the greatest fiscal multiplier effect. The World Bank team wanted to make sure that social protection would at least be maintained, and that services in health and education financed by the operation would be covered by a "budget lock" that would protect them from spending cuts.
- **Electricity sector reform**. A large share of budget transfers was taken up by the electricity sector for many years, and absorbed over 1 percent of GDP in 2009. The

[1] Subsequently the Bank Executive Board approved a three-phase Adaptable Program Loan for the Health Sector.

government had spent about 2¾ percent of GDP in electricity subsidies in 2008, or about US$1.2 billion. If resources of this magnitude had instead been allocated each year as transfers to the poor (about 750,000 families), each family would have received US$130 a month—going a long way toward eliminating poverty in the country (about 30 percent of the population in 2009). Such a transfer would have been more than enough to eliminate extreme poverty. The electricity sector was thus a macroeconomic problem with large social opportunity costs, and electricity reform was rightly seen as crucial to free up resources for social and infrastructure investment (Box 1).

- **Taxation.** The decline in tax revenues observed in 2008-09 was partly attributed to tax evasion and other abuses in the context of the introduction of tax exemptions aimed at improving competitiveness. Tax exemptions were estimated by the Ministry of Finance to exceed 5 percent of GDP in 2009. Maintaining tax revenue would thus require the development of a tax compliance strategy including sustained efforts to improve tax and customs administration, and rationalization of tax exemptions.

Box 1.The Electricity Sector

The electricity sector in the Dominican Republic has a long track record of poor performance, leading to losses measured in percentage points of GDP covered by the budget. The sector has failed to deliver acceptable service, and blackouts are common in most parts of the country. Virtually all large companies, hotels, and hospitals have installed large and costly power units that allow them to operate even when the power grid fails. These units impose a sizable financial and social cost.

Major structural impediments in the sector are related to its poor management structure:

Non-technical losses: About 40 percent of distributed electricity is lost in transit, primarily due to more than 30 percent of electricity that is used illegally and for free. A large number of consumers do not have meters at consumption points.

Restrictive contracts: Generators charge government-owned distributors energy prices much in excess of their own costs, and with around 10 percent financing charge on floating debt. A debt of US$1 billion—not unusual in past few years—will carry a financial cost for the budget of about US$100 million a year.

Tariff structure to consumers: Electricity prices charged to consumers have no adjustment mechanism to reflect changes in costs.

Subsidy structure: Subsidies to consumers were poorly targeted until 2009, with moral hazard for distributors due to the expectation that the government would cover financial losses. The Programa de Reducción de Apagones (PRA)—the official blackout reduction program—provided subsidies on a geographic basis until eliminated in 2009, promoting the settlement of firms in areas with subsidies. As a result most of the government electricity subsidy went to firms, families, and individuals that did not need it.

Weak incentives for reducing losses: The incentives are weak for distributors to reduce losses because the government will cover them, and generators know that they will eventually be paid, including a substantial financial charge of about 10 percent a year. Distribution companies have low operating efficiency and no incentive to improve it.

Weak financial planning: Unnecessary delays in fulfilling financial commitments result in transfers to electricity generators that are very costly for society.

Source: IMF 2010.

PAST WORLD BANK AND OTHER DONOR SUPPORT

1.8 Over the past 30 years the World Bank has had a difficult relationship with the Dominican Republic (IEG 2003). Up until the late 1980's the dialogue was uneasy due to a combination of country sensitivity to external interference and Bank skepticism about country commitment to reform. The Bank then stepped-up its dialogue with and lending to the Dominican Republic in the early 1990's but pulled back again a few years later because it believed that the country faced intractable questions of governance and institutional capacities. The Bank thus missed the opportunity to assist the country during the crucial first few years of reform (1992-94). The Bank tried to maintain the dialogue in the years that followed but did not manage to regain the influence over policies it had before. Moreover, the Bank felt that the government's stabilization and reform program was too gradual and selective in terms of the sectors to be liberalized. The consequence of a stop-and-go relationship was that a number of critical development issues (for example, reform of the electricity sector) remained in the doldrums. A three-tranche Power Sector Development Policy Loan planned to be disbursed over a one-year period (June 2005-April 2006) was extended twice—the second time to March 2009—and became a halting effort to comply with conditionality over four years. The first and second tranches required waivers regarding electricity tariff adjustments, and the third tranche was cancelled due to lack of progress on agreed electricity sector reforms.

1.9 World Bank support has been directed primarily to investment projects, technical assistance, and the electricity sector. Following the 2003 financial crisis in the Dominican Republic, the Bank concentrated on projects that would strengthen public institutions, stabilize the economy and improve competitiveness, increase social equity, and improve access to social and basic infrastructure services. As of September 30, 2009 the Bank's total commitments amounted to US$326.2 million of which US$234 million remained to be disbursed. The loan portfolio consisted of ten loans: seven for investment, two for technical assistance, and an Emergency Recovery Loan (electricity sector). Except for the Power Sector DPL, the Dominican Republic had limited experience with Bank development policy lending, and the two negotiated as part of the IFI financing package (Public Finance and Social Sector—the operation now being assessed—and Performance and Accountability of the Social Sectors) were the first encompassing public sector and social sector reforms (Box 2). The International Finance Corporation (IFC) had a portfolio of US$370 million in 2009 covering projects in healthcare, telecommunications, transport, tourism, agribusiness, financial and investment sectors, and free trade zones.

1.10 The IMF had an ongoing relationship with the Dominican Republic through surveillance of economic policies and post-program monitoring; there was no program in place in mid-2009. The relationship included a substantial amount of technical assistance in the fiscal, financial, and statistical areas. As of October 9, 2009 the Inter-American Development Bank's portfolio amounted to US$604.7 million spread over a wide range of investment projects, of which US$303.1 was undisbursed.

Box 2: The Relationship of the Public Finance and Social Sector Loan to Other World Bank Operations

This operation had synergies with three other World Bank operations: the Performance and Accountability of Social Sectors DPL series, the two-phase Adaptable Program Loan for the health sector, and the Social Sectors Investment Program. These interventions in health, education, and the social sectors targeted improvements in quality and coverage of services, while the main objective of the operation assessed in this report was to improve expenditure efficiency.

The Performance and Accountability of Social Sectors series of three DPLs (US$370 million over three fiscal years)—the first of the three presented to the Board on the same date of this operation—aimed to enhance the performance of the social sectors, improve budget management, and enhance transparency and accountability to users of social services.

The objectives of the two-phase Adaptable Program Loan for health (US$60 million) was to improve the quality of public spending in the health sector. The first phase was ongoing at the time of this operation.

A two-phase Social Sector Investment Program—the first phase ongoing at the time of this operation—for about US$30 million to strengthen the safety net for the poor.

2. Objectives, Design, and their Relevance

2.1 Against a history of ambivalence regarding economic reform in the Dominican Republic, particularly in the electricity sector, the Public Finance and Social Sector Development Policy Loan faced the opportunity to re-launch the Bank's policy dialogue on broad reform priorities with the authorities, and cement the Dominican Republic's policy ownership in the midst of its dire need for budget financing. The challenge required the right selectivity of interventions, a proper balance of ambitiousness and realism in the policy measures, and an appropriate monitoring and evaluation framework that would allow timely follow-up of policy and economic developments.

Objectives

2.2 The operation's stated objective was to support the Dominican Republic in key aspects of its program, namely: "(i) to continue improving the efficiency of budget processes generally and of social protection and public health, in particular; and (ii) to promote fiscal sustainability through the consolidation of overall sector balances and debt management." (pp. 26-27 of the program document) The overall objective of the loan was not revised.

Relevance of Objectives

2.3 The objectives of this operation were aligned with the government's reform agenda, the National Development Strategy, and the four strategic objectives of the 2010-13 Country Partnership Strategy: (i) strengthen social cohesion and improve access to and quality of services; (ii) promote competitiveness in a sustainable and resilient economic environment; (iii) enhance the quality of public expenditures and institutional development; and (iv) build capacity and constituencies for reform. The operation helped the government to prioritize spending, thus avoiding a sharp increase in poverty as had been the case in previous crises.

2.4 The government faced three key issues on the social and budget spheres in the midst of a global financial crisis that had already slowed down the economy significantly:

- Protecting the most vulnerable sectors of society from an external shock that was affecting the whole country.
- Opening space in the budget for essential social protection transfers.
- Guaranteeing revenues that would finance the cost of social protection.

It had to address these issues without compromising fiscal and debt sustainability.

2.5 The first operation objective—to improve budget processes—addressed the government's priorities and fiscal requirements by targeting an improvement in the efficiency of spending, especially on health, education, and social protection. The second objective—fiscal sustainability—aimed at making space for key spending to protect the most vulnerable within a financing constraint that would be consistent with sustainable government debt. Relevance of objectives is thus rated *substantial*.

Design

2.6 The design of the operation was a one-tranche operation aimed at supporting the Dominican Republic's budget in the face of increasing vulnerabilities resulting from the global financial crisis. As part of a crisis response, the operation complemented the efforts of the other IFIs to mitigate the impact of the crisis on the country.

POLICY AREAS

2.7 The two policy areas were directly aligned with the two objectives. The first policy area of the operation was to continue **improving the efficiency of budget processes** generally and of social protection and public health in particular. The following activities would support this area:

- Introducing and expanding performance-informed budgets in the Ministries of Health, Education, Agriculture, and Labor. These ministries would undertake pilot results agreements setting out strategic plans, objectives, and performance indicators.
- Better targeting of social and other expenditures. The key measures in this area would reduce the ceiling of subsidized electricity tariffs from 700 kWh per month to a maximum of 300 kWh per month, remove the universal subsidy for liquefied gas and replace it by a new subsidy (BONOGAS) administered as a targeted cash transfer, and ending the Program for Reduction of Blackouts (PRA) and related subsidies based on a geographic criteria.
- Updating the SIUBEN beneficiary database for 2009 to minimize errors of inclusion or exclusion and thus improving the effectiveness of the targeting of social programs.
- Implementing the mandates of the universal health insurance laws.
- Ensuring that targeted subsidies to finance health insurance for the poor are protected and, as fiscal conditions permit, that the expansion trend continues.

2.8 The second policy area was to promote **fiscal sustainability** through the consolidation of overall public sector balances and debt management, which would be supported by the following activities:

- Maintaining macroeconomic stability by the government's adoption and adherence to the publicly announced financing plan for 2009.
- Enhancing tax administration and revenues from internal and customs sources. The main action was to include as an annex to the 2009 budget an estimation of costs of tax exemptions on domestic and international transactions.
- Reducing the fiscal burden from the losses of the electricity sector. Main actions referred to increase electricity tariffs by 12¼ percent by July 2009, simplify the tariff structure for residential customers from eight to four blocks, and imcrease the Cost Recovery Index from 64 percent in December 2008 to 66 percent in March 2009.
- Improving debt management. Main measure referred to reducing significant arrears to electricity generators and other government suppliers.

M&E DESIGN

2.9 Monitoring and evaluation was not part of the public sector culture in the Dominican Republic at the time of the operation, and has only recently started to develop in some areas of the public sector (for example in the Ministries of Education and Health). The operation did not change this culture noticeably. More specifically:

- The objective of budget processes and efficiency of public spending did not have indicators or targets. As a result, the authorities were left to their own devices in this area, rather than counting on a concrete plan with steps that they would need to take. There were no outcome indicators in this area.
- Indicators on budget spending referred mostly to quantity or quality rather than spending efficiency, which was the objective of the operation.
- The outcome indicator for Ministry of Finance transfers to the Dominican State Electrical Enterprise Corporation (CDEEE) was independent of international oil prices, which seems unrealistic in a country nearly fully dependent on oil to produce energy. At a minimum it should have been subject to review at frequent intervals.

Relevance of Design

2.10 There appears to be a logical chain linking policies under the operation with the objectives and planned outcomes. Synergies with other operations in the health and education sectors were required to achieve results over time and sustain policies.

2.11 The operation was designed to have the most significant effect on the spending side of the budget by concentrating on three planks: strengthening public sector institutions for better budget management, improving the efficiency of health sector spending and targeting better social protection spending, and reducing drastically electricity sector transfers (replacing a share of them by transfers targeted to the poor). The operation incorporated findings from analytical and fiduciary reports, although some of the information and analysis is likely to not have been fully up-to-date.[2]

[2] The Public Expenditure Review (2004), Poverty Assessment (2005), Country Economic Memorandum (2006), and Country Fiduciary Accountability Assessment and Procurement Assessment Report (2004).

2.12 **Strengthening public sector institutions.** To improve the prioritization of annual budgets and coordination across line ministries, the operation was to develop a multi-annual budget, with a multi-year public investment plan. To this end, the operation proposed the introduction of performance-based budgeting in the ministries of health, education, agriculture and labor. Pilot results agreements to be developed during the operation's period would propose strategic plans and identify performance indicators that would feed into subsequent budgeting decisions.

2.13 **Improving efficiency of health services and better target social spending** At the operation's appraisal health insurance coverage reached about a third of the poor and extremely poor, and the efficiency of health services was low as reflected by poor health results from significant health spending. High maternal mortality rates went hand in hand with suboptimal access to nutrition for mothers and children. One of the government's priorities—supported by the operation—was to reform the health sector to improve equitable access to health services and expand health insurance coverage for the population, in particular the poor and vulnerable groups. An ambitious government goal was to achieve universal health insurance, diminish inequalities in the public financing of health care services, and reduce the risk to households from financial shocks generated by catastrophic and out-of-pocket expenditures. Steps towards this goal in the next few years included protecting the fiscal resources for the fully subsidized regime (covering 1.2 million individuals in 2009) and expanding its coverage as fiscal resources allowed. Moreover, the plan contemplated the consolidation of efficiency gains in the procurement and distribution of medicines. While the operation supported an increase in health care coverage, its interventions to increase the efficiency of health spending were minor. On social protection targeting, the idea was to conduct a new survey (previous one done in 2005) to identify poor and extremely poor households, and use the new survey to better target social spending.

2.14 **Reducing energy sector transfers.** Budget transfers to the electricity sector, as noted, constituted for many years a macroeconomic problem in the Dominican Republic, and crowded out fiscal space needed to support essential social protection programs. The design aimed contain un-targeted electricity sector budget transfers in 2009-10, with a view to reducing them drastically and eventually eliminating them by 2012. The strategy included the idea to improve cost-recovery, which was at 50-60 percent.

2.15 The relevance of design was weakened by the lack of a roadmap for interventions that would deliver an improvement in the efficiency of spending. The authorities needed such roadmap because they did not have experience with performance-based budgeting. This weakness was compounded by a lack of metrics (indicators or targets) which could be used to measure progress toward better expenditure efficiency. Moreover, this operation intended to achieve in one year outcomes that would normally take several years, particularly in a country where a number of institutions are still being developed.

2.16 The objective to improve the budget processes and spending efficiency is a case in point. It had had no indicator or target on spending efficiency, and of four ministries expected to develop results-based budgets and programs, only two have started and implemented initial steps. The results being targeted were outputs rather than outcomes (better efficiency), a number of indicators were on quantity, coverage, or quality rather than

expenditure efficiency, and the process of establishing programs for results remains incipient. Given the level of institutional development in the country, these outcomes were to be expected. The operation itself is ambiguous on some of the issues: although one of the indicators refers to improved targeting of social spending (a quality issue), the relevant prior action refers to sufficient resources to finance the Family Health Insurance (a quantity measure). Moreover the operation did not focus enough effort on spending efficiency and better budget processes, which are the core of one of its objectives.

2.17 Similar glitches occurred to the household survey, which was expected from the Sistema Único de Beneficiarios (SIUBEN) within the program period. SIUBEN was not institutionally developed to carry out the full survey in 2010, as targeted by the DPL. The survey was eventually started in July 2011 and completed in May 2012, but its results are not being used for the targeting of social programs, which are still using the 2004 survey.

2.18 The policies to achieve universal health insurance, diminish inequalities in the financing of health care services, and reduce the risk to households from financial shocks generated by catastrophic and out-of-pocket expenditures were not related to expenditure efficiency, and their extreme ambition was not supported by intermediate steps during the operation's time frame.

2.19 By contrast, the approach to electricity transfers from the budget was more realistic and within the grasp of policy-makers. In the end, the target was met only partially, a result of policy failures rather than poor design. This sub-objective would have benefited from an up-to-date political economy analysis of the electricity reforms supported by the operation, given the long history of policy failure in this area and the high political sensitivity of the topic.

2.20 The design on tax policies was imprecise, without concrete targets or policies. Although tax exemptions were identified and quantified as a prior action, without a practical implementing plan there was little reason to expect that tax policy and administration would improve The most significant achievement was the publication—with the budget document for 2009—of a comprehensive analysis and quantification of tax expenditures, but this was done before the approval of the operation (prior action).

2.21 Taking all loan design elements into account, the relevance of design to the objectives is rated as *modest*.

3. Implementation

3.1 The Bank's Board approved the operation on November 17, 2009 as a single tranche operation based on the implementation of a number of prior actions and planned milestones. The loan became effective on December 1, 2009 and was closed on December 31, 2010. All prior actions were met, and the loan was fully disbursed on December 3, 2009.

Macroeconomic Framework

3.2 Except for the increase world oil prices that started in the second half of 2009, the overall domestic macroeconomic environment provided a positive backdrop to the performance and implementation of the operation. The prompt intervention of the international financial institutions averted a serious recession in 2009, and the economy recovered strongly in 2010 (Table 2). Inflation remained contained at about 6 percent during the operation and the consolidated fiscal deficit declined slightly to 4.1 percent in 2010. In the face of increasing world oil prices, budget transfers to the electricity sector remained above 1 percent of GDP through 2011 and increased significantly in 2012.

Table 2. Dominican Republic: Macroeconomic Indicators 2008-2012

	2008	*2009*	*2010*	*2011*	*2012*
GDP Growth (annual %)	5.3	3.5	7.8	4.5	4.0
Consumer Price Inflation (e-o-p %)	4.5	5.8	6.2	7.8	4.0
Public Sector Balance/GDP (%)	-4.4	-4.5	-4.1	-4.5	-8.5
Budget Transfers Electricity Sector/GDP (%)	2.7	1.4	1.2	1.2	1.8
Public Debt/GDP (%)	35.3	37.8	38.8	40.0	44.9
World Oil Prices (US$/bbl)	97.0	61.8	79.3	104.0	105.0

Source: IMF, March 2013 and IMF, April 2013

3.3 The operation planted seeds in two policy areas (budget processes and fiscal sustainability) and the policy dialogue continued under other Bank interventions in these areas. With exception of electricity sector and macroeconomic policies, the policies themselves have been sustained by the authorities, and in some instances carried through to conclusion by other interventions in the social and health sectors.

Implementation Experience

3.4 The main factor that affected program implementation adversely was a significant increase in world oil prices.World oil prices increased significantly between end-2008 and end-2010. In 2010 alone, the price of fuel oil #6—which is used to generate electricity—increased by 28 percent, endangering the objective of fiscal sustainability.This translated into US$160 million in additional electricity sector losses to be covered by the budget. Moreover, a planned flexible electricity tariff pricing mechanism linked to market input prices (including oil) was postponed due to increased political pressure on the government to avoid further tariff increases.In addition, liquefied gas subsidies increased, and higher food prices led to lower real incomes and increased the demand for budgetary income support.

3.5 The government and Bank energy that characterized the preparation of the loan—up to Board approval—appears to have fizzled out following loan effectiveness. On the government side, officials appear to have taken a respite after the strenuous sprint of preparing two DPLs and an IMF stand-by arrangement during the second half of 2009. Over time, as the economy recovered strongly and external financing constraints slackened, government compliance with IFI policy conditionality became less urgent. As a result, policy implementation lagged commitments under the loan. On the Bank side, supervision and follow-up were weak, and the only Implementation Supervision Report of the operation was prepared after the loan closed. Moreover, the monitoring and evaluation framework of the loan was weak to provide early warning signs of a reform effort that was lagging behind agreed benchmarks.

3.6 Coordination with other development partners, particularly the Interamerican Development Bank and the IMF, was good. With the former, the work was mutually reinforcing in the energy and social sector areas. With the IMF the focus of cooperation was on macroeconomic stability, particularly budget transfers to the energy sector. All three institutions had joint meetings at the highest levels regarding energy sector policies, especially electricity tariffs. This unified front was helpful in getting the electricity tariff increases in 2009 and 2010. In 2011 the government decided to not increase electricity rates as envisaged, and this decision in turn led to the suspension in 2011 and eventual expiration in early 2012 of the IMF's stand-by arrangement.

Monitoring and Evaluation Implementation

3.7 The output and outcome evidence anticipated in the design was not collected and analyzed in a timely manner. Procurement and financing bottlenecks in the household survey delayed implementation of the SIUBEN database. Monitoring and evaluation was stronger in those areas where there was overlap with other Bank interventions (for example, on social sector accountability, and health sector reform) or the IMF, but this is because the other interventions and the IMF implemented closer monitoring and evaluation of their conditions.

3.8 For the actual outcome indicators of the operation, the data requirements were manageable and M&E was for the most part carried out by the Bank and its partners, such as the IMF through its regular reviews of the stand-by arrangement. The government generally did not have a framework or resources to carry out adequate M&E under this operation.

3.9 Yet, some indicators were overoptimistic, and others were not followed closely enough to improve project implementation. At least one indicator proved to be unrealistic to achieve within the 13-month time-frame of the DPL: the new household survey launch was bogged down by procurement delays which then triggered politically motivated financing delays. The indicator relating to BONOLUZ[3] combined two targets in one. Closer follow-up thus might have provided greater clarity on this indicator by identifying the two sub-targets and setting levels appropriate to the timeframe of the operation.

[3] BONOLUZ is a program of subsidies for electricity consumption targeted to poor households.

4. Achievement of the Objectives

4.1 The objectives of the Public Finance and Social Sector DPL were: (i) to continue improving the efficiency of budget processes generally and of social protection and public health in particular, and (ii) to promote fiscal sustainability through the consolidation of overall public sector balances and debt management (World Bank 2009b, pp. 26-27).

Objective 1: Continue improving the efficiency of budget processes, especially for social protection and public health (modest)

4.2 The operation helped develop institutions needed to improve the efficiency and quality of spending for poverty reduction and human development. A multi-ministerial committee contracted diagnostic studies to identify areas requiring institutional strengthening to implement results-based budgeting, and help define the basis for expected results. The committee would then use the analysis to set criteria for performance indicators and design the incentives to promote the meeting of the expected results. The ministries of education and health started to develop programs that are expected to improve the efficiency and quality of services over time. For now, these programs are targeting coverage of health and education services, rather than efficiency and quality. As an example, the programs target investments in schools and primary care facilities. At the same time, the Ministry of Health has introduced results-based management agreements with all the regional health services, creating incentives for health care providers to improve timeliness and quality at the first level of care, focusing on mother and child care. Moreover, programs under a separate development policy operation in the health area have promoted the certification to international standards of primary care facilities, which should over time result in better primary health care services. There was no progress in performance-based budgeting in the Ministries of Agriculture and Labor.

4.3 Across-the-board electricity subsidies have been a drag on the budget. As prior actions under this operation the ceiling of subsidized electricity tariffs was reduced from 700/kWh to a maximum of 300/kWh per month, the universal subsidy for liquefied gas was reduced and replaced by a new subsidy (BONOGAS) which is administered as a targeted cash transfer, and the Program for Reduction of Blackouts—with subsidies based on a geographic criteria—was eliminated.

4.4 This operation was also expected to contribute to better targeting social services. The main expected contribution in terms of targeting services and subsidies to the poor was the implementation of a new survey by SIUBEN, but the survey was delayed by over a year and is not yet used for the targeting of social sector policies.

4.5 At the same time, this operation helped the government expand and consolidate the health component of social protection through an increase in coverage of the family health insurance scheme, and ensured that targeted subsidies to finance health insurance for the poor were protected expenditures in the budget. While both these measures are worthwhile in their own right, they did not contribute directly to improve the efficiency of public spending which was the primary objective of the operation.

4.6 The programs and results frameworks in the education and health sectors supported by the operation are starting to show results slowly. Similarly the work on social program targeting is beginning to bear fruit now. Results so far have been quite modest underlining the long-term nature of the problems being addressed, and this operation did not have metrics or indicators to measure progress in expenditure efficiency.

4.7 The Interamerican Development Bank also worked on education, health, and social protection in close cooperation with the World Bank. The government ensured that the IDB's and Bank's interventions were mutually reinforcing and did not overlap.

4.8 While it is difficult to estimate what might have happened under Objective 1 in the absence of the loan, discussions with country counterparts identified two key items of value added:

- **Replacing the the Program for Reduction of Blackouts (PRA) by new, more targeted subsidies BONOLUZ and BONOGAS**: The elimination of the PRA—a program of geographic electricity subsidies—resulted from discussions under this operation and the corresponding policy commitments. It would have been very difficult to do it in the absence of this operation.

- **Protecting expenditure in education and health**: Under this operation certain programs in education and health were protected through specific "locked" funding in the budget. While this generates rigidities on the spending side, it also ensures the continuity of programs that eventually will deliver anticipated results in the respective areas.

Objective 2: Promote fiscal sustainability (substantial).

4.9 This operation's second objective was supported by a planned reduction of electricity sector transfers through managerial improvements in the electricity sector, electricity tariff increases, and better targeting of subsidies to consumers (the latter two were prior actions or milestones of the operation). Moreover the operation envisaged improvements on taxation and debt management.

4.10 The Dominican Republic's budget has been traditionally stretched by untargeted electricity subsidies amounting to 1-3 percent of GDP depending on the level of world oil prices and tax exemptions amounting to nearly 5 percent of GDP. Any exercise to strengthen the fiscal account required addressing these two issues.

4.11 The operation was not successful in reducing budget subsidies to the electricity sector. In 2012 transfers are estimated by the authorities to have amounted to US$1.2 billion or 1.8 percent of GDP, up from 1.4 percent of GDP in 2009. However, on targeting subsidies, the operation had success by promoting the elimination of PRA (geographically based subsidies), and replacing it by BONOLUZ and BONOGAS subsidies.[4] The background work on subsidies to the electricity sector was done in close cooperation with the IMF, although

[4] These are subsidies to poor households to cover the cost of electricity and gas consumption.

the World Bank took the lead under this operation. The policies advocated were part of an ongoing dialogue on electricity sector reform under a technical assistance loan approved in February 2004, the Bank's three-tranche Programmatic Power Sector Reform Loan (closed in March 2009), and the follow-on Distribution Rehabilitation Loan that became effective in May 2009. The replacement of the Program for Reduction of Blackouts by BONOLUZ and BONOGAS, and the increase in electricity tariffs in 2009 and 2010 are attributable to the operation.

4.12 On taxation, through a prior action the operation helped the government assess, quantify, and make public the cost of tax exemptions to the budget. But beyond that, it did not contain a specific strategy to improve revenue administration and collection. During the program period the government developed a strategy to improve tax administration, although the Bank did not have direct involvement in its preparation.

4.13 Also through a prior action, the operation helped the government clear arrears to electricity sector operators. Moreover, the government reduced arrears to other government suppliers. While both these actions made debts more manageable, the operation did not contain measures to improve debt management *per se*.

4.14 While the IMF was the main government counterpart on macroeconomic policies, several measures under this operation contributed to fiscal sustainability. In particular, the electricity tariff increase and the end of untargeted electricity subsidies carried out under the operation were essential for fiscal sustainability.

4.15 It is difficult to estimate what might have happened in the absence of the loan under Objective 2, but discussions with country counterparts identified two items of valued added by the operation:

- **Raising electricity tariffs**: Electricity tariffs were raised by about 25 percent in steps as a result of the operation. This saves the budget about US$200 million a year. In the absence of this operation the raising of electricity tariffs would have been very difficult to do.

- **Budget Financing**: The Dominican Republic was in dire need of budget financing, and the DPL played a significant role in this regard. Without the IFI package, the country would have not had obvious financing alternatives in the second half of 2009 and a corresponding need for draconian fiscal adjustment.

5. Ratings

Outcome

5.1 The outcome of this operation is rated ***moderately satisfactory***.

5.2 The objectives of the loan were aligned with the government's reform agenda, and addressed three key issues of that agenda: protecting the most vulnerable sectors of society from an external shock that was affecting the whole country; opening space in the budget for

essential social protection transfers; and guaranteeing revenues that would finance the cost of social protection. Thus relevance of objectives is rated ***substantial.***

5.3 The relevance of design is rated as ***modest***. Implementing the policies under of the loan would indeed help achieve the objectives on public spending for poverty reduction and human development, and mitigate the impact of the global financial crisis on the Dominican Republic's public finances. The budgeting for results would over time improve spending efficiency if done right. The problem with the design however is that a one-year operation was intended to achieve outcomes that would normally take several years, particularly in a country where a number of institutions are still being developed. Moreover, the authorities did not have a roadmap of spending reform that would improve efficiency, with indicators that could measure the improvement of spending efficiency over time.

5.4 The design of the loan however needs to be put in the context of the situation at the time: (i) the Bank's corporate imperative in 2009 was to accelerate lending to emerging markets to contain the spread of the global financial crisis from industrial to emerging markets (IEG 2011). There is an inherent tension between this priority and the need to establish a long-term dialogue on reform policies; and (ii) the operation was part of a portfolio of loans provided to the Dominican Republic at the time,[5] and as such could rely on the other loans to act as a "shock absorbers" of weak performance, by their following up and monitoring implementation of measures that were only partially implemented under this operation .

5.5 Achievement of the operation's objectives was mixed (see Table 3). While efforts were launched in a number of areas—program budgeting for results; improving targeting of social programs and subsidies; improving the quality of health spending; controlling inefficient budget transfers (electricity); and improving tax collections—expected results took much longer to materialize than the period of this operation.

5.6 At the same time, this operation launched policy improvements in the education, health, and social sectors that have been followed up by other Bank interventions and are starting to show promising results.

Table 3. Operations Achievement of Outcomes, Ratings and Policies

Objective and policies	*Level of achievement*	*Explanation/Main Achievements and Issues*
Objective 1. Continue improving the efficiency of budget processes, especially for social protection and public health	Modest	While efforts were launched, budget for results remains incipient, and the household survey for targeting social programs was not done. Health results improved measured by life expectancy and infant mortality indicators, but it is unclear if health spending efficiency improved or that health budget processes improved significantly.

[5] Social Sector DPL; Health Sector DPL; IMF stand-by arrangement; and several fast-disbursing loans from the Inter-American Development Bank.

Policies for Objective 1		
Improve institutions for budgeting and expenditure management.	NA	Of four target ministries for results-based budgets, two (Education/Health) have taken initial steps. Targets are for inputs/outputs rather than results.
Better target social and other expenditures		The ceiling for subsidized electricity tariffs was cut in more than half. The universal subsidy for liquefied gas was replaced by a new subsidy (BONOGAS) provided as a cash transfer, and the across-the-board Program for Reduction of Blackouts (PRA) was eliminated.
Implement the mandates of the universal health insurance laws	NA	Coverage of subsidized health care regime increased from 1.23 million to over 2 million, and the budget for health increased by 35 percent.
Improve targeting of spending intended for the poor by updating the SIUBEN beneficiary database for 2009	NA	Household survey needed to achieve the objective was not implemented primarily due to procurement problems. SIUBEN data base not updated.
Ensure that targeted subsidies to finance health insurance for the poor are protected		Targeted subsidies to finance health insurance for the poor are protected in the budget.
Objective 2. Promote Fiscal Sustainability	Substantial	Fiscal sustainability improved in the Dominican Republic. The elimination of the PRA and replacement by targeted subsidy programs was a very significant achievement of the operation because of the political resistance to the measure. The measure resulted in permanent fiscal savings. Although the target of households for BONOLUZ was not achieved in 2010, today over 500,000 households receive BONOLUZ. The tax sub-objectives are hard to assess.
Policies for Objective 2		
Reduce the fiscal burden from losses of the electricity sector	NA	Although electricity tariffs were raised for a combined 25 percent in 2009 and 2010, transfers to the electricity sector increased from 1.1 percent of GDP in 2009 to 1.2 percent in 2010 due to non-payment by consumers, higher consumption, and higher world oil prices. PRA was eliminated, and BONOLUZ reached 135,000 households against the 450,000 household targeted by the DPL.
Adoption and adherence to the publicly announced financing plan for 2009	NA	The government adhered to the 2009 financing plan as a prior action which led to the approval of the operation and of the IMF stand-by arrangement.
Improve the effectiveness of revenue collection by domestic and customs authorities	NA	The DPL supported two main measures: (i) requiring large firms to file and pay on-line; and (ii) automatic retention of VAT on credit card purchases. Tax revenues remained at around 13 percent of GDP. The authorities prepared a strategy to rationalize tax exemptions and improve tax administration.
Improve debt management		The government reduced arrears to electricity generators and other government suppliers.

Source: World Bank 2011, IMF 2010, IMF 2011, and IEG discussions with counterparts in the Dominican Republic.

Risk to Development Outcome

5.7 The risk to development outcome is ***significant.***

5.8 On efficiency of public spending, the authorities are making progress supported by several World Bank interventions. The mechanisms and policies being implemented in this area will continue while the interventions continue and World Bank financing is available. It remains unclear whether the policies are being entrenched institutionally for the longer term. Their sustainability will depend on political will of the administration.

5.9 On cutting budget transfers to the electricity sector, which is essential for fiscal sustainability, real progress has been slow to come and generally followed by setbacks. Vested interests and political pressures have been too strong to introduce sustained reforms in the electricity sector.

5.10 On tax policies and administration, again there has been a history of back and forth depending on budget urgencies and the influence of interested and powerful groups. This is unlikely to change.

Bank Performance

5.11 Quality at entry was ***moderately satisfactory***.

5.12 This operation was strategically relevant by supporting the government to address three key issues on the social and budget spheres: protecting the most vulnerable sectors of society from an external shock that was affecting the whole country; opening space in the budget for essential social protection transfers; and guaranteeing revenues that would finance the cost of social protection.

5.13 The World Bank showed the required responsiveness to assist the Dominican Republic financially in the midst of the global financial crisis, thus avoiding seriously adverse effects on society. In doing this it coordinated closely with other IFIs, which made the effort more meaningful for the Dominican Republic, and also embedded this operation within a critical mass of interventions that proved a step forward in some areas.

5.14 The design of the operation displayed the tension between the corporate imperative to deliver funding quickly, and the development imperative that required embedding the program design within a longer term reform concept. As a result, a one-year operation was intended to achieve outcomes that normally would take several years to achieve, particularly in a country where a number of institutions are still being developed. The consequence was that the operation managed to plant seeds in the relevant policy areas but not to show a number of the anticipated results within its time horizon.

5.15 The prior actions and planned milestones represented a reasonable basis for the operation, although some of them (for example, agreement of various ministries to pilot programs on performance budgeting) proved to be more wishful thinking than real plans.

5.16 Analytical and advisory support for the operation's activities was not significant because the operation relied on analytic work from other Bank operations. The main parallel Bank activities that provided analytic and advisory activities were the Performance and Accountability of Social Sector series and the three-phase Adaptable Program Loan for the

Health Sector. The policies on performance-based budgeting in several ministries suffered from the lack of technical assistance support from the Bank. The operation was prepared over a short period (concept note 4/15/2009 to Board approval on 11/17/2009), which did not provide enough time for extensive policy dialogue and meaningful analytic work that go along with a normal DPL. Monitoring and evaluation were poorly designed; there were no indicators or targets for the objective of budget processes and efficiency of public spending.

5.17 Quality of supervision was ***moderately satisfactory.***

5.18 Monitoring arrangements were challenging to design in the time-horizon of a single-tranche operation. Moreover, supervision was difficult because a number of sub-objectives did not have indicators or targets. At the same time the World Bank was slow to identify and resolve threats to the achievement of the relevant development outcomes. The indicator relating to BONOLUZ combined two targets in one, and closer follow-up would have provided greater clarity on this indicator by identifying the two sub-targets and setting levels appropriate to the time-frame of the operation. The outcome indicator for Ministry of Finance transfers to the electricity complex was independent of international oil prices, which seems unrealistic in a country nearly fully dependent on oil to produce energy. At a minimum it should have been subject to review at frequent intervals.

5.19 Supervision was stronger in areas where there was policy overlap with other World Bank interventions in the social sectors and health. Owing to follow-up from the latter interventions, the SIUBEN survey was eventually implemented with delay, and progress was made in results-based budgeting in the ministries of Education and Health.

Borrower Performance

5.20 The government did not have much experience with preparing and implementing a DPL in the social sector. Therefore this project represented a major challenge, particularly for the Social Cabinet, which led by the Vice-President effectively coordinated the effort on the Dominican Republic's side.

5.21 Government ownership and commitment was strong from the outset in light of the significant exceptional financing needs of the budget. The government did not have a strong monitoring and evaluation set up and had to develop ad hoc mechanisms to follow-up on the implementation of prior actions and other measures. It was a good effort of policy implementation in a very difficult economic environment, although monitoring could have been better. The government shares part of the responsibility (with the Bank) for the weak monitoring and evaluation of this operation.

5.22 At the same time a number of outcome targets were only partially achieved because of poor institutional development of some of the agencies in charge of social policies. Other outcomes were not achieved, in part because political commitment fizzled as the economy recovered strongly and the financial constraints became less acute in 2010.

5.23 Overall, the rating for borrower performance is ***moderately satisfactory.***

Monitoring and Evaluation

5.24 Monitoring and evaluation was ***modest***.

5.25 **Design and implementation.** Although there were time-bound, measurable indicators in most prior actions, a number of loan sub-objectives did not have indicators or targets. The output and outcome evidence anticipated in the design was not collected and analyzed in a sound and timely manner by the Bank or the government, which led to blind-spots in supervision of the project. For the objectives with outcome indicators the data requirements were manageable and M&E was for the most part carried out by the Bank and its partners, particularly the IMF through its regular reviews of the stand-by arrangement. The M&E that required government involvement was less effective, and the Bank team missed opportunities to modify certain targets because of poor follow-up on the development of indicators.

5.26 **Use of M&E data.** The monitoring and evaluation focus was more on inputs or outputs than on outcomes, and the system was not used in a timely manner to evaluate progress and effect required program modifications. The operation did not formalize stakeholder involvement, such as consumer associations, in monitoring, which could have helped subsequent interventions and support the sustainability of policies.

6. Lessons

6.1 Since the operation was closed at end-2010 macroeconomic policy has gone off-track. The IMF stand-by arrangement was suspended in mid-2011, mainly because the Dominican Republic did not bring electricity prices in close alignment with cost recovery as envisaged. A new government elected in 2012 has not been completely clear about its intentions with respect to increasing electricity tariffs, but the consensus seems to be that tariffs will not be increased. Owing significantly to transfers to the electricity sector, the budget deficit is estimated at 8½ percent of GDP in 2012, against the target of 1-2 percent of GDP in the standby arrangement's original macroeconomic framework. The IMF left a very strong message in a November 2012 visit to Santo Domingo, underscoring the need for fiscal consolidation to sustain macroeconomic stability (IMF 2012b).

6.2 The Education and Health ministries with Bank support continue to make progress in the implementation of programs for results. The current challenge is to move from targeting inputs and outputs to targeting efficiency and quality of service delivery and results. The SIUBEN survey was completed in April/May 2012, but it is still not used for targeting social policies because the authorities have to prepare a transition strategy from the 2004 survey to the 2012 survey. In particular, they need to decide on a transition period for families that were classified poor under the 2004 survey and are no longer categorized as poor under the 2012 survey.

6.3 Five lessons emerge from implementation of this operation:

- **The imperative to respond at a time of crisis can be in conflict with starting a dialogue on requirements for longer term reform**. In the rush to provide the

Dominican Republic with urgently needed budget financing it was difficult to discuss and prepare a loan with the requisite measures needed for longer term reform. The extensive policy dialogue and meaningful analytic work that go along with a normal development policy operation were not part of this operation's preparation. In this context it was difficult to propose a realistic timing for policy implementation and have in place the monitoring and evaluation mechanisms that would ensure success. This predicament was exacerbated by the limited experience of Dominican Republic technical teams on putting together the operation policy framework, with the respective monitoring and evaluation mechanisms.

- **An overly complex design—typical of a normal development policy loan—without short term indicators that can be monitored (for reforms that will take far longer than the duration of the operation) can detract from efficacy**. This operation's policy framework was too complex for a one-year operation designed over a short time frame. The short preparation period for the operation and the lack of a realistic policy framework—for example on the implementation of results-based budgeting—hurt the results of the program and reduced its efficacy.
- **In light of the previous two lessons, a development policy loan may be the wrong instrument to support a country in a financial crisis.** By definition a development policy loan requires serious policy reforms and longer term policy commitments which may be difficult for both the Bank and the country to design well when the country is in urgent need of budget financing.
- **The lack of updated political economy analysis can hamper reforms and Bank value added.** Such assessment was lacking in the case of electricity reforms of the operation which contributed to prolong poor results in the electricity sector. Reforms of the electricity sector have been supported by the Bank through several loans at least since the 1980's (over thirty years). And as in the past, dialogue under this operation was ineffective in durably influencing long-dating government policies of subsidizing electricity. Energy subsidies remain a major drain on the budget, and other means will have to be found to strengthen this dialogue and obtain results in the electricity sector.
- **A critical mass of Bank interventions in a country can act as a "shock absorber" for shortcomings in individual operation and help deliver results at times of crisis.** Although outcomes under this operation were not achieved as envisaged, the respective policies generally have continued to be implemented under follow-on or parallel operations. The result is that—with the exception of the electricity sector and macroeconomic policies—the operation's policies have been sustained and results in some areas are materializing with a lag. Moreover, the parallel and follow-on Bank interventions have helped offset in part the weaknesses in the monitoring and evaluation framework of the operation.

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Annex A. Basic Data Sheet

DOMINICAN REPUBLIC: PUBLIC FINANCE AND SOCIAL SECTOR DEVELOPMENT POLICY LOAN

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	150.0	150.0	100.0
Loan amount	150.0	150.0	100.0
Cofinancing	-	-	-
Cancellation	-	-	-

Cumulative Estimated and Actual Disbursements

	FY10
Appraisal estimate (US$M)	150.0
Actual (US$M)	150.0
Actual as % of appraisal	100.0
Date of Final Disbursements: 12/03/2009	

Project Dates

	Original	*Actual*
Initiating memorandum	11/12/2008	04/15/2009
Negotiations	11/12/2008	07/29/2009
Board approval	12/23/2008	11/17/2009
Signing		12/01/2009
Effectiveness		12/01/2009
Closing date	12/31/2010	12/31/2010

Task Team Members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Maurizio Bussolo	Sr. Economist	LCSPE	TTL
Carine Clert	Sr. Social Protection Specialist	LCSHS	Social sector
Fernando Montenegro Torres	Sr. Health Economist	LCSHH	Social sector
Juan Miguel Cayo	Sr. Energy Specialist	LCSEG	Electricity
Marco Arena	Consultant		
Carolina Biagini Majorel	Consultant	LCSPS	
Benu Bidani	Sector Leader	LCC3C	
Christina Malmberg Calvo	Sector Leader	LCSSD	
Leritza Monsanto Abreu	Consultant	LCSPE	
David Reinstein	Sr. Energy Specialist	LCSEG	
Roby Senderowitsch	Country Manager	LCCDO	
Cornelia Teliuc	Sr. Social Protection Specialist	LCSHS	
Theo David Thomas	Sr. Public Sector Specialist	EASPR	
David Seth Warren	Sector Leader	LCSHD	
Tammy Lynn Pertillar	Temporary	LCSPE	
Steven Benjamin Webb	Consultant	IEGCC	
Supervision			
Maurizio Bussolo	Sr. Economist	LCSPE	Supervision, ISR
Elizabeth Ruppert Bulmer	Sr. Country Economist	LCSPE	ICR Team Leader
Miguel Sanchez Martin	Jr. Professional Officer	LCSPE	ICR - Macro
Timothy Cheston	Jr. Professional Associate	LCSHS	ICR - Social sectors
Jasmin Chakeri	Sr. Country Economist	LCSPE	ICR - Mission

Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY09	43	250.6
FY10	10	60.2
Total:	53	310.8
Supervision/ICR		
FY10	3	34.4
FY11	6	30.6
Total:	9	65.0

Annex B. List of Persons Met

Government

Patricia Ángeles, Gerente de Operaciones, Administración Financiera e Informática, Ministerio de Finanzas
Yuderka Arrendell, Directora Sistemas de Salud—Programación por Resultados, Ministry of Health.
Ramon Gonzalez, Director General de Administradora de Subsidios Sociales (ADESS) and his five-member management team.
David Lapaix, Director de Programación Financiera y Estudios Economicos, Ministerio de Educacion.
Dra. Magdalena Lizardo, Directora Unidad de Análisis Economico y Social, Ministerio de Economia, Planificacion, y Desarrollo.
Juan Monegro, Vice-Minister, Ministerio de Economía, Planificación y Desarrollo.
Enrique Ogando, Coordinador General, Unidad Técnica de Proyectos, Gabinete Social.
Luis Núňez, Vice-Minister, Credito Publico, Ministerio de Finanzas, and his management team.
Miriam Rodríguez, former Director Sistema Unico de Beneficiarios (SIUBEN)
Nelson Rodríguez, Vice-Minister of Health.
Victor Sánchez, Vice-Minister of Education.
Ramón Sarante, Director Técnico, Administración Financiera e Informática, Ministerio de Finanzas.
Yira Tavárez, Advisor, Ministry of Health.
Joel Tejeda, Sub-Gerente de Políticas Monetaria, Cambiaria, y Financiera, Central Bank.

Former Government Officials Involved with the Operation

Susana Gamez, former Technical Director of Social Cabinet.
Ing. Celso Marranzini, former Director, Dominican Corporation of State Electrical Enterprise (CDEEE).
Ing. Manuel Pumarol, former Advisor, Social Cabinet.
Ing. Van Elder Espinal, former Director, Social Subsidies Administration (ADESS).

Academia

Rolando Guzmán, Rector Intec University, Santo Domingo (technical university).

World Bank

Marilyn Brito, Head of Implementation Unit, World Bank Projects at the Dominican Corporation of State Electricity Enterprises (CDEEE).
Maurizio Bussolo, Task-Team Leader, World Bank, Washington DC.

Other Donors

Francisco Carreras, European Union Delegation
Sandro Parodi, Advisor, Inter-American Development Bank (Santo Domingo office).
Alejandro Santos, Mission Chief, IMF, Washington DC