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Dominican Republic Country Assistance Evaluation

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Abbreviations and Acronyms

AAA	Analytic and Advisory Services, formerly ESW
AIDS	Acquired immunodeficiency syndrome
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDE	Corporación Dominicana de Electricidad
CDF	Comprehensive Development Framework
DR	Dominican Republic
ESW	Economic and Sector Work
FTZ	Free Trade Zone
FIAS	Foreign Investment Advisory Service (IFC and World Bank)
GDP	Gross domestic product
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IDF	Institutional Development Fund
IMF	International Monetary Fund
INDRHI	National Water Resource Institute
INESPRE	Instituto Nacional de Estabilizacibn de Precios (Price Stabilization Institute)
LAC	Latin American and Caribbean
LIL	Learning and Investment Loan
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NGO	Nongovernmental organization
OED	Operations Evaluation Department
OPI	Investment Promotion Agency
PREM	Poverty Reduction and Economic Management
QAG	Quality Assurance Group
SDR	Special Drawing Rights
SECLP	Smith – Enron Cogeneration Limited Partnership
SEOPC	Secretariat of Public Works
UNDP	United Nations Development Program
USAID	(United States) Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

Director-General, Operations Evaluation	:	Mr. Gregory K. Ingram
Acting Director, Operations Evaluation Department	:	Mr. Nils Fostvedt
Senior Manager, Country Evaluation & Regional Relations	:	Mr. R. Kyle Peters
Task Manager	:	Mr. Jorge Garcia-Garcia
Peer Reviewers	:	Mr. S. Ramachandran
		Mr. Jaime Jaramillo

Contents

Figures

Annexes

Attachments

Preface

This Country Assistance Evaluation (CAE) report reviews the Bank's assistance strategy for Dominican Republic from 1985 to 2002. It looks at whether the assistance dealt with the major issues affecting the economy and how it contributed to the accomplishments of the country. The report also assesses the relevance, efficacy, and efficiency of that assistance and recommends actions for the future. The evaluation is based on a review of World Bank documents and on interviews with government officials, Bank staff, officials from other donor agencies, members of non-governmental organizations, academicians, people in the private sector, and journalists. A Bank mission visited Dominican Republic from January 13, 2003 to January 23, 2003. The contribution and the cooperation of government officials and agencies, NGOs, and donors are gratefully acknowledged.

A draft of the CAE was shared with the Government of Dominican Republic and their comments are presented as Attachment A. The comments were either incorporated in the main text of the report, or in footnotes attributed to the Government.

Summary

Following a period of rapid economic growth during the 1970s, the Dominican Republic stagnated during the 1980s under the weight of pervasive government intervention and economic mismanagement. The situation came to a head in 1990, when the financial situation became untenable. The Government's response was quick and decisive. Stabilization was achieved within two years, which together with a gradual introduction of structural reforms combined to forge one of the fastest growing economies in the world during the 1990s. The tourism and telecommunications sectors and the free trade zones—all of which were liberalized early in the reform program—have led economic growth and employment generation. Macroeconomic stability has been sustained and structural reforms have continued and broadened to other sectors, but domestic industry and agriculture are still heavily regulated. The rapid growth of the economy overall made possible a substantial improvement in social indicators, and a decline in poverty rate. Nevertheless, unemployment remains high and the country still lags other countries of similar income levels on a number of social indicators.

This evaluation of the World Bank's assistance program for the Dominican Republic covers the period from FY85 to FY02. The Bank was a small player in the economy with total commitments of $642 million or less than $5 per capita per year, compared to the Inter-American Development Bank, which has provided $13 per capita per year since 1993. Furthermore, annual net transfers from the Bank were negative from FY85-FY98 (except for FY90) and have averaged only $12 million since FY99. On the other hand, the Bank was effective in its macroeconomic policy dialogue and AAA, especially during the early 1990s. The success of the Bank's early AAA is noteworthy in light of the Bank's traditionally difficult dialogue. The Bank's analytical work also informed the implementation of further reform, but the Bank's dialogue and contribution have been discontinuous. While earlier CASs placed adjustment lending on the Bank's agenda, such lending did not materialize through the mid 1990s, because of the country's sensitivity to external interference and because of the Bank's skepticism about the country's commitment to reform and the breadth and pace of the reform effort. Also, there was no Bank lending during the early reform years of 1992-94.

OED ratings of completed projects are below its averages for Latin America and for the Bank as a whole in all respects: outcome, institutional development impact and sustainability. While projects in the basic education sector were highly successful, others, such as in the energy and transport sectors experienced major implementation difficulties and had little institutional development impact. There is evidence from ongoing projects that project performance is improving, in tandem with improvements in the macroeconomic and political climate, and with the continuity of Bank management and the creation of a field office in 1999.

The overall development impact of the Bank's program is rated as moderately satisfactory. On the one hand, the Dominican Republic has made impressive progress in economic growth and stabilization, and poverty levels have been reduced. Bank project lending has also supported areas relevant to the MDGs---improving enrolments in basic education, reducing mortality rates, and addressing HIV/AIDs. But, on the other hand, reform has not reached areas important for ensuring broad-based growth and poverty

reduction, especially agriculture and domestic industries. Overall, the Bank's role has been modest throughout the entire evaluation period. The Bank's involvement and effectiveness have varied, ranging from intensive and effective in 1990, when the economic reform program was formulated, to a limited involvement and effectiveness in mid-1990s and, finally, to more active involvement and increasing effectiveness recently. The relevance of the assistance program has, therefore, been limited, because of the lack of continuity in the dialogue, the absence of Bank lending during critical times, and its inactivity in areas of structural reform, especially in the privatization process, one of its areas of comparative advantage. The efficacy of the Bank's program was also limited: while the policy dialogue helped promote reforms, the overall impact of the Bank's lending operations was small.

Four lessons emerge from this evaluation. First, above all, the Bank should work to continue to improve its dialogue with the country. The continuity of one Country Department for the Dominican Republic since 1997 and the creation of a Country Office in 1999 are steps in the right direction. The benefits of these steps are already apparent in the preparation and implementation of projects. But this stronger engagement needs to be expanded to include the macroeconomic and structural dialogue, and the Government, in its comments, also would like to see the Bank more actively involved in priority areas for national development. Mechanisms such as the pilot-CDF exercise can also be useful, but this effort needs to be sustained and include the active involvement of all major donors to be effective. Second, while project lending in the most recent CAS period has been supportive of the MDGs, the Bank's program needs to continue this emphasis and focus on improving the country's capacity to monitor and evaluate progress towards the MDGs, and improve the quality of social expenditures. Third, the Bank should help the country broaden its structural reform agenda to encompass agriculture, including trade, land, and price reform, and to remove barriers to entry and competition in domestic activities. Finally, in the power sector, there is a need for improvements in the effectiveness of the regulatory regime, reform of retail tariff and disconnection policy, and the performance of CDE, as well as addressing transmission bottlenecks.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Economic Background and Government Strategy [1]

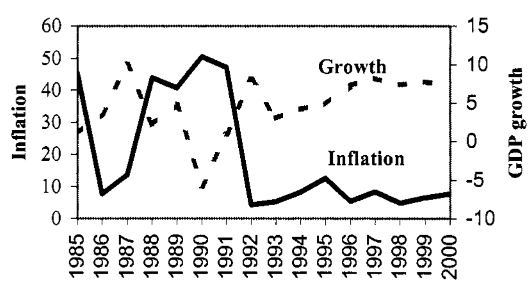
1.1 Since 1990 the Dominican Republic has undergone fundamental changes in its economic management and political institutions. There were two main turning points. The first was the series of stabilization measures and structural reforms that President Balaguer undertook beginning in 1990 to restore price and exchange rate stability and transform the country into an outward-looking, dynamic economy. Second, following the election irregularities of 1994, the main political parties signed a pact for democracy and reformed the constitution. As part of the deal, President Balaguer agreed to shorten his period and step down in August 1996. Since 1996, elections have been considered fair and free. These changes have made its political institutions more open and democratic and the economy more dynamic. These economic and political reforms have made the Dominican Republic one of the fastest growing economies in the world.

The Economy During the 1980s

1.2 During the 1980s, the economy of the Dominican Republic labored under price controls, inconsistent fiscal, monetary and exchange rate policies, and pervasive Government ownership of productive assets. The latter included vast holdings of land and an array of money-losing public enterprises in mining, manufacturing, electricity, transportation, financial services, retail trade, and hotels. Large fiscal deficits financed with monetary expansion fuelled inflation and reduced domestic savings. An overvalued peso and multiple exchange rates, combined with extensive foreign exchange surrender requirements and high trade barriers, stifled exports and investment. The debt crisis of the 1980s and the retrenchment of foreign commercial banks also exacerbated the problems created by economic mismanagement. The result was total and per capita GDP growth that hovered around 2 and 0.2 percent per year.

1.3 Macroeconomic mismanagement also caused large internal and external imbalances. In the four years to 1990 the consolidated public sector deficit (including the central Bank's quasi-fiscal operational losses) averaged 5.4 percent of GDP. This performance resulted from structural weaknesses in revenues and expenditures. A dependence on international trade taxes rendered government revenues volatile, while a weak tax administration made it difficult to collect taxes. High subsidies (especially on petroleum and petroleum products), public enterprise losses, large increases in public wages and employment and an over-dimensioned public investment program expanded expenditures. By 1990, the public sector deficit was a burden on monetary policy. While foreign loans financed about one-half

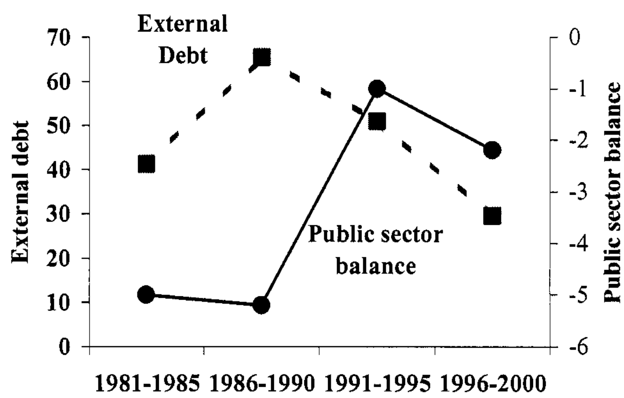
Figure 1.1 - Annual Inflation and GDP Growth (percent)



[1] This section draws on information from Oxford Analytica, The Economist Intelligence Unit, IMF Occasional Paper 206, and the World Bank's sector work listed in Annex Table 4.

of the fiscal deficits in the early 1980s, defaults on public external debt eventually forced the Government to monetize part of its deficit. Inflation reached almost 80 percent in 1990 and the inflation tax surged to 3 percent of GDP (See Figures 1.1 and 1.2). Moreover, the expansion of expenditure and the real appreciation of the Dominican peso led to a large current account deficit, which reached about 4 percent of GDP in 1990. External debt grew rapidly. Eventually, the Government resorted to financing the balance of payments deficits through rundowns of official reserves and a buildup of payment arrears.

Figure 1.2 - External Debt and Public Sector Balance (percent of GDP)



The New Economic Program

1.4 After his reelection in 1990, President Balaguer's government embarked on "The New Economic Program," a comprehensive stabilization and structural reform program undertaken under the informal but close guidance of Bank staff. Fiscal prudence, tight monetary control, and removal of distortions in the financial markets lay at the heart of the reform program. The government increased revenues through raising the price of petroleum products, boosting custom receipts by using a market-based exchange rate to calculate import duties, converting all excise taxes from specific to ad-valorem, broadening the base of the value added tax (VAT) and raising its rate from 6 to 8 percent. On the expenditure side, the government reduced food subsidies and restrained public expenditures through strict application of a *daily* cash management system, particularly for special funds managed by the President. These measures shifted the public sector primary balance from a deficit of about 5 percent of GDP to a surplus of 2 percent in 1991-92.

1.5 The Government carried out reforms to strengthen the financial system and enhance the outward orientation of the economy. In the financial sector, it liberalized interest rates, unified reserve requirements for all deposits, abolished selective portfolio requirements, reviewed norms on capital requirements along the lines of the Basel agreement, and moved towards a market-oriented management of domestic liquidity. To enhance the outward orientation of the economy, it reduced the level, number and dispersion of tariff rates, narrowed the scope of exemptions, eliminated all import quotas and licensing agreements (except for agricultural products), discontinued the use of multiple official exchange rates, and reduced foreign exchange surrender requirements.

1.6 The economy responded quickly. GDP growth accelerated to 4.2 percent during 1991–95, while consumer price inflation declined from 80 percent in 1990 to 8 percent in 1991-95. More importantly, the reforms made the Dominican people realize that macroeconomic stability and fiscal prudence are necessary conditions for growth. At the same time, the Dominican Republic began attracting sizable amounts of foreign investment. Since 1996, it has been among the fastest-growing economies in the world. The New Economic Program, then, was a watershed in the country's recent economic history.

Deepening the Reforms

1.7 President Leonel Fernández, who came into office in August 1996, continued with prudent macroeconomic policies and modernizing the economy. He offset increases in the salaries of top public servants, which were necessary to make them more competitive with private sector salaries, by improving tax enforcement and administration, thus keeping the consolidated fiscal deficit modest. He also continued modernizing the economy by, inter alia, passing legislation authorizing private sector participation in some productive areas still dominated by state-owned enterprises, such as electricity and sugar, and privatizing and leasing state–owned enterprises. His administration sold the state-owned flour mill, the distribution units of the state–owned electricity company and part of the generating units, and part of the state tobacco company. It also leased the mills of the state-owned sugar company, and Congress approved a 20–year concession for the four international airports.

1.8 Although during the Fernández Administration the economy grew at 7.7 percent per year, rising basic food prices, high unemployment—about 20 percent of the adult workforce—and widespread poverty fed discontent among the population. Long and frequent blackouts interrupted industrial production, household activities, and the delivery of water. Poor delivery of public services, such as education and public infrastructure, induced exasperated taxpayers and local communities to protest against the government. People perceived that the divestiture of public companies, such as electricity, had failed to solve their problems.

Sharing the Fruits of Growth

1.9 Unhappy with the Fernández government, in 2000 the Dominican people elected Hipólito Mejía, the opposition party's candidate, who promised to improve living standards, fight corruption and spend more on health, education and other social services. The Mejía administration placed its priorities on agriculture, education, health and the environment and reiterated its support for macroeconomic stability and economic modernization. Immediately upon assuming office, President Mejía administration announced the renegotiation of contracts for the generation and distribution of electricity, a pledge that has been fulfilled. In March 2001 the administration launched a program of economic reform and a social strategy for the poor. It lowered the maximum custom tariff to 20 percent and reduced the number of tariff bands. To compensate for the expected revenue loss, it increased the VAT rate from 8 percent to 12 percent, broadened it to encompass services, and raised tax rates on alcohol and tobacco. A new law was passed allowing the weekly adjustment of domestic petroleum-product prices according to fluctuations in international prices. A social package consisted of (a) a monthly stipend of 300 pesos per family for 300,000 poor families; (b) an annual subsidy of 4 billion pesos to reduce the cost of electricity bills; (c) a 40 percent reduction in the price of propane gas; and (d) a transfer of 2 billion pesos to INESPRE to market basic foodstuffs at low prices. This year, the rise in international oil prices and the rapid depreciation of the peso have led the Government to adopt tighter fiscal and monetary policies to prevent a widening of the fiscal and external accounts. Recent events show that, despite the achievements, macroeconomic management has weaknesses and the administration needs to continue to pursue sound macroeconomic policies.

Achievements and Agenda for the Future

1.10 The New Economic Program and the reforms implemented under the Fernández and Mejía administrations are part of the story underlying the economic success of the Dominican Republic. In the late seventies and early eighties the country pioneered free trade zones in the Caribbean and looked to mining, tourism and manufacturing for economic diversification. Free trade zones (FTZs) and tourism developed in isolation of the country's overall business environment: special legislation protected investor's rights, special tax structures set the rules for local and foreign potential entrants, and a competitive environment favored innovation. The stable economic environment created in the nineties helped the tourism and free trade zones to bloom. Growing from seven in 1988 to 46 in 2000, the FTZs currently house 500 companies, employ about 200,000 people and export US$4.8 billion. Hotel rooms have grown from 8,500 in 1985 to about 51,500 in 2000, tourist arrivals reached about 2.7 million in 2001, up from 500,000 in 1985, and foreign exchange earnings from tourism reached U$2.7 billion in 2001. The diversification policy, supported by specific interventions and by the economic stabilization and reforms of the 1990s, paid off. Sugar's and other agricultural products share in commodity exports fell to around 7 percent in 2001 from 45 percent in 1985. The success of tourism and free trade zones, sectors working under clear and simple regulations substantially free of government interference, has shown the country that such a model can attract investment and generate growth.

1.11 Economic stabilization and growth have also led to improvements in social indicators and the country is poised to reach or make substantial progress towards the millennium development goals (MDGs) (see Table 1.1). Between 1986 and 1998 the poverty rate fell from 38 percent to 29 percent and the poverty gap fell from 43 percent to 33 percent;[2] and in 1995 people living under US$1 a day represented three percent of total population.[3] Education indicators also improved between 1995 and 1999: net primary enrollment ratio increased from 78 percent to 91 percent and the ratio of girls to boys in primary and secondary education remained at 102 percent. Child and infant mortality rates fell between 1990 and 2000. Despite the progress made, further efforts need to be made to reach the MDGs, including the pursuit of sustainable macroeconomic policies as well as some direct interventions.

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[2] World Bank, Dominican Republic: Poverty Assessment, Report No. 21306-DR, December 17, 2001, Vol I, Table 1.6.

[3] Using households as the unit of observation and a multivariate analysis method to calculate poverty, the Planning Department (ONAPLAN) estimates poverty rates of 55 percent in 1991 and 52 percent in 1998.

Table 1.1 Dominican Republic - Millennium Development Goals

Indicators	1990	1995	1999-2000	2015**
1 Eradicate extreme poverty and hunger				
Population below $1 a day (%)	..	3	..	..
Percentage share of income or consumption held by poorest 20%	..	..	5	..
Prevalence of child malnutrition (% of children under 5)	10	6	..	5
Population below minimum level of dietary energy consumption (%)	27	..	25	14
2 Achieve universal primary education				
Net primary enrollment ratio (% of relevant age group)	..	78	91	100
Percentage of cohort reaching grade 5 (%)	..	..	84	100
Youth literacy rate (% ages 15-24)	88	89	91.1*	100
3 Promote gender equality				
Ratio of girls to boys in primary and secondary education (%)	..	68	103	100
Ratio of young literate females to males (% ages 15-24)	102	102	102	100
Share of women employed in the nonagricultural sector (%)	35	36	..	..
Proportion of seats held by women in national parliament (%)	9	..	24	36
4 Reduce child mortality				
Under 5 mortality rate (per 1,000)	59	47	46.8*	20
Infant mortality rate (per 1,000 live births)	51	43	38.9*	17
Immunization, measles (% of children under 12 months)	96	96	96	100
5 Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	230	110	230	77
Births attended by skilled health staff (% of total)	92	96	..	90
6 Combat HIV/AIDS, malaria and other diseases				
Prevalence of HIV, female (% ages 15-24)	..	..	3	..
Contraceptive prevalence rate (% of women ages 15-49)	56	64	..	..
Number of children orphaned by HIV/AIDS	..	..	7900	..
Incidence of tuberculosis (per 100,000 people)	..	..	135	..
Tuberculosis cases detected under DOTS (%)	..	..	7	..
7 Ensure environmental sustainability				
Forest area (% of total land area)	28	..	28.4*	>28
Nationally protected areas (% of total land area)	..	25	32	>31
GDP per unit of energy use (PPP $ per kg oil equivalent)	6	6	6	..
CO2 emissions (metric tons per capita)	1	2	2.8	..
Access to an improved water source (% of population)	78	..	79*	89
Access to improved sanitation (% of population)	60	..	71*	80
8 Develop a Global Partnership for Development				
Youth unemployment rate (% of total labor force ages 15-24)	..	34	..	..
Fixed line and mobile telephones (per 1,000 people)	48	82	187*	
General indicators				
Adult literacy rate (% of people ages 15 and over)	80	82	84*	
Total fertility rate (births per woman)	3.4	3.1	2.7*	
Life expectancy at birth (years)	66	67	67*	
Aid (% of GNI)	1.5	1.1	0.3*	
External debt (% of GNI)	65	40	25*	

Source: World Development Indicators database, April 2002

Note: numbers have been rounded to the nearest integer; * 2000; ** target

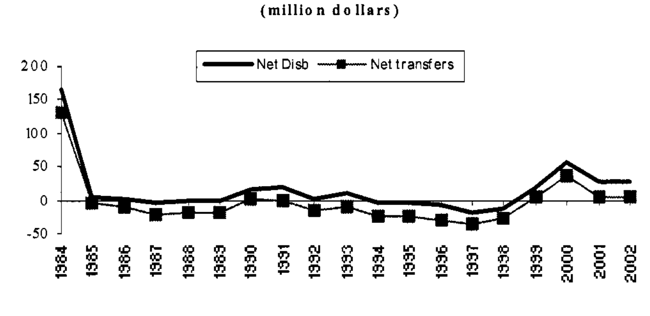
1.12 To sustain a rapid pace of economic growth and fully reap the benefits of previous reforms, the Government needs to continue with prudent fiscal, monetary and exchange rate policies. It also needs to improve the transparency in the use of public funds, enhance policy coordination, strengthen public administration, and create conditions to deepen the financial sector and intensify domestic competition. High effective protection, poorly targeted subsidies, price controls on agricultural products, and multiple currency practices still create distortions and waste resources. Regulations and cumbersome procedures make it costly to start new companies.[4] Traditional industry and agricultural production continue to operate under strong state intervention and barriers to competition. State ownership of vast holdings of crop land and of the irrigation system, together with ill-defined property rights in rural and urban land, distort factor markets and discourage investment in agriculture and urban areas. Free water encourages excessive irrigation and degrades the environment. The electricity company continues to absorb about $250 million per year in fiscal transfers. The recent remarkable growth benefited urban areas more than rural areas; faster growth of agriculture and targeted social policies are needed to reduce rural poverty.

1.13 The problems listed above show the opportunities that exist for improving the performance of the country. The country still exhibits elements of a dualistic economy, with some sectors like tourism and the free trade zones operating at international competitive levels, and others producing for the domestic market, like agriculture and industry, protected from international competition and burdened by regulations. The rules and regulations that govern economic activity in sectors serving the domestic market should be equalized with the ones that apply to the tourism and export processing zones sectors, to unleash the economy's full potential.[5]

2. The World Bank's Assistance Program

2.1 The Bank has been a small player, both in terms of financial flows and policy influence, in the Dominican Republic during 1985-2002. Net transfers were negative from FY85-FY98 (except for FY90) and have been only marginally positive since FY99 (Figure 2.1). Financial assistance from the Bank has been substantially lower than that provided by the Inter-American Development Bank (IDB). As discussed below, beginning in FY88, in spite of a legacy of difficult country dialogue, the Bank maintained an active and influential policy dialogue in the late 1980s,

Figure 2.1 - Net Disbursements and Net Transfers
(million dollars)



[4] A Harvard University-World Bank study found that to start a company in the Dominican Republic a budding entrepreneur needs to follow 20 procedures which take 20 days at a cost of 41 percent of per capita GDP. This is higher than the world average which is 10 procedures and only 0.5 percent of per capita GDP.

[5] The Government notes that deregulating and opening to competition in the agriculture and industrial sectors requires greater caution than was required for the opening up of communications, tourism and free trade zones.

helping to shape the New Economic Program, and its ESW in the early 1990s pointed out the agenda for reforms that would consolidate the gains from the initial effort in 1990. But, unconvinced of the Dominican Republic's ability to sustain the reform effort, the Bank operated without an official country strategy from FY92-FY95 and the Bank did not lend during a crucial period of successful economic reform. In the second half of the 1990s, the Bank formulated official strategies and has become more active, especially in its lending program.

Bank Assistance Strategies

2.2 *The 1988-1992 assistance strategy.* Bank strategy during this period was born out of a history of difficult relations with the country, characterized by ineffective policy dialogue on key economic and social issues. In 1988 the Bank prepared a Framework for Economic Cooperation indicating how and under what conditions it would support the country. The strategy sought (a) to establish an effective dialogue and rebuild the Bank's image; (b) to have net positive transfers to the Dominican Republic; and (c) to use the Bank's analytical work and lending operations to support Government efforts to stabilize and reactivate the economy. The Bank proposed a core program of investment projects addressing sector–specific deficiencies. The Bank was ready to provide quick–disbursing policy–based loans if the Government pursued appropriate policies. The proposed core lending program for FY88–92 of US$521 million consisted of three loans for agriculture, one for environmental protection/forestry, one for primary education, one for health, two for power, one for roads, one for water and sanitation and two for industry. Eventually, the Bank lent less than half of the proposed amount, and adjustment lending never materialized.

2.3 *The 1994-1996 assistance strategy.* The region prepared a draft country strategy paper for 1994-1996 but this never became an official Bank strategy. From the draft document, it is clear that the Bank had misgivings about the direction of the country and the stability of the political situation. The Bank believed that the durability of the Government's macroeconomic reform was questionable, structural distortions would undermine the sustainability of long-term growth, and institutional weaknesses were so severe that investment lending would not be successful. Subsequent developments have shown that the Bank's concerns were unjustified, especially as regards the Government's ability to sustain macroeconomic stability.

2.4 *The FY96-99 CAS.* In view of the success of the 1990 reforms in restoring stability and promoting growth, the 1995 Bank's assistance strategy focused on: (a) sustaining growth; (b) investing in human capital; (c) privatizing the power sector; and (d) improving natural resource management. Macroeconomic stability and financial sector reforms were needed to maintain high growth rates. Investment in human resources was necessary to improve the country's human capital base and support the strategy to reduce poverty. Privatizing the power sector was needed to improve its efficiency and its finances, and to reduce its drain on public finances. Bank assistance in natural resource management would seek to reduce the public sector's involvement in land ownership and in the production, pricing and distribution of agricultural commodities. The CAS proposed that the Bank should proceed cautiously by initially using policy dialogue through ESW, IDF grants and informal outputs to build a domestic consensus. Once the Government adopted a reform program, then the Bank would support the Government with investment lending. As a consequence, the CAS proposed a lending program of US$ 200 million over FY96-99 for five operations in power, irrigation, transport and social services, "to capitalize on windows of opportunity, where there is sufficient consensus and good prospects for reform." The CAS proposed to support the Government's program with ESW in the social and natural resources sectors, and technical assistance and policy dialogue on macroeconomic and financial sector issues. During FY1995-99 the Bank lent US$173 million for projects in roads, education, health, agriculture and environment and $111 million for recovery from the disasters caused by Hurricane George.

2.5 *The FY00-02 CAS*. This CAS program had two objectives: (a) help the people of the Dominican Republic strengthen their consensus around the steps required for implementing the unfinished reform agenda; and (b) support the country to "maintain a firm direction toward the long-term goal of reducing poverty." The pilot Comprehensive Development Framework would help strengthen the consensus. The strategy for reducing poverty focused on: (a) sustaining economic growth; (b) increasing the access of the poor to the benefits of growth; and (c) implementing environmental policies for sustainable development. During CAS consultations it was agreed to leave out of the assistance program a fourth area, modernizing the public sector, because IDB was supporting a large public sector and public expenditure reform program. To achieve these objectives the CAS proposed to support: (a) reform in the financial sector, including social security, better business environment for the private sector, liberalization of trade and reform of the agricultural sector; (b) improvement in educational attainment and access to health services, to the justice system, to land and basic infrastructure, and to basic safety nets for the extremely poor; and (c) improvement in the environment, rural development and the tourism sector. During FY2000-2003 the Bank lent US$88 million for education, health, water supply, and telecommunications.

2.6 Successive Bank strategies have been relevant. But clearly the absence of a strategy and the Bank's limited involvement in the Dominican Republic in the early to mid-1990s missed an opportunity to support the economy's turnaround and influence the scope of the structural reform program. The Bank decided to reduce its involvement because it believed the country lacked the institutions required for a higher level of Bank support to succeed. The Bank's program is only now recovering from this gap. Also, the scope of proposed Bank activities in all of the strategies proved to be too ambitious. Nevertheless, the objectives of Bank strategies rightly focused on the need for stabilization policies and structural reforms to bring stability and growth. Also they targeted assistance to those sectors whose development were essential for growth: tourism, transport, agriculture, education, health, telecommunications, free trade zones. The increased focus on the social sectors in the last strategy has been appropriate and is reasonably aligned with the MDGs. The adjustment lending never took place because the country carried out the reforms without recourse to it and the Bank remained skeptical of the authorities' ability to sustain reforms; however, it did use the IMF to support the reform program.

Bank Instruments

Lending

2.7 Bank lending has been uneven throughout the evaluation period. After approving six loans in 1985-91, there was no lending for three years. Lending resumed in 1995 and since then the Bank has approved 11 loans.

2.8 Over the period 1985-2003, the Bank approved 17 loans for $642 million, with the bulk of it going to infrastructure development and reconstruction ($406 million in energy, transport and natural disaster reconstruction). Bank lending has gradually evolved from infrastructure support towards social and basic services: in the 1980s lending supported the development of infrastructure and institutional change in the roads and electricity sectors; in the latest CAS period it is supporting activities primarily in social and basic services, as well as a large loan in the aftermath of an hurricane to help mitigate natural disasters. As already noted, the Bank's lending program was non–existent (See Table 2.1) when important changes in economic reform were implemented. Two reasons account for this: President Balaguer was averse to foreign borrowing, and Bank Staff were skeptical about the country's ability to sustain the reforms and to properly execute projects.

Table 2.1 - World Bank Commitments, FY1985-2003 (US$ million)

	FY1985-89	*FY1991*	*FY1995-98*	*FY1999-01, 2003*	*Total*	*Projects*
Financial Sector (Free Zones)	30				**30**	1
Energy	105				**105**	1
Transport (Roads)	36	79	75		**190**	3
Education	6	15	37	45	**103**	5
Health, Nutrition and Population			30	25	**55**	2
Water Supply and Sanitation				5	**5**	1
Global Information & Communications Technology				12	**12**	1
Natural Disaster -Hurricane George				111	**111**	1
Rural Sector			28		**28**	1
Environment			3		**3**	1
Total	**177**	**94**	**173**	**199**	**642**	**17**
Loan size	44	47	35	33	38	
Lending per year lent	44	94	43	50	49	

Note: numbers have been rounded to the nearest integer.

2.9 OED ratings for five projects approved between FY86 and FY91 indicate only a modest performance as regards efficacy (see Table 2.2).[6] Of the five completed and rated loans, one (Primary Education) achieved its objectives in a highly satisfactory manner;

[6] Six loans have been closed, and one of them, the *Vocational Training Project* (Loan 2558-DO, FY85), for US$5.8 million, was cancelled prior to effectiveness. The Bank cancelled it in November 1986, after Congress did not approve the loan, a legal requirement for all externally financed projects. Also, the new administration of President Balaguer did not endorse the operation. OED does not rate cancelled projects.

one was rated satisfactory; two achieved their objectives in a marginally satisfactory manner, and one was unsatisfactory (Power). One project (Highway Maintenance) had a substantial impact on institutional development. These ratings are below the LAC and Bankwide averages; however, these ratings apply to old projects which were approved before significant political and economic changes occurred in the Dominican Republic. Evidence of more recently approved, but still ongoing, projects indicates that the performance of lending operations has improved and that there are no projects and commitments at risk now. This is better than the average for the LAC region and the same as for comparator countries (Guatemala, Honduras, and El Salvador.)

Table 2.2 – OED Project Ratings: 1985–2002
(percent of net value of commitments)

	Dominican Republic	*Latin America*	*Bankwide*
Satisfactory Outcome	60	80	78
Substantial Institutional Development Impact	30	48	44
Likely Sustainability	46	71	65

The satisfactory rating includes projects rated marginally and highly satisfactory.
Source: OED ratings database as of September 2002.

1985-1991

2.10 During the period the Bank granted six loans for US$ 271 million, roughly half the amount proposed in the FY88-FY92 assistance strategy. Lending for transport, power, free trade zones and education were realized, but planned lending activities in agriculture, environment and health were not realized, partly due to lack of counterpart funds to finance the projects, and partly due to the difficulty of carrying out structural reforms in the agricultural sector. Also, when Government finances improved the authorities did not see the need to borrow from the Bank, in part because the Government considered excessive the conditionality of the loans.

2.11 The *Industrial Free Zone Development Project* (Loan 3033-DO, FY89) for US$30 million sought to promote exports and improve the management and rationalize the development of the free trade zone (FTZ). The loan provided term finance for private free zone developers and exporters, funds for training staff of the investment promotion agency, and funds to pay for consultants. The loan helped the private sector to provide and expand the infrastructure in the FTZs, and gave the private sector access to long-term finance, overcoming obstacles to the provision of long-term credit from the financial system. The loan's technical assistance, inter alia, helped distribute textile quotas transparently and fairly, simplify custom procedures in FTZs expansion, and plan for future FTZ and industrial development zones.

2.12 The *Power Sector Rehabilitation and Distribution Project* (Loan 2949-DO) for US$105 million supported the Government's attempt at improving the reliability of the electricity service provided by the Corporación Dominicana de Electricidad (CDE). The loan failed to meet its objectives of improving operational efficiency and restoring financial solvency to CDE. At loan closing three transmission stations had not been completed; CDE could not meet 15 percent of the demand for electricity; electricity losses had increased from 33 percent in 1986 to 40 percent in 1994 and illegal connections to the distribution system remained high. CDE's financial position remained weak despite a 121 percent tariff increase between 1988 and 1993. Finally, the Government did not keep its commitments for arms-length regulation of CDE.

2.13 The Bank supported two operations in the road sub-sector during the early assistance period. The *Third and Fifth Road Reconstruction Projects* (Loans 2609-DO and 3350-DO in FY86 and FY91) for US$35.8 and $79 million supported the Government's strategy of preserving the country's main road network, improving and strengthening the institutional capability of the Secretariat of Public Works (SEOPC) to plan and maintain roads, and increasing the availability of road operating equipment. [7] The loans achieved their objectives of improving road infrastructure and procuring equipment and spare parts, and had some success in building institutions. At the conclusion of the Fifth Road project, the proportion of roads in good condition increased from 43 percent in 1987 to 81 percent in 1997. The loans achieved their physical objectives with some shortcomings—the third project used less than adequate paving techniques leading to higher than expected costs --, and the institutional change only materialized during the *Fifth Road* project.

2.14 The Bank extended two loans for education during the early period. While one was cancelled before effectiveness (*Vocational Training*), the *Primary Education Development Project* (Loan 3351-DR for US$15 million in 1991) had a highly satisfactory outcome. It sought to support improvements in the quality of primary education, increase the enrollment of children from low income families, and to strengthen resource management. The project achieved all its objectives, was closed 18 months ahead of schedule and surpassed its original expectations, financing the training of 10,000 teachers, supervisors and administrators, upgrading 2,000 classrooms, and improving a school nutrition program that almost doubled the number of beneficiaries and reached 365,000 children. More importantly, the loan, together with a parallel one from the Inter-American Development Bank (IDB), played a central role in supporting the *Plan Decenal* for the education sector, a plan drawn by the government, the private sector and civil society.

1992-2003

2.15 The Bank did not lend during FY92-FY94, and resumed lending in FY95, following the course laid out in the FY95 CAS. The first agriculture/irrigation loan—the *Irrigated Land and Watershed Management Project* (Loan 3875-DO) for US$28 million—was designed to improve small-farmer income in selected areas and to test and develop methodologies for efficient delivery of services to farmers for the management of water and for the operation and maintenance of irrigation systems. If successful, these methods would later be replicated nationwide. The project's two main components, about 80 percent of project costs, financed the completion and rehabilitation of irrigation infrastructure (distribution systems, main canals, and drainage and land leveling) and the strengthening of user groups and the National Water Resource Institute (INDRHI). Less than 50 percent of the loan has been disbursed, and although the latest project status

[7] There was not a fourth road project

report rates overall project execution as satisfactory, it rates the execution of the infrastructure component unsatisfactory because the bidding process for works has not been completed; the closing date for the project is 12/31/2003, as planned originally.

2.16 Following the irrigation project, the Bank prepared a series of follow-up lending operations in areas where there had been past successes—education and road transport. The *Second Basic Education Development Project* (Loan 3951-DO, US$37 million, FY96) continued the Bank's support to the education sector. The project, prepared in coordination with the IDB's loan for $52 million, supported the Government's development and investment program for basic education in 1996-2000. The project shows good progress in implementation, more than 85 percent of the loan amount has been disbursed, and it is expected that at closing it will have achieved its objectives – national curriculum reform, provision of educational materials and resources, human resource development, national student assessment, school nutrition program, construction and rehabilitation of school facilities, and better management and strengthening of communications between schools and Secretariat of Education.

2.17 The *National Highway Project* (Loan 4127-DO, US$75 million, FY97) supported a pilot program for contracted maintenance of 640 kms of roads, SEOPC's efforts in bringing comprehensive contracted maintenance under that arrangement, and the Government's plan of putting in place a road fund financed with road user charges. Some of the project components have advanced well but delays in disbursing counterpart funds have delayed the completion of some of the works. Moreover, the Government has not advanced adequately in implementing its plan for strengthening the maintenance function (with the initial creation of a maintenance account and contracting out works with private contractors), and has not improved the SEOPC's capacity to preserve road assets and ensure the sustainability of the project's investments.

2.18 During the FY96-99 CAS period, the Bank also began lending for health and the environment, areas the Bank had indicated that it wanted to support. *The Provincial Health Services Project* (Loan 4272-DO for $30 million, FY98) intends to help the Government reduce maternal, infant and child mortality by 30 percent, to increase to 60 percent the proportion of mothers receiving four pre-natal visits, to increase to 95 percent the proportion of children with complete immunization schedule, and to increase to 90 percent of total the number of health facilities in compliance with standards for essential health interventions. Most of the project's physical objectives have been met, and the loan has been disbursed almost fully; the project is expected to be completed before the loan's closing date of 06/30/2004. Among the achievements to note: (a) the work of the project implementation unit in producing the norms and regulatory body for carrying out the General Health and Social Security Laws; (b) the successful experience in autonomous hospital management; (c) the construction of a new hospital; and (d) the implementation of management information systems in hospitals supported by the project.

2.19 At the end of the FY96-99 CAS period, the Bank moved quickly to support the country after the devastating impact of Hurricane George in September 1998. The *Hurricane Georges Emergency Recovery Project* (Loan 4420-DR, US$111.11 million, FY99) succeeded fully in helping the Government: (a) maintain high growth rates; (b) support the reconstruction and rehabilitation of infrastructure damaged or destroyed; and

(c) strengthen the country's institutional capacity to prepare for and respond to future emergencies caused by natural disaster. The $60 million fast disbursement component disbursed fully and met its development objectives, and other project components are expected to be completed within the extended closing date (5/15/2003).

2.20 A new CAS for FY 00-02 proposed a lending program of $340 million in FY00-02, through nine loans. In the event, the Bank has lent about $88 million for six projects, of which: (a) two in education to support the country's efforts to improve the access of children aged zero to five to pre-schools services (US$42 million) and to test the effectiveness and sustainability of a Distance Learning Center (US$3.4 million); (b) one in health ($25 million) to assist the Government in curbing the spread of the HIV epidemic; (c) one in water supply and sanitation for the development, on a pilot basis, of water and waste management in tourist areas (US$ 5 million); and (d) one in telecommunications to support the development of a regulatory framework for the sector (US$12 million). The loans are consistent with the objectives of the CAS, although the proposed adjustment lending in agriculture did not materialize, and the proposed lending for power was delayed, appropriately, to await improvements in the regulatory and legal framework.

Analytical and Advisory Services

2.21 During the 1990s the Bank emphasized analytical work—a large proportion of which was provided through policy dialogue and informal policy notes, as well as IDF grants and formal ESW—to support the Government's reform agenda in macroeconomic stabilization and structural reform and to develop sector specific reforms in power, and the social sectors. The macro economic work that supported the Government's New Economic Program in August 1990 and that was continued in the early 1990s focused on the country's main problems: fiscal, monetary, exchange rate and trade policies issues. This work delivered a consistent message for restoring growth: establishing fiscal balance, adopting prudent monetary policies, maintaining realistic exchange rates, reducing import tariffs, abolishing quantitative restrictions and reducing controls and interventions in prices. The Bank's AAA was carried out through informal, but effective and continuous, policy dialogue in the late 1980s and early 1990s—a critical period for the formulation and implementation of the New Economic Program. Later, the policy dialogue, which was supported by an economic management IDF, was less intense. Government officials, both past and present, acknowledge that the Bank's AAA played an important role, especially in the early 1990s. Larger, formal pieces of ESW—an Economic Report focused on trade policy in 1995, a Social and Structural Policy Review in 2000, and a Poverty Assessment in 2001—set out clear and appropriate agendas for the next stages of reform. The reports, more the result of Bank initiative than of Government demand, appear to have been less effective than the informal policy dialogue and support for economic management in the early 1990s. Six IDF grants for an amount of about $2 million have been granted for promoting administrative reform and institutional capacity building, for improving surveys of living conditions, for preparing a consensus on development priorities, and for development of communications infrastructure.

2.22 The impact of the Bank's sector work and dialogue has been more mixed, with some influence in energy, and to some extent, in the social sectors, and negligible impact in other areas. The joint UNDP-Bank's work in the power sector, *Issues and Options in the Energy Sector* (1991) proposed the eventual privatization of the energy sector and suggested reforms to improve sector performance, and helped initiate a dialogue that assisted the Government in preparing a draft law for sector reform. Reforms were carried out, but they have been insufficient to solve some of the problems that still plague the sector, like frequent blackouts and financial problems in the Compañía Dominicana de Electricidad (CDE). Early informal AAA on health and education provided an overview of the problems in the sector, suggested policy actions to improve performance, and helped shape Bank strategy for the sector. The work on agriculture (1994)—one of the most important sectors, was not successful in moving reforms forward. Similarly, the work on justice (2001) has yet to have an impact on policy reform. Finally, the Government valued highly the analysis and recommendations of the Financial Sector Assessment Report (2001), a joint Bank-IMF product. As a result of the work, the Central Bank asked for Bank's assistance to help it draft the law to reform the financial sector.

Participation

2.23 The Bank tried to improve development outcomes through a more inclusive process by fostering participation and dialogue between the different actors in the country. One effort in this direction was the promotion of a national dialogue through the pilot Comprehensive Development Framework (CDF), an effort that the Bank considered useful after Hurricane George hit the country. The Bank believed that the Dominican Republic exhibited some elements that made it appropriate for the CDF: strong ownership of policies, long-term vision and good development outcomes. With the support of the Bank and the participation of other donors, the Dominican Republic embarked during March 1999-December 1999 on an effort to develop a long-term vision over five themes where some consensus could be achieved:

- Policies to combat poverty;
- Economic policies that promote development;
- Modernizing the state;
- Policies that safeguard the natural environment; and
- Dominican-Haiti relations and economic development for their border areas.

2.24 The CDF dialogue had some promising aspects, but it has not been sustained. It brought together different actors to discuss some of the country's problems. Some of the problems discussed were incorporated into the agenda of the present administration. However, the agenda of the CDF dialogue missed some important topics (See Box 2.1) where agreement was difficult. It also missed the opportunity to create a vision for the role of donors in the development process, and to suggest ways to harmonize their efforts. After the initial effort, the CDF has not been sustained.

Box 2.1 Participation and Consultation: The Pilot CDF

During crises the Dominicans have succeeded in building consensus for reform, but they have yet to establish a permanent consultation process to influence policy decision-making for normal times. The solidarity pact after the economic crisis of the early 1990s led to the New Economic Program, credited with the high rates of growth of the nineties. The political crisis of 1994 led to a more open and democratic society, where free elections serve to select the representatives of the people. As political and economic life normalized, in 1995 the "Grupo de Acción por la Democracia", led by the Catholic Church and including NGOs, the private sector, labor unions and religious organizations identified development priorities but could not agree on the actions to take to achieve the objectives sought. In 1997, the Government promoted the "Diálogo Nacional" but failed to bring the main opposition party to the discussion. In March 1999, sponsored by the Bank under the comprehensive development framework, political parties and civil society organizations launched a new dialogue to discuss the priorities for national development.

The pilot CDF supported the dialogue but has not produced concrete results. The most remarkable achievement of the CDF was to facilitate discussions among political parties that refused to get together before that. The dialogue has not yet produced concrete actions to reduce poverty or achieve other goals, but country ownership for these goals was achieved.

The Pilot CDF illustrates the tensions implicit in the CDF principles. Although Dominicans controlled the agenda of the CDF consultations, the reform program that emerged from the discussion failed to be comprehensive and to deal with some of the most pressing problems of the country: fiscal, electricity, and financial sector issues, regulatory framework for privatization, and the problems of social security and property rights. Some participants in the consultation attributed the omission to the belief that it would be impossible to reach consensus on such controversial issues, and others expressed concern over whether an open discussion about the financial sector would worsen the already fragile situation in the banking system.

Some recommendations born from CDF consultations could lead to policies that hurt rather than benefit the economy. For example, the CDF emphasized reorganizing the central government and increasing public expenditures for social services, [8] while the Bank's Poverty Assessment Report (PAR) pointed out serious inefficiencies in the public provision of social services and to duplication of functions among government agencies. For agricultural trade policies, the participants agreed to reduce to 20 percent import tariffs for some agricultural products, and raise to 40 percent the protection for agricultural goods considered of massive national production; [9] such recommendation contrasts with the view of the 1999 CAS that saw liberalization in agriculture as an important step in reducing poverty. [10]

The experience of the CDF pilot illustrates that the CDF mechanism is useful but cannot substitute for open competition among political parties as a way to meet the demands of the voters. This finding is consistent with OED's evaluation of the CDF in other countries. In the Dominican Republic the CDF facilitated debate among rival political parties, including members of the opposition Partido de la Revolución Dominicana (PRD). In 2000, in open and clean elections, the PRD won a majority in both houses of Congress and captured about 90 percent of local governments.

3. The Development Impact of Bank's Assistance

Macroeconomic Stability and Setting the Stage for Rapid Growth

3.1 Development outcomes have improved significantly in the Dominican Republic in the 1990s.The New Economic Program, initiated in 1990, changed the course of

[8] See Pontificia Universidad Católica Madre y Maestra, Resultados del Proceso de Concertación sobre Prioridades del Desarrollo, (Santa Domingo, December 1999). The three principal policies agreed upon to fight poverty were to: (a) increase by one percent of GDP Government social expenditures and by another one percent public expenditures for employment generation and for technical training of workers; and (b) reorganize the administration of social policies of the Central Government.

[9] Ibid.

[10] Country Assistance Strategy, June 1999, p. 11.

development and the paradigm of economic management amongst key policymakers and politicians. The Fernández administration continued with the prudent and fiscal monetary policies of The New Economic Program and took measures to strengthen prudential regulation and banking supervision and steps to reform public enterprises. The present administration has stayed the macroeconomic course and is deepening the reforms, although, as noted earlier, some important sectors, e.g., agriculture, have not been reformed. Box 3.1 details the recent advances made in structural reform.

3.2 After the implementation of the New Economic Program the country's economic performance has been extraordinary. Annual real GDP growth averaged 2.9 percent in 1986-1990 and 6.0 percent in 1996-2000, and per capita income increased from U$860 in 1991 to US$1910 in 1999. Annual inflation fell from about 40 percent in 1986-1990 to about 7 percent per year in 1996-2000. The percentage of individuals below the poverty line fell from 37 percent in 1986 to 29 percent in 1998. At present, the poverty rate in the Dominican Republic is lower than that of countries at comparable levels of development.

3.3 The Bank played a role in providing policy advice on macroeconomic and structural reforms at the onset of the reform period. The Bank also gave subsequently substantive advice for reforms in some sectors (the external sector, the financial sector for preparing the monetary and financial code, the telecommunications sector, and in some areas of public administration, such as procurement). The Bank, however, has been an active participant in policy dialogue since. Notably, the Bank has been absent from privatization, an area where its experience and expertise could have contributed to smoothing the process and detecting potential pitfalls. As already noted, there was no financial support or adjustment lending for the macroeconomic program other than support through IDF grants.

Infrastructure to Support Growth

3.4 Bank lending for infrastructure has led to increases in the availability of, access to, and the reliability of infrastructure. However, a number of problems have also arisen, such as a weak regulatory framework and institutional weaknesses, which have reduced the overall impact of the Bank's interventions.

3.5 The power sector still has considerable difficulties, despite Bank and other donor lending and analytical support. These difficulties stem from a variety of factors. Between 1993 and 1997, while preparing a proposed Power II project, the Bank supported with advice and technical assistance the Government's efforts to privatize CDE's generation, transmission and distribution system and the legal and regulatory framework. But the Bank's work in the mid-1990s (see the CAS of FY1995 and the early project work) did not emphasize the importance of sequencing reform steps, and it paid too much attention to the promulgation of the electricity law rather than the need to have good regulations

Box 3.1 Ongoing and Recently Completed Structural Reforms as of 12/31/2002

Reform	Description	Status
Privatization/ Capitalization		
Playa Grande (owned by BCRD)	Sale of tourist resort to the private sector	First bid declared empty. Second sector bid in progress
State-owned sugar company (CEA)	Land sales to the private sector	Land leased to the private sector
Gold mine (owned by BCRD)	Lease to private sector	Bidding process finished (allocated to Placedorm (Canand)). Under negotiation of the contract
Dominican Painting Co.; Paper Industry	Create a joint venture	Bidding process in progress
Dominican Aviation Co.	Sale to private sector	Bidding process finished and allocated to Aeropostal, but under consideration as the company rejected to sign the contract afterwards. Under analysis
State-owned free-trade zone parks	Sales to the private sector	In preparation
Financial Sector		
Monetary and Financial Code (IMC)	Strengthen central bank independence and banking supervision and regulation	Approved by Congress in 2002
Social security law	Substitue pay-as-you go with individually capitalized system	Approved by Congress in 2001; administrative regulations still pending
External Sector		
General customs	Make customs system more efficient and transparent	GATT valuation system implemented in summer 2001
Tariff reform	Liberalize trade and reduce tariffs	Tariff rates reduced in January 2001 and further reductions are planned for 2002
Export incentives	Promote exports through systems of drawbacks on custom duties and levies	Approved by congress in August 1999; administrative regulations approved in February 2000
Foreign exchange commission	Gradual reduction and abolition	Reduced from 5% to 4.75% in September 2001. Procedure for its reduction established in the draft of the MFC
Foreign exchange surrender requirements	Abolish foreign exchange surrender requirements	Surrender requirements on selected activities eliminated in November 2001. Complete elimination in the drat of MFC
Public Sector Reform		
Integrated financial management program (IFMP)for public sector	Aim is to improve efficiency and transparency of government operations	Project approved by congress in October 2000; pilot programs under way in health and education sectors; discretionary expenditure account of presidency to be made transparent by 2002
Modernization of the Executive Power	Improve macroeconomics policy coordination, streamline government structure	Congressional approval pending
Public accounting law	Modernize public accounting system	Congressional approval pending
Public procurement law	Establish more competitive rules for public procurement	Congressional approval pending
External debt management	Rationalize debt contracting and management procedures	Unit for external financing analysis created. Sound principles for debt management to be established
Regulatory Reforms		
Electricity law	Establish modern regulatory framework and regulatory body	Completed in August 2001
Petroleum products law	Establish a fixed tax on domestic fuel consumption	Completed in December 2000
Property rights regulation	Establish new property rights law	Approved by congress in July 2000. Pending establishment of administrative regulations.
Anti-trust legislation	Establish legal framework to deal with anti-competitive behavior	Passed two (property rights and copyright law) of five "books" of supporting legislation in July 2000
Telecommunications	Establish modern regulatory framework	

and strong regulatory institutions that could have prevented some of the problems still plaguing the system. By 1997 conditions in the sector had changed so much that the Bank abandoned the proposed Power II project and started preparing a new one, which was more clearly conditioned on changes in the legal and policy framework (promulgation of electricity law, complete declaration of sector policy, defined strategy for financial viability of the sector and restructuring of CDE, separating its transmission and generation parts). In the late 1990s, after Congress approved a privatization law but before it approved the electricity law, the Government privatized part of the generation system and the entire distribution system, and kept the transmission system under CDE control. The evidence from the DR supports the view that fundamental regulatory, institutional and governance issues should be addressed prior to privatization. Because of the lack of regulatory reform prior to privatization, the sector is plagued by large financial losses, unreliability of supply, and a "non-payment" culture. But it is important to note that even the early unsuccessful project and the two proposed projects are credited for: improving procurement and construction standards; demonstrating the need for major structural changes in the organization and institutions that govern the system; assisting the Government in preparing a new electricity law; and supporting the Government in retaining the services of international consultants for the corporatization and divestiture of CDE.

3.6 In roads, the three projects that the Bank has financed during the evaluation period have had a positive impact: rehabilitating and upgrading about 28 percent of the country's paved roads, lowering transport costs and introducing changes in road building practices. The Hurricane George emergency reconstruction loan also provided support to repair and strengthen roads and bridges. Bank assistance in the roads sector also helped to demonstrate that the private sector can maintain and rehabilitate roads, and that user charges can finance the full cost of maintenance. But there were a number of shortcomings in the Bank's support to the roads sector. The Bank failed to control for quality and good design and to evaluate risks properly. Moreover, implementation of the latest road project indicates that the Government may be unwilling to take the steps necessary to contract out maintenance with the private sector and to make road maintenance funding self-sustainable.

Agriculture and Supporting Livelihoods in Rural Areas

3.7 According to poverty data, roughly 40 percent of rural residents and those who depend on agriculture for their livelihood are poor, compared to about 20 percent in urban areas. Poverty analysis also shows that rural areas have much less access to education and water supply and sanitation services than rural areas. Therefore, the inadequate progress on reform in agriculture sector is an important gap in the Dominican Republic's development strategy and the Bank's assistance program. The Bank's analysis clearly shows that "misdirected agriculture policies"— high levels of effective protection, government ownership of land, price interventions—lie at the root of the slow income growth and the high level and persistence of poverty in rural areas.[11] Yet,

[11] In the management response (see Attachment B), the LAC region notes that Bank support for agricultural reform had not materialized because the Government had not yet formulated a reform strategy for the sector. The Government's position (see footnote 5 of page 6 and in its letter and Attachment A) notes the difficulties in achieving a consensus to carry out reforms in the sector.

the Bank has not had an effective dialogue nor effective lending in rural areas. Only one project in irrigation has been approved in the agriculture sector and this project, under implementation, has yet to show that it can achieve its objectives. Moreover, successive Country Assistance Strategies have not devised strategies to increase the effectiveness of the Bank's assistance in rural areas.

Social and Basic Services to Support Growth and Poverty Reduction

3.8 Since the last CAS the Bank has concentrated a considerable amount of its lending to improve the situation in the social sectors. As discussed in the first section, there has been significant progress in social indicators, but some indicators lag those of countries at similar levels of development. Poverty has declined, illiteracy is declining, enrolments are rising, and mortality rates are declining. Moreover, the Bank's program is reasonably well aligned with the MDGs, focusing on primary enrolments in the education projects, maternal and infant mortality in the health projects, and the LIL for HIV/AIDs. As shown in Table 1.1, progress is being made towards reaching the MDG goals, and although the Bank's interventions in the social sectors are designed to help achieve them, the Bank and the rest of the development community must help build capacity for monitoring progress towards the MDGs. The Bank has produced a high quality Poverty Assessment that examines expenditures in the social sectors, but it will take sometime to know the full impact of the report on Government policy.

3.9 The Bank's most significant effort—both lending and analytical work—has been in education, where the Bank has provided five loans, of which three remain active. Implementation of the education loans has been good. As noted earlier, the *Primary Education* loan achieved all its objectives, was closed 18 months ahead of schedule and surpassed its original expectations. The loan, together with a parallel one from the Inter-American Development Bank (IDB), played a central role in supporting the *Plan Decenal* for the education sector, a plan drawn by the government, the private sector and civil society. The loans constituted the largest source of financing for investment in basic education during the first half of the *Plan Decenal*. Without that financing the expansion of the system would not have taken place. Technical assistance from Bank staff helped in a significant way to improve the quality of the staff in the Ministry of Education, and financing of external consultants helped to design payments incentives that would reward teachers according to performance.

3.10 While it is still too early to measure outcomes, the Bank's support to the health sector also appears to be achieving success. The project, which is designed to reduce maternal, infant and child mortality, is being implemented quickly and apparently effectively.

Assessment of the Bank's Assistance Program

3.11 OED rates the outcome of the Bank's assistance program as moderately satisfactory. The implementation of the New Economic Program stabilized the economy and set in motion a period of sustained growth. Successive administrations have maintained economic stability and gradually broadened the reform program. Bank assistance contributed to the formulation of the New Economic Program and supported, to a limited extent, the continuation of reform efforts, although the intensity of the

Bank's dialogue on macro issues weakened after the New Economic Program. In the late 1990s it has begun to recover. Several social indicators remain below the levels of countries at similar income levels. The Bank's program has supported improvements, especially in education, where it had an important influence. Progress on infrastructure has been mixed; there have been improvements in access but shortages persist and there has been inadequate attention to institutional and regulatory issues. Agriculture and rural development are critical gaps in the country's reform program and the Bank's assistance strategy. The relevance of the assistance program was limited, because of the lack of continuity in the dialogue, the absence of Bank lending during critical times and because the Bank was not pro-active in some key structural areas where it has a comparative advantage, like privatization.

3.12 The efficacy of the Bank's program was also limited. The Bank's dialogue has helped to promote reforms, but there has been variance across sectors and over time. The overall impact of lending operations was small; net transfers have been low or negative. Efficiency, on the other hand, is high. For the 1991-2001 period, operations in the Dominican Republic are cost-effective per approved project. Overall cost (including the costs of loan preparation and supervision, and economic and sector work) was about \$0.76 million per loan. That was 25 percent below the average cost for Latin America, 40 percent below the cost of Bank-wide operations, and lower than for similar countries in the region with projects of similar size (see Annex Tables 6A and 6B).

Sustainability

3.13 The progress achieved in attaining and maintaining macroeconomic stability and the steps to liberalize the economy are likely to be sustained. A political consensus has evolved that realizes the benefits and understands the importance of economic stability. Moreover, the structural reforms that have been accomplished have also been based on a consensus among the key actors in the economy and are likely to be sustained.

3.14 There are three risks to sustainability at this time. First, in the near term, the Mejía administration's social strategy for the poor is putting some strain on the budget, which is being financed through foreign borrowing. The Government needs to make sure that its objective of helping the poor does not put undue pressure on the fiscal situation nor lead to a too rapid buildup of foreign debt. Second, the Government needs to ensure that improvements in the regulatory framework and institutional capacity keep pace with the reform program, so that the benefits from reform are not captured by a narrow portion of the population. Finally, over the longer term, the slower pace of reform of agricultural and rural policies could increase social pressures and create political instability.

4. Attribution

Bank Performance

4.1 The Bank has made a modest overall contribution to development outcomes in the Dominican Republic during the period of the evaluation. Bank involvement has varied in intensity throughout the period, and in the most recent period it has been getting more effective, after an absence in the mid-1990s. Three factors underlie this assessment of the Bank's contribution. First, Bank financial support has been limited, totaling annually only US$ 5 per capita (compared to US$ 7 to El Salvador and US$ 18 to Jamaica over the same period, and to the IDB's annual average of US$ 13 for Dominican Republic, since 1993). Between FY85 and FY98 net transfers were negative (except for FY90). Since FY99, they have been positive, but only averaged US$ 12 million annually. Importantly lending has continually been lower than CAS targets. Second, overall, the effectiveness of the Bank's policy dialogue and analytical work have varied in intensity, ranging from highly effective in the late 1980s and early 1990s as the Government formulated the New Economic Program to virtually non-existent in the mid 1990s, and improving in the last few years. Finally, the Bank lending operations have been mixed in performance and coverage until recently. The Bank did not provide any adjustment lending to support the impressive turnaround in economic performance during the 1990s, despite objectives set in successive CASs. There have been a number of shortcomings, such as in power, and gaps, such as agriculture, in the Bank's investment lending.

4.2 One important factor behind the Bank's limited involvement is a legacy of very difficult relations between the Bank and the Dominican Republic. Up until about 1987, the dialogue was uneasy, due to a combination of country sensitivity to external interference and Bank skepticism about country commitment. Institutional weaknesses in the public administration, disappointing project execution, and continuous policy interventions by the Government, all contributed. The period was characterized by never-ending attempts to improve project implementation, unsuccessful efforts to put in place a relatively firm pipeline of projects, threats by the Government to stop servicing its debt to the Bank unless net flows turned positive, and Bank efforts to avoid default.

4.3 Around the time of the 1987 Bank reorganization, the Bank made a new effort to improve the dialogue and agreed with the authorities on a framework for cooperation which would clearly indicate how and under which conditions support from the Bank could be expected. Under the framework, if the Government implemented measures needed to restore an appropriate macroeconomic framework the Bank would consider quick disbursing policy based lending; alternately, the Bank would limit its involvement to project lending. At the time, the Bank's strategic objective was to use its analytical work and lending operations in support of the Government's efforts to stabilize and reactivate the economy, and increase the availability of foreign exchange. Sector work would be preceded by demonstrated Government interest and concrete evidence that Bank analysis could form the basis for future lending.

4.4 By mid 1988 some progress was evident, and the Government, with assistance from the Bank, prepared its first medium term policy framework and attended its first meeting of the Caribbean Group for Cooperation in Economic Development since 1981. In 1989 the Bank assisted in the revision and updating of the medium term framework. In the first half of 1990, at the request of President Balaguer, the Bank prepared a report outlining the policy options for dealing with the economic problems affecting the country at the time. [12] The report helped a Technical Commission formed of

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[12] La República Dominicana. Marco de la Cooperación. La Situación Económica y Respuestas de Política Económica, 29 de abril de 1990.

functionaries from the Central Bank and the Technical Secretariat of the Presidency to prepare the stabilization and adjustment measures necessary to deal with the crisis. Bank staff, staff from the local UNDP office and external advisors participated in the assessment of the Technical Commission's Draft Economic Program.

4.5 The new Economic Program was a major turn around in economic and debt management, which has been sustained since. But the Bank remained skeptical about the country's economic prospects and the quality of its economic management, and this skepticism ultimately shaped the direction of the Bank's assistance strategy. By late 1992 the Bank attributed its modest exposure in Dominican Republic to the country's historical reluctance to seek external financing, but also to the Government's poor commitment to reform, to the limited institutional capacity to prepare projects suitable for foreign financing, and to the poor implementation capacity of most public institutions. The Bank, which had stepped up its collaboration in the late 1980s, pulled back. It saw important macroeconomic risks in the economy, even when the Government was meeting its targets under the stand-by agreements with the IMF. The Bank believed that the country faced intractable questions of governance and institutional capacities, and eventually did not lend during 1992-94, thereby missing the opportunity to assist the country during the crucial first few years of the reform process.

4.6 The Bank tried to maintain the dialogue in the years that followed, but it has not regained the influence it had before. During the past 10 years the Bank has had little contact with the Central Bank, the country's central policy making body. More recently, it has tried to step up that contact, but it is yet to establish a continuous dialogue with the authorities in areas where the Bank can offer expertise. As a result of this, the Bank has missed the chance to provide advice at times when the country embarked on important reforms (See Box 3.1 above), such as the privatization of public enterprises. Two important pieces of formal ESW—the Social and Structural Policy Review (SSPR) and the Poverty Assessment—have outlined the main development issues, but their impact on policy reforms remains uncertain.

4.7 Bureaucratic factors have also played a role in the Bank's limited involvement in the Dominican Republic. Internal Bank reorganizations have affected the work on the Dominican Republic significantly. The Dominican Republic shifted departments within the region several times in the 1990s, which led to multiple managers and interlocutors for the country. That instability hindered the Bank in developing solid relationships with Government counterparts, and made it difficult for the Government to know who in the Bank they should talk to. Conditions have improved significantly since 1997, with the same manager in charge of relations with the country for an extended period, and there is potential for further improvement following the creation of a field office in 1999.

4.8 In a number of instances, Bank performance has been an important factor in the slow implementation of projects. Some projects were poorly designed or failed to account for administrative and institutional constraints. Project design did not always take into account that Congress has to approve the foreign loans to the Government. This led to delays and sometimes, as in road projects, hasty and inadequate redesign. Trying to bypass necessary prior institutional and regulatory changes led to unsatisfactory outcomes, as in the energy sector. The Bank also did not address well-known procurement and disbursement problems, which contributed to delays in implementation. In the late 1980s, the Bank and Government discussed the possibility of establishing a unit at Central Bank to help solve these problems but the Bank never followed up. The Bank has subsequently learned from its mistakes. Supervision efforts have been intensified, tasks managers turnover has been reduced, and a procurement specialist has been added to the Santo Domingo office.

Borrower's Performance

4.9 After several years of economic mismanagement that led to the 1990 crisis, macroeconomic management has improved significantly. This has resulted in rapid growth and poverty reduction. After the reforms of August 1990, the pace of reform slowed down in the early 1990s but accelerated in the second half of the 1990s, covering a broad spectrum –trade policy, financial sector, privatization, telecommunications and others. Still, the reform program has had notable gaps, and government intervention remains in several critical sectors, pulling down the performance of the country below its potential. In order to maintain the momentum of growth and reduction in poverty, it is necessary to address some politically difficult reforms.

4.10 At project level, the Government had systematic problems in execution. Major delays have been the norm, in part because all loans to the Government have to be approved by Congress. Audits usually failed to meet project management provisions or sound Bank reporting standards. Timely delivery of counterpart funds could have prevented problems with contractors, who on many occasions claimed that payments had been delayed when the delay was unrelated to time overruns in the completion of works. Technical problems appeared frequently in the road projects, due to an improper revision of the original engineering design. Contract awards made to some marginally qualified contractors suggest that such awards were not made in strict conformance with the Bank procurement guidelines.

Aid Coordination

4.11 The Bank did not coordinate well its external assistance to the Dominican Republic with other donors. The Bank worked together with the IDB in some sectors, but even here did not coordinate its assistance well. When IBRD and the IDB used separate management units for their primary education projects the Government had to duplicate its efforts, its administrative functions and its supporting inputs, causing some program elements to develop in different directions and converge only after many years of project implementation. Had the institutions coordinated their projects better, for example, the lessons on teacher training from each project's model could have been consolidated earlier, not seven years after the project started.

Other Partners

IMF

4.12 Since 1985 the **IMF** has approved three stand-by agreements for SDR150 million (August 1991, March 1993 and March 1994), helping to consolidate the economic stability enjoyed in the past decade. After the reforms of 1990s the IMF has been the principal interlocutor and technical advisor of the Government in matters of fiscal, monetary and exchange rate policy. Currently, the IMF undertakes Article IV consultations and also provides policy advice to the authorities. The IMF and the Bank prepared the joint Financial Sector Assessment Program which, as noted earlier, was well received by the authorities.

IDB

4.13 The IDB has maintained a more constant lending presence in the Dominican Republic and provided more financial assistance than the Bank. Since 1961 the IDB has made 78 loans totaling $2,085 million and disbursed $1,474 million. IDB's lending activity intensified in the 1990s, and between 1995 and 2002 it granted 23 loans for about $1.4 billion. IDB lending covered several sectors. It lent about $200 million for education, some $190 million for disaster prevention and reconstruction from natural disasters, labor training and community action programs, about $44 million for modernizing the state, $116 million for the financial sector, $187 million for agriculture, $150 million for energy, $132 million for health, and $50 million for transport. The lending intended to support the six thrusts of IDB's strategy in Dominican Republic: (a) integrating fiscal management and redressing revenue shortfalls and distortions in public expenditure; (b) stimulating the private economy and dismantling restrictions on the business climate, in terms of both infrastructure bottlenecks and policy distortions; (c) reducing poverty; (d) building institutions to improve their capacity to respond to people's needs and aspirations; (e) removing the economic and financial policy distortions that make the economy vulnerable to potential revenue shocks, domestic and external; and (f) increase the capacity to prevent, mitigate and respond to natural disasters and halt environmental degradation. IDB also supported the Government through technical assistance, sometimes paying directly for it. The Evaluation Office of IDB prepared a report in 1997 on the IDB's assistance during 1984-96, and noted that: (a) the strategies did not identify the most binding development constraints at the time; and (b) it could not hold the strategies accountable for the achievements of a single objective. [13] The Evaluation Office has not evaluated the IDB's assistance program for 1997-2002.

IFC [14]

4.14 IFC has been involved in Dominican Republic with investments, technical assistance and advisory services. On the *investment* side, IFC has approved 14 investments for US$377.1 million (including B loans) between 1974 and 2002. Much of IFC's investments have been in infrastructure, but also in healthcare, agribusiness, and tourism. In FY02, the Dominican Republic was one of the largest recipients of IFC financing in the region with US$186 million in support of telecommunications and maritime infrastructure. Four new investments for about US$71 million (including B loans) are currently being processed and expected to be committed in FY03. On *technical assistance*, IFC sponsored in 2002 a 3-week regional capital markets seminar in Santo Domingo for senior private and public sector officials from eight Latin

[13] http://www.iadb.org/cont/evo/ResAbs/ReAbseng/ReA222e.htm

[14] The IFC office in Dominican Republic provided the information for this section.

American and Caribbean countries. The seminar resulted in specific Country Action Plans to develop securities markets in the DR an the other participating countries. On *advisory services*, FIAS has conducted two reviews of the foreign direct investment climate in the DR with the objective of assisting the country's investment promotion agency (OPI) in setting a strategic agenda to enhance the country's ability to attract foreign investment. FIAS recommends that the Dominican Republic develop a strategy for improving the general environment for domestic and foreign business and increasing the country's attraction for higher-skilled and higher-technology investment. The strategy is necessary because changes in WTO regulations and the global economy have eroded the DR's competitiveness as a location for low cost production of exports in free trade zones.

4.15 IFC's activities in the DR should continue to help the development of sectors where IFC has invested recently, like tourism, ports, telecommunications and delivery of healthcare services. IFC supported the power sector through an investment in Smith-Enron Cogeneration Limited Partnership ("SECLP") in 1996. The weak finances of CDE, the sole off-taker, and late payments have been an issue for SECLP and other private generators. The Government has been renegotiating the terms of the contracts with all power generators because it considers that the contracts have been unfavorable to CDE and the Dominican people. In late 1998, SECLP agreed to amend certain terms of the power purchase agreement to address the Government's concerns that the allocation of contractual risks was imbalanced, and in November 2002 they negotiated a new power purchase agreement.

MIGA [15]

4.16 Dominican Republic became a member of MIGA in 1997. The Dominican Republic is MIGA's sixth-largest exposure with US$187 million of gross exposure and US$114 million of exposure net of reinsurance at 12/31/02. MIGA's outstanding portfolio in the Dominican Republic consists of eight guarantee contracts, and the total amount of foreign direct investment facilitated to date by MIGA in the Dominican Republic has been estimated at more than US$700 million. Since early 1999, MIGA has worked with the staff of the Office to Promote Investment for the Dominican Republic —OPI— to help them to develop the tools to attract and service foreign direct investment. MIGA provided skills training and "coaching" for the staff to design and implement an investor targeting program in the services sector. The Mejía administration has given greater importance to foreign investment and the OPI is now well supported, technically and financially.

Others

4.17 The **USAID** and the **United Nations Development Program** Mission in Dominican Republic financed in the late 1980s and early 1990s economic studies by Dominican professionals and foreign consultants that helped the Government to design a response to the crisis and to prepare proposals for economic reforms essential for the country's development.

[15] The Finance and Risk Management Department of MIGA provided the information for this section

Exogenous Factors

4.18 Dominican Republic is vulnerable to external economic events and to inclement weather. The country depends on oil and gas imports to meet its domestic consumption, and increases in international prices reduce its real income and increase social tensions. The country has managed the adjustments well and they have not prevented the economy from growing rapidly. In 1998 the country was hit by Hurricane George, which damaged its infrastructure and required it to spend large amounts of money in rebuilding and in helping the affected people. The country managed well the external assistance it received to help it recover from the disaster. The assistance received for Hurricane George also helped to improve institutions for emergency preparedness and to reduce the vulnerabilities of infrastructure to future natural disasters. Despite the damage and the growth in spending, the authorities followed policies that helped sustain economic stability, and maintain a high rate of economic growth.

5. Lessons and Recommendations

5.1 Several lessons stand out from the Bank's assistance to Dominican Republic. The experience confirms that borrower ownership and policy continuity are fundamental to the effective use of Bank assistance. The experience in the power sector illustrates that successful results from privatizing public utilities can only be achieved when an appropriate legal and regulatory framework is in place and effectively working prior to privatization. Organizational and staffing continuity are essential to achieving success, especially where there is a history of difficult dialogue. This continuity needs to extend to task managers, especially where there are institutional weaknesses. Decentralization can be a useful tool for improving the effectiveness of the Bank's assistance, and the recent upgrading of the role and functions of the Country Office in the Dominican Republic has had positive results. Participation, through mechanisms such as the CDF, can also be useful, but they need to be sustained and include the active involvement of all major donors to be effective. The Dominican Republic also shows the positive impact of small, informal AAA activities combined with intensive dialogue, as well as the limitations of large, formal pieces of ESW unless combined with intense dialogue, dissemination and follow up. Following up and sustaining the Bank's initiatives in these areas should help the Bank improve its dialogue and country relations further.

5.2 Several recommendations emerge for the Bank's future assistance program in the Dominican Republic:

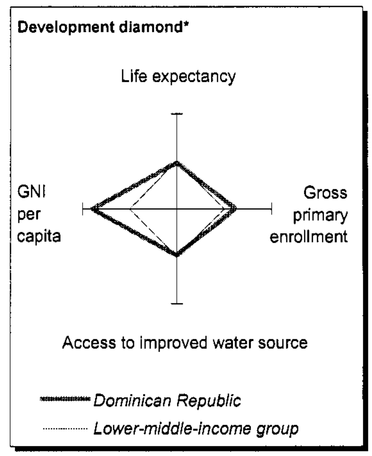
- while project lending has been supportive of the MDGs, the Bank's program needs to continue this emphasis and focus on improving the country's capacity to monitor and evaluate progress in critical areas, such as education, health and the environment, and improve the quality of social expenditures.
- the Bank should help the country broaden its structural reform agenda to encompass agriculture, including trade, land, water and price reform, and to remove barriers to entry and competition in domestic activities.
- in the power sector, the Bank can play a useful role in helping the country to address four critical issues: ensuring that the regulatory framework is

functioning; improving the performance of CDE; addressing critical transmission bottlenecks; resolving non-payment issues, including a disconnection policy; and reforming retail tariff policy.

Dominican Republic at a glance

9/16/02

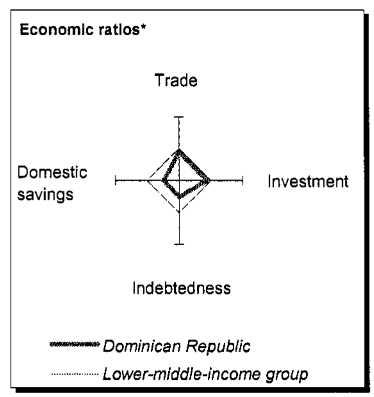
POVERTY and SOCIAL	Dominican Republic	Latin America & Carib.	Lower-middle-income
2001			
Population, mid-year *(millions)*	8.5	524	2,164
GNI per capita *(Atlas method, US$)*	2,230	3,560	1,240
GNI *(Atlas method, US$ billions)*	19.0	1,862	2,677
Average annual growth, 1995-01			
Population *(%)*	1.7	1.5	1.0
Labor force *(%)*	2.6	2.2	1.2
Most recent estimate (latest year available, 1995-01)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	66	76	46
Life expectancy at birth *(years)*	67	70	69
Infant mortality *(per 1,000 live births)*	39	29	33
Child malnutrition *(% of children under 5)*	6	9	11
Access to an improved water source *(% of population)*	79	85	80
Illiteracy *(% of population age 15+)*	16	11	15
Gross primary enrollment *(% of school-age population)*	133	130	107
Male	136	131	107
Female	130	128	107



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

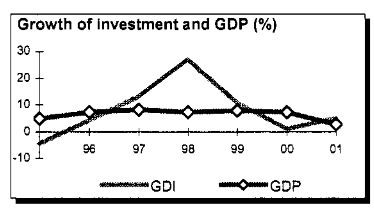
	1981	1991	2000	2001
GDP *(US$ billions)*	7.3	7.6	19.6	21.2
Gross domestic investment/GDP	23.6	21.7	24.0	23.4
Exports of goods and services/GDP	20.8	28.2	27.8	23.9
Gross domestic savings/GDP	19.4	14.5	14.4	15.2
Gross national savings/GDP	18.0	20.7	18.8	19.5
Current account balance/GDP	-5.6	-1.1	-5.2	-4.0
Interest payments/GDP	2.0	1.1	1.1	0.9
Total debt/GDP	31.6	59.2	23.5	24.0
Total debt service/exports	26.0	10.3	6.6	8.2
Present value of debt/GDP	..	..	22.2	..
Present value of debt/exports	..	..	55.0	..

	1981-91	1991-01	2000	2001	2001-05
(average annual growth)					
GDP	2.8	6.3	7.3	2.7	..
GDP per capita	0.7	4.5	5.5	1.1	..
Exports of goods and services	10.2	6.7	7.3	-7.9	..

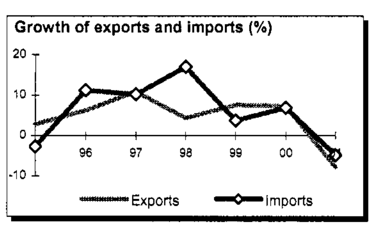


STRUCTURE of the ECONOMY

	1981	1991	2000	2001
(% of GDP)				
Agriculture	18.6	13.9	..	..
Industry	27.6	30.6	..	..
Manufacturing	15.6	18.5	..	..
Services	53.8	55.5	..	..
Private consumption	71.0	81.1	77.1	75.8
General government consumption	9.5	4.3	8.4	9.0
Imports of goods and services	25.0	35.4	37.4	32.1



	1981-91	1991-01	2000	2001
(average annual growth)				
Agriculture	-0.6	3.9	5.0	5.1
Industry	3.8	7.3	7.1	0.0
Manufacturing	2.9	4.8	7.5	-1.3
Services	3.2	6.2	7.9	3.9
Private consumption	3.8	5.6	8.2	3.1
General government consumption	-5.4	15.8	-1.4	14.7
Gross domestic investment	4.7	6.5	1.1	5.2
Imports of goods and services	10.7	6.4	6.9	-4.9



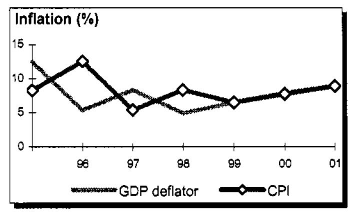
Note: 2001 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Dominican Republic

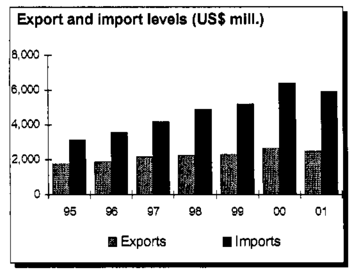
PRICES and GOVERNMENT FINANCE

	1981	1991	2000	2001
Domestic prices				
(% change)				
Consumer prices	16.8	59.4	7.7	8.9
Implicit GDP deflator	5.3	58.2	7.9	8.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	13.3	16.0	16.7
Current budget balance	..	6.5	2.1	3.8
Overall surplus/deficit	..	0.7	-2.1	-1.7



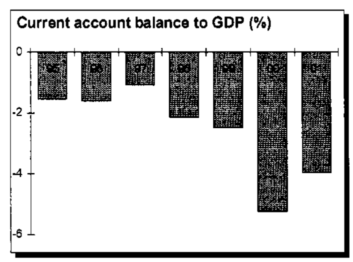
TRADE

	1981	1991	2000	2001
(US$ millions)				
Total exports (fob)	..	1,103	2,674	2,486
Raw sugar	..	115	71	65
Raw cocoa	..	31	22	38
Manufactures	..	578	1,708	1,691
Total imports (cif)	..	2,188	6,416	5,937
Food	..	52	403	356
Fuel and energy	..	507	1,507	1,240
Capital goods	..	367	1,197	1,285
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



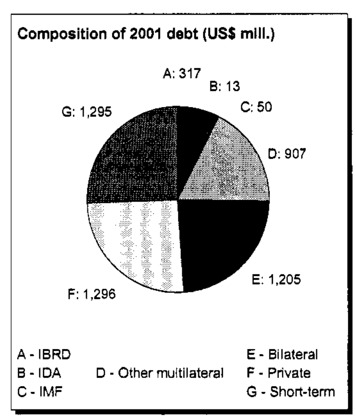
BALANCE of PAYMENTS

	1981	1991	2000	2001
(US$ millions)				
Exports of goods and services	1,512	2,154	5,902	5,485
Imports of goods and services	1,818	2,706	7,789	7,232
Resource balance	-306	-551	-1,888	-1,747
Net income	-293	-360	-1,041	-1,119
Net current transfers	193	829	1,902	2,028
Current account balance	-406	-82	-1,027	-839
Financing items (net)	296	439	957	1,357
Changes in net reserves	110	-358	70	-519
Memo:				
Reserves including gold *(US$ millions)*	..	426	818	1,341
Conversion rate *(DEC, local/US$)*	1.0	12.7	16.4	17.0



EXTERNAL DEBT and RESOURCE FLOWS

	1981	1991	2000	2001
(US$ millions)				
Total debt outstanding and disbursed	2,293	4,491	4,592	5,083
IBRD	93	254	292	317
IDA	22	20	14	13
Total debt service	396	264	521	621
IBRD	8	54	43	46
IDA	0	1	1	1
Composition of net resource flows				
Official grants	13	18	44	..
Official creditors	195	22	-84	-55
Private creditors	-32	-15	115	530
Foreign direct investment	80	145	953	..
Portfolio equity	0	0	74	..
World Bank program				
Commitments	..	..	8	25
Disbursements	34	42	39	49
Principal repayments	2	31	22	24
Net flows	32	11	17	25
Interest payments	6	23	22	23
Net transfers	25	-12	-5	2



Annex Table 2: Dominican Republic: Key Economic and Social Indicators, 1991-2000

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	**Dom. Rep. Average 1991-2000**	El Salvador Average 1991-2000	Guatemala Average 1991-2000	Honduras Average 1991-2000	Jamaica Average 1991-2000
GDP growth (annual %)	0.9	8.0	3.0	4.2	4.8	7.3	8.2	7.4	7.8	7.3	**6.3**	4.6	4.2	3.0	0.2
GDP per capita growth (LCU, annual %)	-0.7	6.3	1.3	2.5	3.1	5.5	6.5	5.7	6.1	5.7	**4.6**	2.5	1.5	1.8	-0.7
GNP per capita, Atlas method (current US$)	970.0	1130.0	1180.0	1280.0	1410.0	1570.0	1730.0	1810.0	1950.0	2120.0	**1515**	1555	1403	698	2089
GNP per capita, PPP (current international $)	3270.0	3600.0	3710.0	3870.0	4110.0	4380.0	4640.0	4860.0	5270.0	5700.0	**4341**	3882	3374	2248	3440
Agriculture, value added (% of GDP)	13.9	13.6	13.3	12.5	12.6	12.8	12.2	11.5	11.4	11.2	**12.5**	13.2	24.2	20.8	7.6
Manufacturing, value added (% of GDP)	18.5	18.9	18.8	18.8	18.3	17.6	17.5	17.3	16.9	17.1	**18.0**	22.1	14.0	18.2	15.3
Services, etc., value added (% of GDP)	55.5	54.6	55.1	54.4	54.8	54.8	54.8	54.9	54.4	54.6	**54.8**	58.6	56.0	49.1	57.8
Exports of goods and services (% of GDP)	28.2	26.2	30.2	31.5	30.9	30.7	31.4	30.6	29.6	29.9	**29.9**	21.7	18.3	39.9	48.1
Imports of goods and services (% of GDP)	35.4	37.8	37.7	36.9	34.3	35.5	36.2	39.5	37.0	39.5	**37.0**	35.6	25.2	48.2	56.5
Current account balance (% of GDP)	-2.1	-8.0	-5.5	-2.7	-1.5	-1.6	-1.1	-2.1	-2.5	-5.2	**-3.2**	-1.8	-4.6	-6.1	-2.7
Total debt service (% of exports of goods and services)	11.6	15.0	5.8	8.3	6.1	6.2	5.6	4.2	3.9	4.8	**7.1**	10.7	12.7	26.6	18.2
Gross international reserves in months of imports	2.2	2.0	1.3	0.5	0.6	0.6	0.5	0.6	0.8	0.6	**1.0**	3.7	3.3	2.2	1.8
Gross domestic investment (% of GDP)	21.7	22.6	26.5	21.4	19.5	18.9	19.8	23.4	24.3	23.8	**22.2**	17.4	16.0	31.2	28.3
Gross domestic savings (% of GDP)	14.5	10.9	19.1	16.0	16.1	14.1	15.0	14.5	16.8	14.2	**15.1**	3.5	9.0	22.9	19.9
Inflation, consumer prices (annual %)	47.1	4.3	5.3	8.3	12.5	5.4	8.3	4.8	6.5	7.7	**10.2**	8.4	11.2	18.5	26.4
Current revenue, excluding grants (% of GDP)	11.2	16.2	17.0	16.1	16.0	15.1	16.9	16.7	16.4	..	**15.7**	15.0	..	..	27.7
Expenditure, total (% of GDP)	11.1	13.3	17.3	17.1	15.4	15.6	16.7	16.3	17.0	..	**15.5**	16.1	..	..	32.1
Overall budget deficit, exc. capital grants (% of GDP)	0.3	3.1	0.0	-0.7	0.8	-0.3	0.4	0.6	-0.5	..	**0.4**	-0.7	..	..	-4.0
Population, total	7.2	7.3	7.4	7.6	7.7	7.8	8.0	8.1	8.2	8.4	**7.8**	5.7	10.1	5.7	2.5
Population growth (annual %)	1.7	1.7	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.6	**1.7**	2.1	2.6	2.7	0.9
Urban population (% of total)	59.1	59.9	60.6	61.3	62.1	62.7	63.4	64.0	64.7	65.4	**62.3**	54.9	38.8	47.9	54.0
Illiteracy rate, adult total (% of people ages 15 and above)	20.2	19.7	19.3	18.8	18.4	18.0	17.6	17.2	16.8	16.4	**18.2**	23.9	34.7	28.1	15.2
School enrollment, primary (% gross)	96.9	92.7	95.6	92.8	95.7	93.9	101.9	116.6	124.7	..	**101.2**	90.5	87.7	109.5	100.5
Immunization, DPT (% of children under 12 months)	71.0	73.0	75.0	73.5	72.0	69.5	67.0	65.0	73.0	..	**71.2**	82.3	71.8	94.2	88.0
Safe water (% of population with access)	..	..	..	..	..	..	..	..	..	79.0	**79.0**	74.0	92.0	90.0	71.0
Sanitation (% of population with access)	..	..	..	..	..	..	..	..	..	71.0	**71.0**	83.0	85.0	77.0	84.0
Life expectancy at birth, total (years)	..	66.6	..	..	67.2	..	67.5	..	..	67.3	**67.2**	68.8	63.9	65.7	74.6
Mortality rate, infant (per 1,000 live births)	..	47.0	..	..	43.4	..	41.0	..	..	38.9	**42.6**	34.0	44.9	39.8	22.1

Source: World Bank SIMA database as of December 19, 2002.

Annex Table 3 : External Assistance to Dominican Republic

Table 3a: Average Net Receipts from Donors, $m, CY 1985-2000.

Year / Donor	1985-2002	1985-1989	1990-2000	1998	1999	2000
DAC DONORS	227.5	178.0	249.9	195.3	787.1	294.4
TOTAL MULTILATERAL	60.5	53.7	63.6	74.4	156.3	70.9
o/w IBRD	5.5	0.9	7.6	-6.3	71.7	17.8
o/w IDA	-0.6	-0.2	-0.7	-0.7	-0.7	-0.7
o/w IDB	22.5	23.9	21.9	13.9	41.2	24.1
o/w IDB SPECIAL OPER. FUND	8.0	19.3	2.9	10.9	4.3	-5.1
EC + EU Members	99.4	49.6	122.0	161.5	467.2	123.0
Other Donors	1.0	0.4	1.1	5.5	-1.8	-1.9
TOTAL DONORS	288.8	231.9	314.7	275.3	941.6	363.4
Memo item:						
GDP at market prices (current US million)				15858	17333	19587

Source: Geographical Distribution of Financial Flows to Aid Recipients, OECD, 2002
World Bank SIMA database as of 12/2002.

Table 3b: Dominican Republic - World Bank Lending by Sectors, FY 1985-2002

Sum of IBRD/IDA Amt, $m / Sector Board	Approval FY 1985	1986	1988	1989	1991	1995	1996	1997	1998	1999	2000	2001	2003	Grand Total
Education	5.8				15.0		37.0					3.4	42.0	103.2
Energy and Mining			105.0											105.0
Environment									3.0					3.0
Financial Sector				30.0										30.0
Global Information/Communications Technology											12.3			12.3
Health, Nutrition and Population									30.0			25.0		55.0
Private Sector Development										111.1				111.1
Rural Sector						28.0								28.0
Transport		35.8			79.0			75.0						189.8
Water Supply and Sanitation											5.0			5.0
Grand Total	5.8	35.8	105.0	30.0	94.0	28.0	37.0	75.0	33.0	111.1	17.3	28.4	42.0	642.4

Source: WB Business Warehouse as of 12/2002.

Annex Table 3c : Dominican Republic - World Bank Projects, Approval FY 1985-2002.

Proj ID	Proj name	Proj Stat	Sector Board	Appr. FY	Len Instr Type	Latest DO	Latest IP	Latest Risk Rating	IBRD/IDA Amt., $ m	Project at risk	Outcome	IDI	Sust.
P007020	IRRIG LAND & WATERSH (SIM)	A	Rural Sector	1995	I	S	S	Low Risk	28.00				
P035494	DO- BASIC EDUCATION	A	Education	1996	I	S	S	Mod. Risk	37.00				
P035722	NATIONAL HWY. PROJ.	A	Transport	1997	I	S	S	Subst. Risk	75.00	risky			
P007015	DR: Provincial Health Serv. Project	A	Health, Nutrition and Population	1998	I	S	S	Mod.Risk	30.00				
P063201	Hurricane Georges Emergency Recovery	A	Private Sector Development	1999	I	S	S	Subst. Risk	111.10				
P052736	DO: TELECOM REG. REFORM	A	Global Information/Communications Technology	2000	I	S	S	Subst. Risk	12.30				
P059510	WASTEWATER DISPOSAL IN TSM CNTERS (LIL)	A	Water Supply and Sanitation	2000	I	S	S	Subst. Risk	5.00				
P068753	DR - Global Distance Learning Network	A	Education	2001	I	S	S	Mod. Risk	3.43				
P071505	DR: HIV/AIDS Prevention & Control Proj.	A	Health, Nutrition and Population	2001	I	S	S	Subst. Risk	25.00				
P054937	DO-EARLY CHILDHOOD EDUCATION PROJECT	A	Education	2003	I	S	S	Subst. Risk	42.00				
P006995	VOC EDUCATION	I	Education	1985	I	..	..	..	5.80		NR	NR	NR
P006996	RD RECONST III	I	Transport	1986	I	S	S	..	35.80		MS	Mod	Unc
P007004	POWER I	I	Energy and Mining	1988	I	U	U	..	105.00		HU	Neg	Unl
P007025	IND FREE ZONES DEV	I	Financial Sector	1989	I	S	S	..	30.00		MS	Mod	Lik
P007022	HWY MAINT V	I	Transport	1991	I	S	S	Low Risk	79.00		S	Subst	Lik
P007023	PRIMARY ED	I	Education	1991	I	S	HS	..	15.00		HS	Mod	Lik
P035733	ENVIRONMENT POLICY (LIL)	I	Environment	1998	I	S	S	Low Risk	3.00				

Source: WB Business Warehouse as of 12/2002.

Annex Table 4: ESW and CAS List for Dominican Republic, 1980-2001

Report Title	Date	Report #
Economic Reports		
Dominican Republic - Economic memorandum (Vol. 1)	5/1/1980	3009
Dominican Republic - Economic memorandum (Vol. 1)	5/1/1981	3446
Dominican Republic - Economic prospects and policies to renew growth (Vol. 1)	1/1/1984	4735
Dominican Republic - An agenda for reform (Vol. 1)	1/1/1987	5965
Dominican Republic - The 1989-91 public sector investment program (Vol.2)	3/7/1990	7600
Dominican Republic - The 1989-91 public sector investment program (Vol.1)	3/7/1990	7600
Dominican Republic - Country Economic Memorandum-Beyond Stabilization: An Agenda for Reform	6/28/1991	green cover
Dominican Republic - Medium Term Macroeconomic Program	8/27/1993	yellow cover
Dominican Republic - Updating economic memorandum : the challenge of sustainability (Vol. 1)	5/22/1992	10614
Dominican Republic - Growth with equity : an agenda for reform (Vol. 1)	5/15/1995	13619
Caribbean Economic Overview (Vol. 1)	6/4/1998	17874
Domincan Republic - Social and structural policy review (Vol. 1)	3/23/2000	20192
Domincan Republic - Social and structural policy review (Vol. 2)	3/23/2000	20192
Sector Reports		
Dominican Republic - Issues and options in the energy sector (Vol. 1)	5/1/1991	8234
Dominican Republic - Environmental Issues Paper	8/12/1991	
Dominican Republic - Prospects for Social Sector Development During the Nineties	7/13/1993	11813
Dominican Republic - Creating a Framework for Sustainable Agricultural Growth	6/15/1994	12964
Surveillance of Agricultural Prices and Trade: A Handbook for Dominican Republic	8/1/1995	WB TP 267
Wider Caribbean financial sector review - increasing competitiveness and financial resource management for economic growth (Vol. 1)	5/26/1998	17556
Dominican Republic - Poverty assessment : poverty in a high-growth economy 1986-2000	12/17/2001	21306
Dominican Republic - Poverty assessment : poverty in a high-growth economy 1986-2000, Vol. 2	12/17/2001	21306
Dominican Republic - Statistical review of the justice sector	12/31/2001	23203
Country Assistance Strategy Documents		
Dominican Republic - Country assistance strategy (Vol. 1)	4/4/1995	14260
Dominican Republic - Country assistance strategy (Vol. 1)	6/9/1999	19393

Source: Imagebank as of December 18, 2002

Annex Table 5: Dominican Republic - OED and Supervision ratings

Table 5a: OED ratings

Country/Region	Total Evaluated $m	o/w Adjustment $m	Outcome % Satisf.	Outcome % Satisf. Adj.	Inst. Devel. Imp. % Substan.	Inst. Devel. Imp. % Substan. Adj.	Sustainability % Likely	Sustainability % Likely Adj.
Approval FY 1985-2002								
Bank	212479	81341	78	80	44	45	65	70
LCR	55789	24401	80	84	48	53	71	78
Dominican Republic	**263**	**0**	**60**	..	**30**	..	**46**	..
Guatemala	206	120	98	100	26	0	31	0
Honduras	999	512	80	68	26	22	51	22
El Salvador	261	125	76	100	65	100	100	100
Jamaica	613	265	65	100	42	68	56	83
Approval FY 1990-2002								
Bank	134797	61325	81	84	49	48	70	74
LCR	34380	16443	85	87	54	61	73	77
Dominican Republic	**94**	..	**100**	..	**84**	..	**100**	..
Guatemala	149	120	100	100	19	0	6	0
Honduras	884	462	87	76	30	24	58	24
El Salvador	197	125	100	100	86	100	100	100
Jamaica	445	205	66	100	52	88	59	88

1) The Institutional Development Impact and Sustainability ratings have been in use only since FY 89. Hence, the data for these two ratings for the period before FY 91 applies for smaller levels of total net commitment than shown in columns 2 and 3 of the table.
2) *Source*: OED ratings database as of 09/2002.

Table 5b: Dominican Republic - Projects evaluated by OED

Proj. ID	Project Name	Net Commit.	Approval FY	Exit FY	Len. Instr. Type	Sector Board	Outcome	ID	Sustainability	Eval Type
P006995	VOC EDUCATION	-	1985	FY89	I	Education	NR	NR	NR	EVM
P006996	RD RECONST III	35.8	1986	FY94	I	Transport	MS	Mod	Unc	PCR
P007004	POWER I	105.0	1988	FY95	I	Energy and Mining	HU	Neg	Unl	EVM
P007025	IND FREE ZONES DEV	27.9	1989	FY97	I	Financial Sector	MS	Mod	Lik	EVM
P007023	PRIMARY ED	15.0	1991	FY97	I	Education	HS	Mod	Lik	PAR
P007022	HWY MAINT V	78.9	1991	FY99	I	Transport	S	Subst	Lik	ES

Source: OED project ratings database as of 09/2002.

Table 5c: Ratings for active projects.

Country	No. of projects	Net commit., $m	Projects at risk, %	Commitment at risk %
Bank	1556	102308	18	18
LCR	318	20635	18	24
Dominican Republic	**10**	**369**	**10**	**20**
Guatemala	12	529	0	0
Honduras	10	293	0	0
El Salvador	8	437	0	0
Jamaica	5	138	0	0

Source: World Bank Business Warehouse as of 12/2002.

Annex Table 6a: Costs of Bank Program for Dominican Republic and Comparator Countries, FY 1991-2001.

Regions/ Countries	*Total costs, $m*	*Lending completion costs, $m*	*Supervision costs, $m*	*ESW completion costs, $m*
Bank	3,478.1	1,243.0	1,150.8	1,084.2
LCR	552.8	201.1	202.9	148.7
Dominican Republic	**9.1**	**4.0**	**3.0**	**2.1**
Guatemala	12.6	5.6	4.8	2.1
Honduras	14.8	6.3	6.8	1.8
Jamaica	13.6	6.4	5.4	1.8
El Salvador	10.7	4.6	4.6	1.6

Percent

Bank	100	36	33	31
LCR	100	36	37	27
Dominican Republic	**100**	**44**	**33**	**23**
Guatemala	100	45	38	17
Honduras	100	43	46	12
Jamaica	100	47	40	13
El Salvador	100	43	43	15

Annex Table 6b: Efficiency Table

Regions/ Countries	*Total costs, $m*	*Number of projects approved in 1991-2001*	*Gross Commitment, $m*	*Gross commitment of satisf. & nonrisky projects, $m*	*Average costs per approved project, $1000*	*Average costs $ per $1000 of gross commitment*	*Average costs $ per $1000 of gross commitment of satisf. & nonrisky projects*	*Memo Average project size, $m*
Bank	3,478.1	2,671	242,060	208,551	1,302	14.4	16.7	91
LCR	552.8	553	60,014	51,448	1,000	9.2	10.7	109
Dominican Republic	**9.1**	**12**	**424**	**419**	**760**	**21.5**	**21.8**	**35**
Guatemala	12.6	15	555	555	837	22.6	22.6	37
Honduras	14.8	24	1,225	1,225	618	12.1	12.1	51
Jamaica	13.6	13	465	341	1,048	29.3	40.0	36
El Salvador	10.7	13	540	540	826	19.9	19.9	42

Source: World Bank Business Warehouse, Resource Management, Report 2.3. Direct Costs by Service Across Fiscal Years, as of August, 2001.

* The amount of total costs includes lending completion, supervision, and ESW costs.

** Lending, supervision, and ESW costs are actual costs for active, closed, dropped, and all other projects in FY 1991-2001.

Annex Table 7: Dominican Republic: Bank's Senior Management, CY 1987-2002

Year	*Vice President*	*Country Director*	*Division Chief/Resident Representative*
1987	David Knox	Rainer Steckhan	
1988	S Shahid Husain	Pin-Cheung Loh	Spiros Voyadzis
1989	S Shahid Husain	Pin-Cheung Loh	Gerald F. Flood Jr.
1990	S Shahid Husain	Pin-Cheung Loh	Gerald F. Flood Jr.
1991	S Shahid Husain	Pin-Cheung Loh	Gerald F. Flood Jr./John Page
1992	S Shahid Husain	Yoshiaki Abe	Dennis N. de Tray
1993	S Shahid Husain	Yoshiaki Abe	Dennis N. de Tray
1994	Shahid Javed Burki	Yoshiaki Abe	Dennis N. de Tray
1995	Shahid Javed Burki	Edilberto Segura	Donna Dowsett-Coirolo
1996	Shahid Javed Burki	Paul Issenman	Philippe Nouvel
1997	Shahid Javed Burki	Paul Issenman	Philippe Nouvel
1998	Shahid Javed Burki	Paul Issenman	Philippe Nouvel
1999	Shahid Javed Burki	Orsalia Kalantzopoulos	Marisela Montoliu Muñoz
2000	David de Ferranti	Orsalia Kalantzopoulos	Marco Mantovanelli
2001	David de Ferranti	Orsalia Kalantzopoulos	Marco Mantovanelli
2002	David de Ferranti	Orsalia Kalantzopoulos	Marco Mantovanelli

Source: The World Bank Group Directory 1991-2002, and internal files

Annex 8: List of People Met on mission in Dominican Republic and World Bank Staff Interviewed

a. Government officials, donors and private sector representatives

Fundación Global Democracia & Desarrollo
Natasha Despotovich
Frederich Eman Zadé
Temístocles Montás, former Technical Secretary of the Presidency

Fundación Economía y Desarrollo
Jaime Aristy
Rita Mena

Consejo Nacional de Zonas Francas
Jeannette Domínguez
Daniel Liranzo

National Highways
Daniel Gómez, Project Coordinator

Centennial Dominicana
Ernesto Selman, VP Administration & Human Resources

Tricom, S.A.
Ramón Tarragó, Chief Financial Officer

Telecom Reform
Edgar Victoria, Project Coordinator
Luz Bello, Project Analyst

Jackeline Malagón, former Minister of Education

Central Bank
Luis Núñez, Director, International Relations Department
Luis Reyes Santos, Director, Programación Monetaria
Julio Estrella, International Relations Department
Dolores Escobar, International Relations Department
Héctor Guilliani, Advisor
Luis Toral, former Governor

Pontificia Universidad Católica Madre y Maestra (PUCMM)
Radhamés Mejía, Vice-rector Ejecuitvo

ED Office for Dominican Republic
Jaime Alvarez

Ministry of Foreign Affairs
Maritza Amalia Guerrero

Waste Waters in Tourism Areas
José Del Carmen Bautista, Project Coordinator

Parque Industrial Santiago Norte
Federico Domínguez Aristy, President of Administrativ Council
Grupo Progreso
Julio Ortega Tous, Senior Economic Advisor

IDB
Moisés Pineda, Resident Representative

IFC
Salem Rohana, Resident Representative

b. Bank staff interviewed

Orsalia Kalantzopoulos
Marco Mantovanelli
Masimiliano Paolucci
Auguste Kouame
Philippe Aufret
John Panzer
Daniel Morrow
Luis Ramírez
Richard Lynn Ground
Jayme Porto Carreiro

c. Others

Fernando Lecaros, Consultant

Guide to OED's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology. To diminish syntactical overlap in what follows, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time. *Client* refers to the country which receives the benefits of that program.

CAEs rate assistance programs outcomes, not Clients' overall development progress

2. An assistance program typically addresses a sub-set of a Client's development needs, and thus needs to be judged on how well it met its particular objectives. The larger an assistance program is in relation to the Client's total development effort, the closer the program outcome will equate to the Client's overall development progress. However, most assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the program outcome, not the Client's overall development outcome, although the latter provides one of several reference points for judging the program's contribution.

3. The experience gained in producing 57 completed CAEs confirms that program outcomes can, and do, diverge significantly from the Client's overall development progress in certain instances. To illustrate, CAEs have identified assistance programs which had:

- satisfactory outcomes matched by acceptable Client development;
- unsatisfactory outcomes in Clients which achieved acceptable overall development results, notwithstanding the weak program; and,
- satisfactory outcomes in Clients which did not achieve acceptable overall results during the period of program implementation.

Assessments of program outcome and Bank performance can also diverge

4. By the same token, an unsatisfactory program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to an assistance program does not exclusively determine the program outcome. Rather, program outcome will be determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

5. So, OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Such actions would include:(1) the professional quality of Bank services to the program; (2) Bank prudence and probity in managing its program-related interventions; (3) Bank participatory and partnering practices; (4) Bank selectivity in staying within areas where it had a comparative advantage; and (5) the creativity, initiative, and efficiency of Bank interventions.

Evaluation Strategy

6. As a check upon the inherent subjectivity of ratings, OED sub-divides higher-order ratings judgments into judgments on a large number of contributory elements. The consistency of ratings is further tested by looking at three distinct program dimensions:

(a) a *Products and Services Dimension,* involving a "bottom-up" analysis of major program inputs -- loans, AAA, and aid coordination;

(b) a *Development Impact Dimension,* involving a "top-down" analysis of the principal program objectives for relevance, efficacy, outcome, sustainability, and institutional impact; and,

(c) an *Attribution Dimension,* in which the evaluator assigns responsibility for the program outcome to the four categories of actors alluded to above.

Judging Program Outcome

7. In rating the outcome (expected development impact) of a program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. Programs typically express some of their goals in terms of higher-order objectives, such as poverty reduction. To achieve these higher-order objectives, the country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objective.

8. Evaluators also assess the degree of Client ownership of international development priorities and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Rating Scale

9. Outcome. Currently, OED utilizes six rating categories for outcome, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.

Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward <u>most</u> of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did <u>not</u> make acceptable progress toward <u>most</u> of its major relevant objectives, <u>or</u> made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation..
Unsatisfactory:	The assistance program did not make acceptable progress toward <u>most</u> of its major relevant objectives, <u>and</u> either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward <u>any</u> of its major relevant objectives. It may also have (a) not taken into adequate account a key development constraint, and/or (b) produced a major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources in the areas:

- economic management.
- the structure of the public sector, and, in particular, the civil service.
- the institutional soundness of the financial sector.
- legal, regulatory, and judicial systems.
- monitoring and evaluation systems.
- aid coordination.
- financial accountability.
- building NGO capacity; and,
- social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of net benefit flows over time, taking into account eight factors:

- technical resilience.
- financial resilience (including policies on cost recovery)
- economic resilience
- social support (including conditions subject to safeguard policies)
- environmental resilience
- ownership by governments and other key stakeholders.

- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness)
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Government's Comments on the Draft CAE

República Dominicana
Secretariado Técnico de la Presidencia
Santo Domingo, D. N.

0595

24 MAR 2003

Señor
R. Kyle Peters
Señor Manager
Evaluación de País y Relaciones Regionales
Departamento de Evaluación de Operaciones
Banco Internacional de Reconstrucción y Fomento – BIRF
Washington, D.C.

Estimado Señor Peters:

Muy cortésmente nos dirigimos a usted, en ocasión de referirnos al documento *"República Dominicana: Evaluación a Asistencia de País"*, del Banco Mundial, remitido por usted a nuestro Despacho para fines de estudio y opinión. Conforme a su solicitud, anexo le externamos algunas opiniones sobre el particular.

Esperando que nuestras opiniones sean de su agrado, con sentimientos de alta consideración y estima, le saluda,

Atentamente,

Lic. Rafael Calderón Martínez
Secretario Técnico de la Presidencia

JECS

PRESIDENCIA DE LA REPÚBLICA * SECRETARIADO TECNICO *

Comentarios al Documento "República Dominicana: Evaluación a Asistencia de País" (Banco Mundial)

Preguntas-Guía para la revisión del Informe: **1.** Está la asistencia del BM relacionada con los principales problemas que afectan el desarrollo de la economía? **2.** De qué manera contribuye al desarrollo del país? **3.** Qué tan relevante, eficaz y eficiente es la asistencia del Banco al País? **4.** Qué acciones se recomiendan para la cooperación futura del Banco con el País?

Observaciones.

1. En el *"sumario ejecutivo"* (No. 1) y en el cuerpo del Informe (No. 1.11), al referirse a los porcentajes de reducción de la pobreza de un 38% (1986) a 29% (1998): dado que existen diferentes estimaciones de este indicador, y lo controversial de las mismas, se sugiere dejar el comentario en el nivel cualitativo o, en todo caso, referir la fuente de esa estimación; por ejemplo, muy bien por referir la estimación discrepante de la ONAPLAN (pie de página 4, 1.11) con la asumida en el Informe. Pero la cifra asumida en el mismo, es del Banco Central? De la CEPAL? De CELADE? De Dahajre , et all? O propia?

2. En el punto 2 del mismo sumario, sugerimos que sea matizada la expresión "country's sensitivity to external interference", expuesta como argumento parcial a la no materialización de la agenda de préstamos del Banco al país. Si bien esta apreciación es acertada para el período 1986-1996, consideramos que tanto en la opinión pública como a nivel de Gobierno, al menos desde la segunda mitad de la década de los 90's hasta la fecha, prevalece en el país un espíritu favorable a la asistencia financiera de los organismos multilaterales, particularmente del Banco Mundial. Posiblemente, los rezagos actuales en la materialización de esas estrategias están más relacionados con las condiciones previas establecidas por el Banco, la capacidad del país para manejar tales condicionamientos y procedimientos conforme a la política del Banco (engorrosos a veces, aunque comprensibles por nuestra parte) y hasta a cambios político-administrativos con los consecuentes cambios en las prioridades.

Asistencia del BM y el Desarrollo Nacional.

3. Coincidimos en calificar de "moderadamente satisfactorio" el impacto del programa de asistencia del Banco sobre el desarrollo nacional, y con los elementos con que se argumenta tal adjetivación (punto 4). Esta coincidencia de juicio se extiende también en los comentarios referentes al involucramiento de la asistencia del Banco en el proceso de reformas estructurales, el proceso de privatización, la relevancia de su asistencia en el desarrollo nacional y la participación limitada del Banco en el diálogo de política promotor de las referidas reformas. Al respecto, puntualizamos que la asistencia del Banco puede ser más intensa y fecunda tanto en los campos en que actualmente incide como en áreas prioritarias del desarrollo nacional insuficientemente atendidas.

4. Coincidimos, además, con las lecciones aprendidas expuestas en el punto 4 del sumario: a) mejorar, en continuidad e intensidad, la calidad del diálogo Banco-País en aras de un mayor aprovechamiento de las ventajas que el mismo representa para la clarificación de la agenda de desarrollo y para la toma de decisiones de parte del liderazgo nacional; b) fortalecer la capacidad institucional local para la preparación, monitoreo y evaluación de los proyectos; se comparte también lo expuesto en relación a la relevancia del sector agropecuario (reformas en la comercialización, tierra, precios) para la remoción de barreras y la propiciación de sistemas productivos competitivos y, finalmente, en lo que concierne al **sector energético**.

5. El Informe es acertado en su exposición sobre el desempeño macroeconómico en las últimas dos décadas y en su enfoque sobre el progreso registrado en las variables del desarrollo social. Asimismo, consideramos apreciables muchas de las mociones presentadas en los Nos. 1.12 y 1.13 (Pág. 6) sobre temas para la agenda futura del desarrollo nacional. Sin embargo, es preciso puntualizar (como comentario a lo planteado en el No. 1.13) que el Gobierno trabaja con la mesura y el ritmo que la delicadeza del tema requiere para la modernización productiva y la apertura a la competencia de los sectores nacionales (agricultura, industria). Desde nuestra perspectiva, la gestión de esos procesos de desregulación y liberalización en los sectores indicados ameritan un tratamiento más cuidadoso que el dado a la apertura de los sectores comunicaciones, turismo y zonas francas.

6. En general, apreciamos como acertada la perspectiva histórica con que se aborda el programa de asistencia del Banco al país (pp. 6-16); compartimos los comentarios y valoraciones sobre la efectividad de las diferentes operaciones de préstamos ejecutadas o en proceso de ejecución desde 1985 hasta la fecha y la valoración de su impacto en el desarrollo de sectores esenciales como el desarrollo de las zonas francas, sector energético, transporte y caminos vecina'es y educación. Asimismo, consideramos correcto el sumario de las operaciones de préstamos otorgados al País durante 1995-2002, período en el que se aprecia un mayor dinamismo en la intervención de la asistencia del Banco mediante operaciones para financiar proyectos de gran significación en la gestión del desarrollo nacional: irrigación de suelos agrícolas y manejo del riego por usuarios, educación básica, carreteras nacionales, fortalecimiento de servicios provinciales de salud y reconstrucción de la infraestructura destruida por Huracán. Georges. Además, las notas sobre la nueva estrategia de asistencia al País actualmente en ejecución, incluyendo intervenciones en áreas de prevención del VIH, educación básica, desarrollo del Centro de Educación a Distancia, telecomunicaciones y otras.

Relevancia, eficacia y eficiencia de la asistencia.

7. Tanto mediante las intervenciones antes referidas, como a través de la elaboración de análisis y asistencia técnica (consultorías), el Banco ha apoyado significativamente la gestión del desarrollo nacional. Especialmente, en los períodos en que el diálogo Banco-País fue más intenso, por ejemplo, a finales de los 80's e inicio de los 90's, cuando el país se benefició de manera sobresaliente de apoyos en

términos de asesoría, apoyo en la formulación de la agenda de reformas y estabilización macroeconómica y la creación de condiciones para el crecimiento sostenido registrado en la década de los noventas: reestablecimiento de los equilibrios macroeconómicos (fiscal, monetario y cambiario), política comercial, etc. Entendemos que beneficios que se han derivado de la relación Diálogo – País ameritan el fortalecimiento del mismo.

8. Es fruto de este Diálogo que se llegó a identificar áreas, consensuada, donde el país requiere apoyo especial, como: i) políticas para el combate a la pobreza; ii) política económica para la promoción del desarrollo; iii) modernización del estado; iv) políticas para la preservación del medio ambiente; y v) las relaciones domínico-haitianas y el desarrollo económico fronterizo. Estas áreas constituyen sin dudas temas de convergencia entre la demanda asistencia por parte del País y la oferta de recursos de parte del Banco Mundial.

Perspectivas de asistencia.

9. Es evidente que las intervenciones del Banco en el financiamiento a proyectos y programas de desarrollo han impactado favorablemente el crecimiento económico y diferentes áreas del desarrollo nacional, tales como el desarrollo de infraestructura para el crecimiento económico y desarrollo del sector energético. También, es cierto que los impactos en esa dirección seguirán desarrollándose en la medida en que se continúe madurando la ejecución de la actual cartera de proyectos. Sin embargo, coincidimos con el Informe en el sentido de que hay mucho campo de acción en que la República Dominicana requiere la asistencia del Banco. Además de las áreas ya atendidas por la asistencia del Banco, es básico que se continúe el diálogo para apoyar áreas como el fortalecimiento institucional (incluida dar mayor vigor a la relación Banco-País), el desarrollo social y la preservación del medio ambiente.

10. Para la presente Administración, encabezada por el Ing. Agrónomo Hipólito Mejía, los temas de la lucha contra la pobreza y la asistencia para el desarrollo del sector agropecuario y la preservación del ambiente, que incluyen el combate a la pobreza rural, constituyen una de las más altas prioridades de la agenda de Gobierno.

Governments Comments on Draft CAE
(translation of Spanish letter)

(SEAL)
Dominican Republic
Technical Secretariat of the Office of the President
Santo Domingo, D. N.

0595 March 24, 2003

Mr. R. Kyle Peters
Senior Manager
Country Evaluation and Regional Relations
Operations Evaluation Department
International Bank for Reconstruction and Development
Washington, D. C.

Dear Mr. Peters:

I have the honor to write concerning the World Bank's document titled *"Dominican Republic Country Assistance Evaluation,"* which you sent to my office for review and comment. As you requested, I am forwarding herewith some observations on the draft.

I trust that these comments will be useful.

Sincerely yours,

/s/ Lic. Rafael Calderón Martínez
Technical Secretary
Office of the President (seal)

JECS

Comments on the Document: "Dominican Republic Country Assistance Evaluation" (World Bank)

Guideline questions for review of the Report: 1. Is the World Bank's assistance related to the main problems affecting development of the economy? 2. How is it contributing to the development of the country? 3. How relevant, effective, and efficient is the Bank's assistance to the country? 4. What actions are recommended for future Bank cooperation with the country?

Comments

1. In the Executive Summary (para. 1) and in the body of the report (para. 1.11), with regard to the reduction of the poverty rate from 38% (1986) to 29% (1988): Given the different estimates available for this indicator, and their controversial nature, we suggest that the comment be left in qualitative terms, or that if percentages must be used they be attributed to the source. For example, the differing estimate attributed to the Planning Department (ONAPLAN) in the footnote to para. 1.11 on page 4 does not jibe with the one assumed in the report. Is the latter one from the Central Bank, ECLAC, CELADE, Dahajre et al., or is it your own?

2. We suggest that in point 2 of the Executive Summary the expression "country's sensitivity to external interference," presented as a partial explanation for the lack of Bank loans to the country, be clarified. While this characterization is valid for the 1986-1996 period, we consider that in public opinion and at the governmental level, at least since the second half of the 1990s, the country has a favorable attitude toward financial assistance from multilateral agencies, especially the World Bank. Vestiges of these attitudes may be more due to the Bank's preconditions, the country's ability to manage them, and procedures required by Bank policy (burdensome at times, but understandable on our part) and even to political-administrative changes with the resulting shifts in priorities.

World Bank Assistance and National Development

3. We agree with the rating of "moderately satisfactory" for overall development impact of the Bank's program, and with the factors cited to justify that characterization (para. 4). We also concur with the comments on the involvement of the Bank's assistance in the structural reform process, privatization, the relevance of assistance to national development, and the Bank's limited role in the policy dialogue to promote these reforms. In this regard, we feel that the Bank could offer more and better assistance, both in the fields in which it is currently involved and in the priority areas for national development that have been insufficiently addressed.

4. We also agree with the lessons learned that are noted in para. 5 of the summary: a) to improve, in continuity and intensity, the quality of the Bank's dialogue with the country in order to maximize the benefit that it affords for clarification of the development agenda and for decision-making by national leadership; b) to improve

the country's institutional capacity to prepare, monitor, and evaluate projects. We also concur with the comments concerning the importance of the agricultural sector (trade, land, and price reform) to remove barriers to entry and encourage competitive production methods, and, finally, the comments on the power sector.

5. The report accurately comments on macroeconomic performance in the past two decades and progress in the social development variables. We also consider valid many of the suggestions contained in paras. 1.12 and 1.13 (page 6), on subjects for the agenda for national development. However, it should be noted (as a comment on para. 1.13) that the Government works with the caution and pace needed because of the sensitivity of the subject for productive modernization and the opening up of competition in the domestic sectors (agriculture, industry). In our view, management of these processes of deregulation and liberalization requires greater caution than was required for the opening up of the communications, tourism, and free trade zone sectors.

6. In general, the historical treatment of the Bank's assistance program to the country (pp. 6-16) is accurate. We concur with the comments and assessments regarding the effectiveness of the various loan operations executed or in process of execution from 1985 to date, and the evaluation of their impact on the development of such essential sectors as promotion of free trade zones, the power sector, transportation and feeder roads, and education. We also agree with the summary of loan operations granted to the country between 1995 and 2002, a period characterized by more intense activity in the Bank's assistance through operations to finance projects of great importance for the management of national development: irrigated land and watershed management, basic education, national highways, strengthening of provincial health services, and reconstruction of infrastructure destroyed by Hurricane George. We also concur with the notes on the country assistance strategy currently in execution, including loans for the prevention of HIV, basic education, development of a Distance Learning Center, telecommunications, and others.

Relevance, effectiveness, and efficiency of the assistance

7. Through the abovementioned loans and its analytical and advisory services (consultants), the Bank has made a substantial contribution to the management of national development, especially in the periods when the Bank-country dialogue was strongest, as in the late 1980s and early 1990s, when the country benefited immeasurably from support in the areas of advisory services, assistance for drawing up the reform agenda and macroeconomic stabilization, and the establishment of conditions for the sustained growth attained in the 1990s: restoration of macroeconomic balances (fiscal, monetary, and exchange), trade policy, etc. We feel that the benefits obtained from the country dialogue relationship justify its strengthening.

8. As a result of this dialogue we jointly agreed upon areas in which the country needs special support, such as: i) policies for fighting poverty; ii) economic policy for

promotion of development; iii) modernization of the government; iv) policies for preservation of the environment; and v) Dominican-Haitian relations and economic development for their border regions. These areas undoubtedly represent points of convergence between the country's assistance requirements and the Bank's resource supply.

Outlook for assistance

9. It is clear that the Bank's loans to fund development projects and programs have had a favorable impact on economic growth and various areas of national development, such as the development of infrastructure for economic growth and development of the power sector. It is also certain that impacts of this sort will continue to be felt as long as the execution of the current project portfolio continues. However, we agree with the report that there are many fields of action in which the Dominican Republic needs the Bank's assistance. In addition to the areas already addressed by Bank assistance, it is necessary to continue the dialogue to support areas such as institutional strengthening (including enhancing the Bank-country relationship), social development, and environmental preservation.

10. The current administration, headed by Hipólito Mejía, has assigned very high priority on the Government's agenda to the fight against poverty, assistance to the agricultural sector, and environmental preservation, including the fight against rural poverty.

MANAGEMENT ACTION RECORD

OED Recommendations	*Management Response*
Dominican Republic Country Assistance Evaluation	
• *Supporting the Millennium Development Goals.* The Bank's program should continue helping the country to deliver better services in critical areas, such as education, health and the environment, and on helping the government to improve the quality of social expenditures.	• The Bank's assistance program is well designed to assist the Government in meeting the MDGs, with a significant lending and AAA pipeline in education, health, HIV/AIDS, and the environment. The Dominican Republic is likely to achieve all its MDG goals, with the possible exception of HIV/AIDS.. This will, however, require: (i) strong governmental leadership to implement a comprehensive poverty reduction strategy ; (ii) the deepening of structural reforms, particularly to modernize the State, ; and (iii) the rationalization of donor coordination activities to avoid duplication and increase the impact of financial and technical assistance. The Bank will continue to support the MDGs through its non-lending and lending programs. A Public Expenditure review to be completed in FY03, will guide the dialogue on the effectiveness of public spending, particularly in the social sectors. Two MECOVI grants will strengthen the country's capacity for conducting and analyzing household surveys. Programmatic lending will support the reform efforts in the health and environment sectors. In education, the Bank is concentrating its assistance in education on the pre-school and tertiary levels, with primary and secondary education being addressed by the IDB.
• *Deepening Reform:* The Bank should help the country broaden its structural reform agenda to encompass agriculture, including trade, land, water and price reform, and to remove barriers to entry and competition in domestic activities.	• The Bank will continue to support the country broaden its structural agenda, and country-specific and regional analytical work is planned on agriculture, trade and competitiveness issues. However, the impact of this support will ultimately depend on the government's willingness to tackle the fundamental structural issues and assume the eventual political costs. In the Agricultural sector for example, a positive growth performance supported by

OED Recommendations	*Management Response*
	positive growth performance supported by strong domestic demand, masks deep structural problems and the inadequacies of the policy regime and government interventions. Most agricultural spending is devoted to input subsidies and commodity support programs that cannot sustain long-term growth. However, the political cost of deep structural reforms in this sector may be high and subsequent governments showed little appetite for it. Additionally, if not properly planned and in the absence of appropriate social nets, a dismantling of the subsidies might result in social problems, such as increased migration to the urban areas, which may lead to other problems in the urban areas.
• *Power.* The Bank should help the country to: (a) ensure that the regulatory framework is functioning; (b) address critical transmission bottlenecks; (c) resolve non-payment issues, and (d) reform retail tariff policy.	• The Bank is currently in advanced stages of preparing a comprehensive program to support second generation reform issues in the power sector. The government has already raised tariffs to cost recovery loans, improved targeting of the general electricity subsidy and made significant progress on resolving the financial arrears in the sector. The Bank's proposed program will also support institutional strengthening of all market institutions, including the regulator, through continued technical assistance. The Bank will monitor progress on these critical second generation issues, before considering investment support for transmission bottlenecks.

Chairman's Summary: Committee on Development Effectiveness (CODE) (Meeting of June 2, 2003)

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness met on June 2, 2003 to discuss the Country Assistance Evaluation (CAE) for the Dominican Republic (R2003-0064). The SC welcomed the CAE and commended OED for the quality of the report.

2. OED remarked that the Dominican Republic's economy had been substantially transformed. Decisive government action in 1990 had initiated stabilization policies and a program of gradual economic reform that forged one of the world's fastest growing economies, averaging about 5 percent per year for the past decade. Nevertheless, the structural reform process was far from complete. Domestic industry and agriculture are heavily regulated, unemployment remains high, the country still lags similar countries on several social indicators, and the electricity sector continues to be a drag on the country's economic performance. Overall, the Bank's role in the country during 1985-2002 had been modest and the dialogue had lacked continuity, partly because of the country's sensitivity to external interference through the mid-'90s, and partly because of the Bank's skepticism about the country's commitment and ability to sustain reform. Recently the Bank's influence on economic policy had improved. Project lending had had mixed results: it successfully supported areas relevant for achieving the MDGs, but was unsuccessful in the energy sector. Also, structural reform in areas important for broad-based growth and poverty reduction, such as agriculture and domestic industries, had not been pursued effectively. The expansion of the activities of the Bank's country office should help strengthen its role in policy dialogue. OED stressed that the Bank should (a) continue to improve dialogue with the authorities, especially in structural areas where the Bank has expertise; (b) continue to use project lending to achieve the MDGs; (c) work with the government to broaden its structural reform agenda to encompass agriculture and to remove barriers to entry and competition in domestic activities; and (d) assist in the power sector by emphasizing the need to enforce regulations and improve the performance of the electricity corporation.

3. Management noted its agreement with OED's analysis and recommendations, and made the following points: The Bank was now in a better position to expand its dialogue with the country. An office had been established in Santo Domingo in 1998-99, and this was a positive sign that the Bank has moved into a period of much more intense dialogue with the Dominican Republic in the last four or five years. The Bank's assistance program was well designed to assist the Government in meeting the MDGs, with a significant lending and AAA pipeline in education, health, HIV/AIDS, and the environment. The Bank would continue to assist the country to broaden its structural agenda, and country-specific and regional analytical work was planned on agriculture, trade and competitiveness issues. However, the impact of this support would ultimately depend on the Government's willingness to tackle the fundamental structural issues and assume the eventual political costs. With respect to the power sector, the Bank was currently in advanced stages of preparing a comprehensive program to support second generation reform issues in the sector.

4. The SC welcomed the comprehensive and candid OED assessment, and broadly supported its findings. Members were pleased to note that management generally concurred with OED's recommendations. They commended the authorities for their success in turning the economy around and making it one of the fastest growing economies in the world. Among the specific issues raised by the Subcommittee were:

5. **The Bank's Role in the Reform Process.** SC members observed that recent developments in the country showed that macroeconomic management had weakened significantly. There was

an urgent need to broaden the reform agenda. Members agreed with OED that the Bank had a key role to play in this respect, and asked management to elaborate on how it planned to respond to the country's needs in light of recent events. They asked about the consequences of the Bank's internal reorganization on its relationship with the country, and stressed the importance of preserving continuity in the dialogue. Management said that since 1997 there had been staff continuity, and that the Bank's intention was to maintain this continuity and improved dialogue. The entire economic team was now based in Santo Domingo, and this would facilitate continuous informal dialogue.

6. **Analytical and Advisory Services.** The SC noted that the Bank's analytical and advisory services had played an important role in the 1990s in supporting the Government's reform agenda. Larger, formal pieces of ESW carried out between 1995 and 2001 appeared to have been more of a Bank initiative than a Government demand, however, and had had little impact. Members were skeptical about the impact and development effectiveness of products that did not have government ownership and may have been carried out only because of low levels of lending during those years.

7. **The Bank's Limited Past Engagement.** The SC noted that the Bank's past limited engagement in the Dominican Republic was in part due to its misgivings about the ability of the authorities to successfully carry out and sustain economic stabilization and reform in the early 1990s. Members further noted that this view was not shared by the IMF, and asked about the reasons for this excessive skepticism and negativity on the part of the Bank. Management said that the government at that time had been very sensitive to external interference. There were also many changes in personnel, and the Bank had felt that the stabilization and reform program the Government had designed was too gradual and selective in terms of the sectors to be liberalized.

8. **IFC and MIGA.** Some members noted that both IFC and MIGA were actively involved in the Dominican Republic, which was one of the largest recipients of IFC financing in the region in FY02, and was MIGA's sixth largest exposure despite its relatively small size. Members observed that this appeared to indicate that MIGA and IFC had a different assessment than the Bank of the environment in the country, and asked about the reasons for this. IFC staff said that the reforms in the mid-1990s had made the environment more conducive to greater private sector participation and this had led to greater IFC activity in the country. The bulk of IFC's activity in the Dominican Republic had taken place in the last 6 to 7 years.

9. **Government Commitment to Reform.** SC members noted that in the early 1990s the Bank's engagement in the Dominican Republic had been limited because the authorities did not want the reform process to be externally driven. They asked if this attitude had changed and if the Bank was now in a position to play a much more supportive role. Some fundamental reform issues in agriculture may prove to be very contentious, they noted. Management said there was a growing awareness that agricultural and rural reform were essential, given the pace of urbanization. There would be a major focus on ESW to highlight some of the areas for reform.

10. **Donor Coordination.** SC members asked for further elaboration of the statement in the document that the Bank did not coordinate well its external assistance to the Dominican Republic with other donors. One of them further noted from the section on "lessons and recommendations" that participation through mechanisms such as the CDF could be useful, but they would need to be sustained and include the active involvement of all major donors to be effective. The speaker asked if the use of the phrase "could be useful" implied that participation

through such mechanisms was not necessarily useful. Staff responded that several government programs were based on the recommendations of the CDF pilot, whose most remarkable achievement was to facilitate discussions among political parties and to bring donors together to achieve more coherent cooperation on development issues.

11. **The Role of the Bank in Crisis Prevention.** SC members recalled that the Bank had carried out an FSAP in the Dominican Republic. The country was now facing various difficulties in its financial sector that could potentially have a systemic impact. They asked what lessons the Bank could draw from having been involved in the sector through the FSAP. The speaker representing the Dominican Republic pointed out that the recommendations from the FSAP did not relate to fraud, which was the issue here. Going ahead, some mechanisms would have to be devised to ensure that banking institutions and regulatory bodies learned the necessary lessons about money laundering and offshore accounts. The Government was making every effort to be as transparent as possible – not only had it invited the Bank and Fund to continue expanding on their work on the FSAP, but it had also invited other foreign nations to inspect the books before the accounts were auctioned and the bank closed.

12. **The Power Sector.** SC members agreed with OED that the Bank should play a key and proactive role in the critical power sector to bring the parties together to resolve issues of non-payment, retail tariff policy, and transmission bottlenecks. They noted that management had already planned a program to address these issues, and asked for more information about this. They stressed the importance of having appropriate and well designed sequencing in the implementation of reforms as well as an appropriate legal and regulatory framework prior to any privatization of public utilities. The current situation in the sector, they said, demonstrated the serious negative effects of a reform strategy that lacks the appropriate sequencing.

Finn Jonck, Chairman

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA