

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

SOCIAL MANAGEMENT REFORM PROGRAM

(DR-0150)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/approvals/pdfs/DRen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=DR&L=EN
Information available in the RE2/SO2 technical files	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=611753
Budget codes	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=837193
Monitoring and evaluation tracking indicators	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=837194
Means of verification for fulfillment of contractual conditions	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=844650
Policy letter	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=837191

ABBREVIATIONS

BCS	Bank's country strategy
FDI	Foreign direct investment
GDP	Gross domestic product
ILAE	Academic Assistance Incentive Program
IMF	International Monetary Fund
INESPRE	Instituto Nacional de Estabilización de Precios [National Price Stabilization Institute]
MDGS	Millennium Development Goals
NFPS	Nonfinancial public sector
ONAPLAN	Oficina Nacional de Planificación [National Planning Office]
ONAPRES	Oficina Nacional de Presupuesto [National Budget Office]
ONE	Oficina Nacional de Estadística [National Statistics Office]
PAE	Programa de Alimentación Escolar [School Meals Program]
PBL	Policy-based loan
PPS	Programa de Protección Social [Social Safety Net Program]
RNM	Reglamento Nacional de Medicamentos [National Medications Regulation]
RUPS	Regiones Únicas de Planificación [Single Planning Regions]
SASP	Sistema de Administración de Servidores Públicos [Civil Service Administration System]
SBA	Standby Arrangement
SEE	Department of Education
SEH	Department of the Treasury
SENASA	Seguro Nacional de Salud [National Health Care System]
SESPAS	Department of Public Health and Social Assistance
SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
SIUBEN	Sistema Único de Beneficiarios [Master Beneficiaries System]
SRSs	Servicios Regionales de Salud [Regional Health Services]
STP	Secretariado Técnico de la Presidencia [Technical Secretariat of the Office of the Presidency]

PROJECT SUMMARY

DOMINICAN REPUBLIC SOCIAL MANAGEMENT REFORM PROGRAM (DR-0150)

Financial Terms and Conditions ¹				
Borrower: Dominican Republic			Amortization period:	20 years
Executing agency: Secretariado Técnico de la Presidencia [Technical Secretariat of the Office of the Presidency] (STP)			Grace period:	5 years
			Disbursement period:	Maximum 24 months
Source	Amount	%	Interest rate:	Adjustable
IDB (Ordinary Capital)	US\$150 million	100	Inspection and supervision fee:	0%
Local	US\$ 0 million	0	Credit fee:	0.25%
Total	US\$150 million	100	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance				
<p>Project objective: The objective of the program is to make management of the social assistance, social safety net, education, and health sectors, as well as social security in the Dominican Republic more efficient and effective. Such improvements are related to trimming the social assistance budget and reallocating it towards an upturn in public spending on education and health, as well as making changes to tools for decentralization, targeting, and selection of personnel that improve service coverage and performance. This objective is complemented by another, which constitutes, in turn, a necessary condition for the first one: modernizing government budget management, which entails placing responsibility for fiscal management under a single State entity, reducing discretionary budget authority by eliminating the use of surpluses, and making it easier for sector entities to execute budgets.</p> <p>Special contractual conditions: The contractual conditions for program disbursements cover three areas: (i) macroeconomic conditions; (ii) government budget management reform; and (iii) social management reforms. Specific details on the contractual conditions for each of the three disbursement tranches may be found in paragraphs 2.3 to 2.18 of this document and in the program's Policy Matrix (see Chapter V).</p> <p>Exceptions to Bank policies: None.</p>				
<p>Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/></p>				
<p>Verified by CESI on: The Project Concept Document was reviewed on 26 August 2005 and no further action was recommended.</p>				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Macroeconomic environment

1. Economic growth and financial crisis

- 1.1 After a decade of growth and relative stability, the Dominican economy was struck by a series of external and internal shocks that revealed institutional weaknesses in several areas of the public sector. These upsets included an economic slowdown beginning in 2001 that was compounded in 2003 by a banking crisis and a deepening of recurring problems in the power sector. From 1991 to 2000, the economy had grown at a real rate of 6% of gross domestic product (GDP), masking some signs of vulnerability. In the context of slower growth starting in 2001, and recession in 2003, the fragility of the regulatory and public finance systems became evident.
- 1.2 In 2003 exchange rate depreciation, the rise in inflation and its impact on government obligations for subsidies, and a mounting public sector payroll led the fiscal deficit to swell beyond the ceilings agreed with the International Monetary Fund (IMF), which ultimately resulted in cancellation of the Stand-by Arrangement (SBA) signed in 2003. The resulting economic and social repercussions dealt a hard blow to the population. Real GDP shrank by 0.4%, unemployment reached 17% of the economically active population, and the public sector accumulated substantial arrears with its creditors. The sum of these circumstances and the government's responses pushed total public debt (including Central Bank debt) up to 53% of GDP by the end of 2004.

2. Adjustment measures, financing needs, and outlook

- 1.3 Soon after taking office in August 2004, the new administration took measures aimed at correcting the fiscal imbalance, including a partial tax reform, a hike in energy rates, partial targeting of the fuel subsidy, and the elimination of public debt service arrears. These measures, together with a tight monetary policy, have helped boost confidence levels and put the country on a clear path to recovery.

a. The SBA with the IMF

- 1.4 In January 2005, the authorities began to implement an economic program backed by a new 28-month SBA with the IMF. The SBA called for a substantial fiscal adjustment and implementation of a structural reform agenda to address issues in public management, the financial system, and the energy sector, all aimed at correcting the institutional weaknesses exposed by the crisis. As part of its commitments for 2005 and 2006, the Dominican government pledged to do the following, *inter alia*: (i) centralize fiscal and public debt management under a single Treasury Department; (ii) centralize management of public investment under the new Department of Planning and Development; and (iii) secure passage in Congress of new laws pertaining to the budget, public debt, cash management, internal controls, and procurement. This draft legislation was the result of a broad

debate that began during the 2003-2004 crisis, and was prepared with technical support from the IDB, the World Bank, and the IMF.

- 1.5 The outcomes of the SBA program in 2005 were very good. Real GDP grew 9.3% and inflation dropped to 7.4%, exceeding the program's initial targets. The exchange rate stabilized around RD\$/US\$32 and interest rates gradually declined. In this context, the nonfinancial public sector (NFPS) deficit shrank to 0.4% of GDP in 2005, while the quasi-fiscal deficit of the Central Bank narrowed to 2.9% of GDP in 2005 (from 4% in 2004). The balance of payments saw a slight current account deficit of 0.3% of GDP, mainly because of higher oil prices and the 21% increase in imports resulting from economic recovery. The economy continued to rebound in 2006, with real GDP growth of 11.7% in the first half of the year and a projected rate of 9% for the full year, with inflation at about 7%, against a backdrop of exchange rate and interest rate stability.

b. Financing needs

- 1.6 The economic program for 2006 projected a balanced result (zero deficit) in the NFPS deficit and a narrowing of the Central Bank's quasi-fiscal deficit to 2.8% of GDP, which meant achieving primary surpluses in the NFPs, together with an expected drop in interest rates. Thus the consolidated public sector balance would improve by 4.8% of GDP in 2004-2006. This would bring total (internal and external) public debt down from 53% of GDP in 2004 to 44% of GDP in 2006.
- 1.7 In August 2006, in the context of a mission to perform the fifth SBA review, the IMF found a significant deviation from fiscal targets, despite the progress made in the first half of the year, owing to the loss in tax receipts and to outlays for subsidies to the power sector that far outstripped projections. The June 2006 fiscal target was not met, and a complete slippage of 1.8% of GDP with respect to the zero-deficit target was projected for all of 2006. In the absence of corrective measures, the projected gap for 2007 could be greater, preliminarily estimated at 3.7% of GDP.
- 1.8 In close coordination with the IMF, the authorities identified corrective measures that would make it possible to substantially reduce the slippage in the initial fiscal target for 2006 and an agreement on the fiscal targets for 2006 and 2007 is expected before the end of the year. The corrective measures include cutbacks in expenditures for the purchase of goods and services, in transfers to the power sector, and in public investment.
- 1.9 Even with the planned fiscal adjustment, if the macroeconomic targets under the SBA are to be met, a significant level of external financing will be needed to make external debt service payments, which are still onerous, eliminate arrears, and offset the cost of oil imports on the central government budget. The government's financial strategy is anticipating fresh money and refinancing with the private sector and multilateral agencies. Beyond the important measures anticipated by the Government of the Dominican Republic in the context of the SBA and international community support, financing needs are preliminarily estimated to be

US\$463 million for 2006, US\$614 million for 2007, and US\$622 million for 2008. This estimate does not factor in the effects of likely increases in the price of oil, which would raise the country's oil bill.

c. Outlook

- 1.10 Based on the fiscal targets, other structural measures proposed by the authorities under the IMF agreement, and the positive outlook for the Dominican economy, Management believes that the authorities are maintaining a macroeconomic framework consistent with the objectives of this policy-based loan. Even so, there continue to be risks associated with variables exogenous to the Dominican government's economic program. The principal risk is the increase in oil prices. While the authorities are using US\$63.30/barrel for 2006 and US\$64.10/barrel for 2007 as the premise for their fiscal and balance-of-payments projections, prices higher than these would generate additional demand for liquidity (to finance the increase in the value of imports) in the amount of US\$50 million per US\$1 in price increase.
- 1.11 Aside from this risk factor, which is outside the control of the authorities, the risks of excessive devaluation of the Dominican peso (RD\$) (beyond what is planned for in the program—RD\$/US\$35.7 in 2006 and RD\$/US\$37.1 in 2007), runs on deposits, and capital flight owing to a loss of confidence among economic agents are intrinsically mitigated under the SBA-supported program, which the authorities are considered highly unlikely to abandon in the short term. On the contrary, its extension to 31 December 2007 is currently under consideration.

B. Budget and financial management

- 1.12 The lack of clear guidelines in public financial and budget management has serious institutional and operational implications that are closely related to the obsolescence of the current Budget Act, which gives broad discretionary authority to the National Budget Office (ONAPRES) in the budget management of expenditures, with the power to approve requests from government executing units item by item. This practice not only makes the process less transparent, but it makes for slow resource management and uncertainty within the executing units as to the timely completion of goods and services procurement processes. This slowness patently affects the social sector departments, whose expenditures account for more than 40% of public spending. What is more, investment spending has been managed by the National Planning Office (ONAPLAN), which has not always duly coordinated with ONAPRES to ensure the proper budgeting of recurrent expenditures stemming from the new investments.
- 1.13 In 2003, to mitigate these issues, the government implemented the financial programming system for budget execution in the Executive Branch's 17 departments, which was complemented in 2004 by Decree 1524/04, which called for the adoption of a monthly programming system. Although it was approved in December 2004, this decree has not been implemented, and ONAPRES

continues to have levels of discretionary authority that have prevented any substantial improvement in public budget management.

1. Budget surpluses

- 1.14 Another drag on the current Budget Act is that the executing units' slowed pace of budget execution caused by ONAPRES's discretionary authority can artificially create budget surpluses that are then spent by the Office of the Presidency, outside the financial management rules set forth in the act, with negative consequences for the capacity of the social sector departments to link budget performance to the setting of priorities. This distortion has a tremendous impact on the social sector departments, since over 70% of off-budget spending by the Office of the Presidency goes toward social assistance projects that are not only highly inefficient, but take away budget space from programs with better targeting and coverage. In 2004, for example, the Department of Education (SEE) executed about US\$34 million less than its budget, and the Department of Health US\$100 million less, while the Office of the Presidency spent almost US\$500 million more than originally budgeted, or two and a half times its approved budget.
- 1.15 In recent years, the Dominican government has developed a series of rules to regulate the use of budget surpluses. The most recent regulation expressly prohibited financing multiyear projects with budget surpluses, in an effort to reduce the macroeconomic distortions generated in the past by discretionary management by ONAPRES.

2. Centralization of public debt and budget management

- 1.16 Under the new system proposed by the Dominican government, centralized authority will be exercised by a new Department of the Treasury (SEH), the basis for which is the current Department of Finance. This process will occur through the combination of two measures. The first consists of passage of the Budget Act and the Public Debt Act, which, *inter alia*: (i) centralize budget management under the SEH; (ii) centralize in the SEH the responsibilities of contracting domestic and external debt for the central government and for local governments; (iii) eliminate the concept of budget surpluses and create a budget allocation of 5% of revenues to be executed by the Office of the Presidency, following all the rules governing budget execution; and (iv) eliminate the discretionary power of ONAPRES to authorize each expenditure by government entities by strictly enforcing monthly financial programming. Congress has already passed the Public Debt Act, and the Dominican government expects the Budget Act to be passed in November 2006, such that the new institutional budgetary and financial framework will go into effect on 1 January 2007.
- 1.17 The second complementary measure is the preparation of two bills to legally establish the SEH and to convert the current Technical Secretariat of the Office of

the Presidency (STP) into a Department of Planning and Development,¹ which, among other things, will promote the implementation of Single Planning Regions (RUPs) in order to harmonize planning processes in the sectors.

C. Management and composition of social expenditure

- 1.18 The economic crisis that raged from 2002 to 2004 caused a 50% increase in the poverty rate and doubled the number of poor people in the country (1.5 million Dominicans fell into poverty), mainly because of the steep decline in families' real income. As a mitigation measure, the Dominican government invested substantial public resources in social assistance and safety net programs, the management of which is characterized, as several analyses have shown,² by weaknesses that seriously limit their impact on poverty reduction and their distributional scope.
- 1.19 The crisis produced a major shift in the composition of social spending, taking public resources from health and education in favor of spending on social assistance, despite its proven inefficiency and ineffectiveness. Social spending, historically among the lowest in all of Latin America and the Caribbean, fell from 8.2% to 7.4% of GDP from 2002 to 2004, partially canceling out the increase seen during the latter half of the 1990s. At the same time, social assistance spending rose sharply from 0.3% to 1.7% of GDP from 2002 to 2004 (above the average of 1% of GDP in the last 10 years) at the expense of spending on education and health, which fell from 4.9% to 2.8% of GDP over the same period. The downward trend in education and health spending was reversed in 2005, with increases more than proportional to the increases in social spending as a percentage of GDP. Despite this upturn, overall spending on education and health is expected to stand at only 3.9% of GDP in 2006—one percentage point below the levels attained before the crisis. In the 2006 budget, social assistance spending is still the third largest category of social spending (16% of the total), accounting for 1.6% of GDP.
- 1.20 If there is not a major change in public investment priorities in the social sector, such that public spending on education and health increases, the adverse impacts of the macroeconomic environment could have long-term effects, limiting the accumulation of human capital for new generations of Dominicans. Moreover, the increase in spending on education and health should target those areas that make the management and use of government resources in these sectors more efficient.
- 1.21 For example, the Dominican Republic is one of the worst performers in Latin America and the Caribbean in terms of grade retention and promotion, despite having one of the highest levels of educational demand in the region. On average, a Dominican child who succeeds in finishing secondary school spends 3.5 years longer in school than necessary. This is due mainly to the high rate of grade

¹ This Department will be responsible for planning public investment using a project bank, for which the Dominican government will seek passage of a Law on Public Investment.

² “*Report on Poverty in the Dominican Republic: Achieving More Pro-poor Growth*”, Chapter V, World Bank and IDB (2006); Lizardo (2005).

repetition. The failure to advance is worse among boys, residents of rural areas, and the poorest pupils in general.

- 1.22 Any increased spending on education should therefore be aimed at solving the multiple causes of repetition and slow grade progression, for instance: (i) reducing infrastructure constraints (very important in the transition from primary to secondary education in rural areas and in secondary education in general); (ii) strengthening the quality of teaching by increasing the availability of learning resources; (iii) bolstering training opportunities for teachers; (iv) expanding special programs for overage pupils and for reducing dropout and repetition rates in poor-performing schools in rural and marginal urban areas; and (v) improving human resources management in the sector.³
- 1.23 As for health, spending increases would support a series of strategic initiatives being promoted by the Department of Public Health and Social Assistance (SESPAS) to make management more efficient and to increase equity in the access of poor segments of the population to the subsidized health care system. Among the initiatives being considered are: (i) expanding and improving collective health programs, such as the mother-child, sexual and reproductive health, tropical disease, immunization, and nutritional surveillance programs; (ii) strengthening the regulatory and control functions of the subnational authorities represented by the Regional Health Services (SRS); (iii) rehabilitating and equipping the national services network; (iv) strengthening the preventive hospital maintenance program; (v) the national medical emergency response network; and (vi) financing the transfer into the National Health Care System (SENASA) so the poor can be enrolled in subsidized health care.
- 1.24 Sector-specific analyses are presented below, identifying the factors that exacerbate the inefficiency of public spending and that must be resolved to improve the quality thereof.

1. Social assistance

- 1.25 The Dominican Republic has no modern social assistance and safety net system. Instead, there are over 50 fragmented, uncoordinated agencies, most of them under the Office of the Presidency. Though recent efforts have been made to restructure the sector by creating the Social Safety Net Program (PPS),⁴ these efforts have produced only marginal changes in the factors responsible for the inefficiency and poor quality of social assistance spending. The main factors include: operational and institutional fragmentation (and the associated high administrative costs); scattered, redundant programs; improper targeting, weaknesses in operational management and in oversight; inadequate information systems for monitoring and evaluating impacts; and outdated procurement practices. The poor accountability

³ “*Report on Poverty in the Dominican Republic: Achieving More Pro-poor Growth*”, Chapter IV, World Bank and IDB (2006).

⁴ Through Decree 1554-04 of 13 December 2004.

- that characterizes the sector has helped perpetuate an environment that is fertile ground for patronage and for the use of programs for political ends, which, ultimately, has been an obstacle to the process of restructuring the sector.⁵
- 1.26 The fragmented, scattered, redundant, poorly targeted nature of interventions makes their impact on poverty reduction marginal or nil. Several of the programs that focus investment on social assistance (e.g. *Comedores Económicos*, the program of the *Boticas Populares*, National Price Stabilization Institute [INESPRE], and, since 2005, the conditional transfer subprogram *Comer es primero* under the *Solidaridad* program) have a similar objective of subsidizing household consumption, and the risk of duplication is therefore high.⁶
- 1.27 To give an example of shortcomings in operational management and oversight, a recent assessment⁷ shows that in the case of the School Meals Program (PAE), whose budget represents nearly 20% of all social assistance spending and 0.3% of GDP, there is ample room to make spending more efficient in several areas, including: (i) procurement; (ii) operations; (iii) quality management and supervision; and (iv) administration. If implemented, these improvements should make it possible to maintain current program coverage, enhance the quality of service, and substantially reduce program costs (by 15% to 20%).
- 1.28 Overall, the country has made strides since 2005 toward developing targeting tools and designing programs that could enhance the effectiveness of social assistance spending. Specifically, the Master Beneficiaries System (SIUBEN) was implemented so that the country would have a technical tool for identifying poor households eligible to receive benefits under different social programs, and that could serve to gradually dismantle universal subsidies and transfers. The Dominican government has also designed and implemented the conditional transfer program *Solidaridad*.
- 1.29 These initiatives are still new. SIUBEN represents a major effort to make the allocation and targeting of social assistance resources more transparent. Its large-scale implementation will make it possible to substantially reduce the leakage of resources to the nonpoor and guide the streamlining of interventions. SIUBEN lacks a strong institutional framework, however, and shows some significant

⁵ See Regalia and Robles, “*Social Assistance, Poverty and Equity in the Dominican Republic*,” IDB (2005).

⁶ *Comedores Económicos* distributes cooked and/or raw food rations through the following subprograms: *Raciones Cocidas*, *Raciones Crudas*, *Comedores Productores en Cárceles*, and *Plato Solidario*. The aim of the *Boticas Populares* is to provide households with access to the basic food basket at affordable prices.

⁷ Gustavo Saldarriaga, “*Análisis de costo efectividad del Programa de Alimentación Escolar (PAE)*” [Cost-effectiveness Analysis of the School Meals Program] (2005). Report prepared for the Technical Secretariat of the Office of the Presidency in the context of the Protection and Sustainability of Social Reforms Program.

weaknesses,⁸ making it necessary to strengthen the mechanisms for operating and managing the register of beneficiary households. Sound management of the SIUBEN is also essential to ensuring transparency and efficiency in the operation of *Solidaridad*, which, if implemented well, has the potential to produce much larger distributional impacts than traditional investment in social assistance, reversing a pattern of transfers that was oftentimes regressive.⁹ *Solidaridad* will also make it possible to link social assistance to objectives of enhancing the human development of boys and girls. For that to occur, *Solidaridad* must adopt the best practices for running this type of program, including systematic monitoring of families' commitments.

- 1.30 Success in improving the efficiency and quality of social assistance spending hinges on putting an agency in charge of heading the sector. A first step was explicitly defining the concept of "Social Safety Nets" as the integrative program, understanding that it has a multidimensional nature, wherein social assistance is merely one part. Another step was the overhaul of 19 agencies, eliminating nine and merging two, but all with small budget allocations.¹⁰ The PPS still has over 20 entities under the budgetary responsibility of the Office of the Presidency, and others are scattered among several other agencies, without there being an entity responsible for determining strategic lines and priorities, and without a unifying criterion for monitoring outcomes. The Dominican government is preparing a restructuring proposal that would place the responsibility for setting policy with one agency, and operational responsibility with another.
- 1.31 Lastly, monitoring and analysis of the impact of social spending in general, and of social assistance spending in particular, are vitally dependent on the availability of reliable, independent, high quality statistical information that is nationally representative (i.e., through multipurpose household surveys).¹¹ The Dominican government is currently working on modernizing the national statistics system and on eventually transforming the National Statistics Office (ONE) into an autonomous institute.

⁸ For example: (i) data collection was spread among several entities with limited central supervision; (ii) data processing was centralized and takes place far from the interview areas, so it is almost impossible to rely on subsequent rounds of interviews to fix problems with inconsistency of the information gathered; (iii) the institutional roles of the actors involved in the exchange of information flows are still not clearly defined; (iv) updates to the SIUBEN rely on scarce human and technological resources; and (v) security levels for managing the database are not acceptable.

⁹ "Report on Poverty in the Dominican Republic: Achieving More Pro-poor Growth", World Bank and Inter-American Development Bank (2006).

¹⁰ Presidential Decree 1554-04.

¹¹ For example, for the first time, the Survey of Living Conditions, conducted by the Central Bank in partnership with the National Statistics Office, included a section on participation in social programs that made it possible to perform the first quantitative analyses of the nationwide impact and targeting of major social assistance program expenditures.

2. Health care and social security

- 1.32 In recent years, the Dominican Republic radically altered the structure and operation of its health care and social security systems by passing the General Law on Health Care and the Social Security Act. Such changes came about at a time when inefficient government spending on health care, from the mid-1990s to the present, accounted for an average of 2% of GDP, which is relatively low when compared to the 3.2% average in Latin America.

a. SESPAS and the separation of functions

- 1.33 The Health Care Act primarily defines SESPAS's role as the sector's lead agency and paves the way for gradually relieving it of its responsibilities as a direct service provider; such responsibilities would be assumed by local agencies. The Dominican government has taken steps to separate functions that initially focused on creating an institutional and regulatory framework, but progress has been very slow and has not touched upon the key elements of the effective transfer of budget resources and the delegation of financial management and human resource responsibilities. Responsibility for managing services is given to the SRSs, which will operate in regional networks in order to capitalize on the complementary nature of the services.
- 1.34 Expanding the SRSs' responsibilities in terms of executing resources hinges on the gradual transfer of SESPAS's current budgets to them since the government has made it known that the separation of functions should not entail further spending. This transfer of resources is up against political and technical pitfalls that the Dominican government is willing to overcome, first by distributing funding in the 2006 budget by geographic areas and then dividing it between collective health services (which would be transferred to the SRSs) and individual health services (which would remain with SESPAS). The process will begin gradually in the regions and will go hand-in-hand with expanded insurance coverage under the subsidized health care system.

b. Social security

- 1.35 Implementation of the Social Security Act has been slow because of the financial crisis and the complexity of the institutional structure created, among other things. The subsidized system,¹² the health care services of which must be provided by public institutions, covers 400,000 individuals. The Dominican government plans to gradually expand coverage without major spending increases in order to eventually cover a total of 800,000 people, and will do so by effectively transferring SESPAS's traditional budgets to those responsible for insurance and through savings generated by efficient spending in other areas such as the purchase of medications. The subsidized system aims to use resources more efficiently and essentially improve the health indicators of those most vulnerable by boosting enrollment.

¹² Responsible for providing care to poor people without formal jobs and with limited capacity to pay.

3. Education

- 1.36 Despite the fact that passage of the regulations and standards for the teaching profession has constituted one of the most significant steps in modernizing the SEE,¹³ the internal efficiency problems that plague the Dominican education system are largely related to the poor use of human resource management tools. Processes used in this area are highly complex (staff selection and hiring, pension system, medical leaves, transfer and replacement of staff, etc.) and there is a sizeable staff (the largest in the Dominican civil service). Some of the main weaknesses detected in the administrative processes are summarized below.
- 1.37 **Centralization and communication shortcomings.** The highly centralized organization of processes bloats bureaucracy since hiring begins in the schools, then moves on to the districts and regions, and is finally completed at the central level. A more decentralized process that benefits from flexibility based on connectivity would ensure swift and effective processing, with specific gains in efficiency.
- 1.38 **Weak control and lack of audits mechanisms.** The SEE views expansion of these oversight mechanisms as an important opportunity for gains in efficiency and effectiveness, for which the training of district and regional authorities responsible for supervision and auditing is key. Despite the fact that it is difficult to calculate the magnitude of savings or gains in efficiency that may be obtained owing to a lack of specific data about irregularities and inefficiencies that exist today precisely because there are no adequate oversight mechanisms, preliminary estimates indicate that, using very conservative criteria, the SEE could save or more efficiently reallocate approximately US\$6 million annually by determining nothing more than where the money for salaries goes for the more than 3,500 teachers assigned to schools that, according to current SEE databases, have no registered students.
- 1.39 **Rules known and applied when selecting staff.** The SEE has taken significant steps toward making competitions for recruiting teachers transparent, but the implementation of competitive processes for filling principal and assistant principal positions is still pending. These measures are accompanied by the entry into force of the registry of teachers eligible to temporarily fill vacancies. This will lead to significant savings in the system since it will not be necessary to hold a competition each time there is a vacancy, rather, those who were selected in previous staffing competitions could be appointed.

D. Country strategy in the sector

- 1.40 The Dominican government is planning to take specific action in the social sectors in order to make spending more efficient and effective. At the same time, it is promoting a series of crosscutting measures designed to improve management of public budget resources. In this vain, the authorities have decided in principle to

¹³ This progress has been supported by investment loans and the matrixes of loans 1333/OC-DR and 1527/OC-DR.

gradually reform the regulatory framework that governs budget management by eliminating in the new Budget Act the budget surplus and the discretionary authority that this entails.

- 1.41 With this general strengthening of the government budget, the social sectors will be more easily able to promote their own reforms: (i) implementation of health care and social security laws begins; (ii) an important step is taken with passage of the regulations and standards for the teaching profession; and lastly, (iii) a decision is made to make the use of government subsidies transparent by beginning implementation of a system for selecting beneficiaries. This is an ambitious strategy of incremental changes where specific social sector measures are combined with crosscutting measures that facilitate their budget management.

E. Bank experience and strategy with the country

- 1.42 The primary objective of the Bank's country strategy (BCS) with the Dominican Republic is to support government efforts to reduce poverty. To achieve this objective, the Bank will support activities focused on three strategic pillars: (i) the competitiveness pillar, the specific objective of which is to reduce barriers to private investment and sustainable growth; (ii) the governance pillar, the objective of which is to make public administration more efficient and transparent; and (iii) the social pillar, the objective of which is to further human development for the very poor and make social spending more efficient. By combining crosscutting measures that seek to make the public sector's budget management more efficient and transparent with efficiency and effectiveness measures in education, health, and social assistance, the program is developing both the governance and social pillars of the BCS.
- 1.43 From this strategic perspective and given the Bank's experience, a policy-based loan is considered the appropriate instrument to support this phase of changes in the Dominican Republic's social management. The following lessons learned from the use of this type of instrument have been taken into account: (i) base the program on a sound analysis of the sector, which in this case comes from the study of poverty performed jointly by the World Bank and the IDB with broad-based government ownership; and (ii) include commitments in the policy matrix that are under the government's control. As an innovative element with respect to other Bank policy-based loans that protect the budget of priority social programs in economic downturns, this program opts for recovery in education and health spending in a context of economic recovery.
- 1.44 In addition, in preparing this program, the lessons learned from executing the portfolio in the Dominican Republic were taken into account. Evidence from 2001 to 2004 shows how beneficial it is to combine quick disbursement instruments—a PBL, program to support social sector institutional reform (1333/OC-DR), and an emergency loan, protection and sustainability of social reforms program (1527/OC-DR)—with investment programs designed to modernize the health sector, two programs to support the education sector, and the financial

modernization program. While the former helped to promote policy changes—new health care and social security laws and the teaching profession regulations and standards—the investment programs provided the resources for the first phases of implementation of the reforms, supporting, among other things, the separation of functions in the health sector and the modernization of management tools for basic and secondary education. They also provided financing for the implementation of the Integrated Financial Management System (SIGEF) in all of the Executive Branch's central Departments, improving the management of expenditures and reducing discretionary authority over execution.

- 1.45 Consistent with the BCS, this PBL is also complemented by the modernization of public resources administration program (DR-L1005), which will provide resources to improve the management of public resources and support the institutional adjustments and administrative reorganization that result from centralizing fiscal management under the SEH. It further supports a broadening of the SIGEF into 26 decentralized institutions and four social security entities, the implementation of the new procurement system by modernizing the accompanying operational and organizational tools, and the strengthening of the Office of the Comptroller in order to reasonably ensure its management. The PBL also complements two recently approved investment operations: (i) the labor markets and social transfers, program phase I (1693/OC-DR), which supports the creation of an institutional framework for the SIUBEN and tools to manage conditional transfers; and (ii) the strengthening of the national statistics system program (1676/OC-DR).

F. Program strategy

- 1.46 This policy-based program supports the Dominican Republic's development by being conducive to combined transformations in both the macro aspects of public budget management and the micro aspects of managing social spending. The strategy that unites these two aspects is the characterization of improvements in efficiency and transparency in the management of financial resources as a vehicle and necessary condition for strengthening the link between growth and poverty reduction. Sound management of the social sector will thus be facilitated by making it flexible and effective in terms of the harmonious relationship between the planning and execution of its activities and by providing it with additional resources freed up by the dismantling of inefficient programs—that grew haphazardly under the supervision of the Office of the Presidency—and used to help restore government spending levels in health and education.
- 1.47 The program is also associated with the strategic actions being executed in the education and health sectors. In the case of health care, efforts to separate supervision and policy development functions, insurance, and health care services delivery will be supported by promoting deconcentration and decentralization of functions that will help make management more efficient at the same time that support is being provided for the development, regulation, and implementation of the national medications policy. Enrollment of the most vulnerable segments of the population in the subsidized social security health care system is also being

promoted in order to ensure access to a family health plan with emphasis on prevention and promotion.

- 1.48 With respect to education, the program supports instituting human resources management, oversight, and supervision procedures in order to make implementation of the regulations and standards for the teaching profession feasible and to help overcome the internal efficiency problems of the Dominican education system.

G. Coordination with other multilateral organizations

- 1.49 Given the importance of other sources of multilateral financing for the country, there will be close coordination with World Bank activities in the Dominican Republic, particularly in terms of preparing and executing a social safety net program that supports the financing of conditional transfers of revenue under the *Solidaridad* program and the improvement of SIUBEN as a targeting tool. There will also be close coordination with the International Monetary Fund (IMF) in terms of monitoring the implementation of the new laws that improve the government's budget and financial management and maintaining a stable macroeconomic environment.

II. THE PROGRAM

A. Objectives and description

- 2.1 The objective of the program is to make management of the social assistance, social safety net, education, and health sectors and social security in the Dominican Republic more efficient and effective. Such improvements are related to trimming the social assistance budget and reallocating it towards an upturn in public spending on education and health, as well as making changes to tools for decentralization, targeting, and selection of personnel that improve service coverage and performance. This objective is complemented by another, which constitutes, in turn, a necessary condition for the first one: modernizing the government's budget and financial management, which entails placing responsibility for fiscal management under a single State entity, reducing discretionary budget authority by eliminating the use of surpluses, and making it easier for sector entities to execute budgets.

B. Program structure

- 2.2 The program is broken down into three policy areas: (i) macroeconomic conditions; (ii) public budget and financial management reform; and (iii) social management reform.

1. Macroeconomic conditions

- 2.3 The objective of this operation's macroeconomic component is to help maintain sustained economic growth as a foundation for macroeconomic stability in the Dominican Republic. In this respect, maintaining a macroeconomic environment

that is consistent with the program's objectives is a condition precedent to release of the three tranches.

2. Public budget and financial management reform

- 2.4 This component's objective is to support the creation of a transparent legal and institutional framework for the efficient allocation and execution of the government's budget by eliminating discretion in government resource management. In keeping with this objective, passage of the following laws, to the Bank's satisfaction, will be required for release of the first tranche: (i) the Budget Act, under which budget management will be centralized under a single government department and the discretionary allocation of public expenditures is eliminated; and (ii) the Public Debt Act, under which the contracting of domestic and external debt for the central and local governments will be centralized under a single government department.
- 2.5 Disbursement of the second tranche will require, to the Bank's satisfaction: (i) the submission and implementation of the Budget and Public Debt Acts' regulatory decrees; (ii) approval of the Treasury Department's and the Department of Planning and Development's general regulations and organizational manuals; (iii) entry into force of the law that makes the Single Planning Regions (RUPs) official; and (iv) elimination of the discretionary allocation of budget surpluses in the execution of the 2006 budget and in the 2007 budget.
- 2.6 Disbursement of the third tranche will require the presentation of evidence that the discretionary allocation of budget surpluses have been eliminated in the execution of the 2007 budget and in the 2008 budget.

3. Social management reform

a. Social assistance and recovery in health and education spending

- 2.7 The objective is to promote a change in the composition of social spending by: (i) increasing government resources allocated to the education and health sectors and concentrating them in programs that have, in the medium term, a positive impact on spending efficiency in these sectors; (ii) streamlining investment in social assistance by reducing the amount of government resources invested in the sector and permanently eliminating some programs; (iii) improving management of specific programs such as the School Meals Program (PAE) and *Solidaridad*, to enhance the impact of social assistance on human development in poor households; and (iv) creating a formal institutional framework for the social assistance and safety net sector in which the Master Beneficiaries System (SIUBEN) is strengthened as a tool for targeting subsidies and transfers, and stewardship of currently scattered programs is centralized.
- 2.8 Disbursement of the first tranche will require presentation of the following, to the Bank's satisfaction: (i) a rational budgeting plan for 2007 and 2008 for social assistance and the National Price Stabilization Institute (INESPRE) programs, including the legal elimination in 2008 of those programs that have little

- distributional impact; (ii) a plan to improve the management and quality of the PAE based on assessments done in the areas of procurement, operations, quality management and supervision, and administration; (iii) a plan for a cumulative increase in government spending of 0.6% of GDP for 2007 and 2008 in the education and health sectors and its proposed allocation to priority programs for those sectors; (iv) the *Solidaridad* program's unified institutional and operational model, including the use of the SIUBEN; (v) evidence of the entry into force of the *Solidaridad* program's Operating Regulations; and (vi) evidence of the entry into force of the Executive Decree that initiates the process of developing a single institutional framework for stewardship of social assistance and safety net programs, with the creation of a temporary committee that will prepare the final institutional framework proposal.
- 2.9 In the case of the second disbursement, the following must be verified: (i) when comparing the 2007 Revenue and Expenditures Law and the 2006 current budget in nominal terms, the PAE budget has remained the same, the respective budgets for the INESPRE and *Comedores Económicos* programs have been cut by at least 20%, and the overall budget for the social assistance programs that could be streamlined has been cut by 15%; (ii) progress is being made in implementing the measures proposed under the PAE management and quality enhancement plan; (iii) the budgets allocated to education and health under the 2007 Revenue and Expenditures Law have increased by 0.2 percentage points of GDP compared with the budget allocated under the 2006 Revenues and Expenditures Law; (iv) the amounts equivalent to this overall increase have been allocated, under the 2007 Revenues and Expenditures Law, to priority social programs in the respective sector policies, which are summarized in the Budget Codes document, with their respective budget allocations under the 2006 Revenues and Expenditures Law; (v) quarterly monitoring and verification reports of *Solidaridad* beneficiaries' co-responsibilities have been submitted; (vi) an evaluation of SIUBEN and *Solidaridad* operations has been conducted; and (vii) a proposal for a single institutional framework for the stewardship and execution of social assistance and safety net programs, including management of the SIUBEN, has been submitted.
- 2.10 With respect to the third tranche, the following must be verified: (i) when comparing the 2008 Revenue and Expenditures Law with the current 2006 budget in nominal terms, the PAE's budget has remained the same, the *Comedores Económicos* budget has been cut by at least 30%, the INESPRE budget has been slashed by 60%, and the overall budget for the social assistance programs that could be streamlined has been cut by 25%; (ii) the 2007 budget execution of the PAE, the *Comedores Económicos*, the INESPRE, and the overall social assistance programs that could be streamlined does not exceed the respective amounts allocated to them under the 2007 Revenue and Expenditures Law; (iii) an Executive Decree is in effect that eliminates a series of social assistance programs that have little distributional impact and were not established by law, and a law that will eliminate INESPRE and other social assistance programs streamlined that were established by law has been submitted to Congress; (iv) an evaluation has been submitted on

the measures implemented to improve the PAE's management and quality and on the actions taken to consolidate this process; (v) the budget allocated to education and health under the 2008 Revenue and Expenditures Law has increased by at least 0.6 percentage points of GDP compared with the budget—defined as the baseline—allocated under the 2006 Revenues and Expenditures Law; (vi) the amounts equivalent to this overall increase have been allocated, under the 2008 Revenues and Expenditures Law, to priority social programs in the respective sector policies, which are summarized in the Budget Codes document; (vii) when executed, the total 2007 budget for the health and education sectors accounts for at least 4.06% of GDP; (viii) the 2007 budget for the priority social programs summarized in the Budget Codes document reached at least 90%, in general terms, with respect to what was established under the 2007 Revenue and Expenditures Law; (ix) monitoring and verification reports of *Solidaridad* beneficiaries' co-responsibilities are submitted every four months; (x) recommendations from the evaluation of SIUBEN and *Solidaridad* operations have been implemented; (xi) a quantitative external evaluation of SIUBEN targeting performance has been submitted; (xii) a law is in place that establishes a single institutional framework for the stewardship and execution of social assistance and safety net programs, including management of the SIUBEN; and (xiii) a bill has been presented that would transform the National Statistics Office [ONE] into the National Statistics Institute.

b. Health and social security

- 2.11 The objective is to support transformations in the Department of Public Health and Social Assistance (SESPAS) that enable the transfer of the administrative and financial responsibility for providing services to the Regional Health Services (SRSs), to a system of regional health networks, by complying with legal mandates to separate functions and developing a financing system based on demand and effective service delivery. By the program's end, at least three SRSs are expected to have the respective authority and resources and the budgets are expected to have been effectively transferred from the SESPAS. What is more, the program is supporting a minimum 15% increase in coverage for the subsidized health care system, which could be financed through transfers resulting from the aforementioned change in the system for financing the SRS.
- 2.12 Disbursement of the first tranche will require: (i) making the SRS network model's organizational structure and operating rules official; (ii) evidence that SESPAS has differentiated between and separated spending categories for collective health care and individual care in all the SRSs under the 2006 Revenue and Expenditures Law; (iii) entry into force of the National Medications Regulation (RNM), accompanied by the formalization of the National Medications Policy; and (iv) evidence that at least 400,000 individuals are enrolled in the subsidized health care system.
- 2.13 Disbursement of the second tranche will require verification that: (i) at least one SRS is implementing the human resources management regulation and the new performance incentives system; (ii) the plan has been submitted for the gradual

transfer of the budget for individual care from the SESPAS to the National Health Care System (SENASA), with backing from the Civil Service Administration System (SASP); (iii) the RNM has been applied in the following ways: medicines registry, procurement of medications in accordance with the core table, and inclusion of pharmacies in the SESPAS database; and (iv) enrollment of at least 460,000 people in the subsidized social security system.

- 2.14 Disbursement of the third tranche will require: (i) at least three SRSs to be implementing the human resources management regulation and the new performance incentives system; (ii) the 2008 Budget to reflect the gradual transfer of the budget for individual care from the SESPAS to SENASA, and from SENASA to at least three SRSs, keyed to the subsidized health care system's coverage; (iii) implementation of the RNM to be broadened to include the use of medical prescriptions or orders and the use of drug therapy guides and protocols; and (iv) at least 530,000 people are enrolled in the subsidized social security system.

c. Education

- 2.15 The objective is to establish a modern system of human resource management in the Department of Education (SEE), with clear, consistent, and objective rules that make it possible to regulate its operation and improve the quality of the staff that work there. This modernization will be driven by transformations in two areas: (i) procedures for human resource management in general terms and for the selection and hire of school principals and assistant principals in particular; and (ii) information systems for managing student databases. These actions are expected to make the education system more efficient by: (i) updating the records of up to 70% of teachers; (ii) selecting 100% of new teachers through competitive processes; (iii) adhering to the 200-day work year established by the National Education Council; and (iv) relocating 100% of teachers based on where they should actually be working.
- 2.16 Disbursement of the first tranche will require: (i) the new human resource management procedures manuals for SEE teaching and non-teaching staff to be made official; (ii) standards and procedures for the selection and hire of SEE school principals and assistant principals to be made official; (iii) the national registry of eligible teachers to be instituted; (iv) validation and supervision functions to be configured and performed by six regional staff management units; (v) the student enrollment database to be recoded; and (vi) online communication of all the regional offices to be in operation.
- 2.17 Disbursement of the second tranche will require: (i) computer platforms to be set up to support the new human resource management processes; (ii) competitions to be held for SEE school principals and assistant principals; (iii) the standards and procedures for the selection and hire of SEE school teachers to be made official; (iv) validation and supervision functions to be configured and performed by the 12 remaining regional staff management units; (v) evidence of the progress made in

using the student enrollment database to obtain statistics on repetition, overage pupils, and dropout rates for the 2006-2007 school year; and (vi) the design and operation of a human resource system for the entry of personnel actions from the SEE's decentralized levels.

- 2.18 Disbursement of the third tranche will require: (i) verification that the new human resource management processes have been implemented in all of the SEE's decentralized agencies; (ii) competitions to be held for hiring new teachers in SEE schools and further competitions to be held for principals and assistant principals; (iii) verification of the audit of all teaching and non-teaching positions listed in the SEE database; (iv) evidence of the progress made in using the student enrollment database to obtain statistics on repetition, overage pupils, and dropout rates for the 2007-2008 school year; (v) verification of the complete convergence of the different databases on human resource management available in the SEE; and (vi) the human resource database to be updated online via decentralization of personnel action processing.

C. Cost and financing

- 2.19 The cost of the program is US\$150 million and financing will come from the Bank's Ordinary Capital resources. The size of the operation is justified in terms of the magnitude of the Dominican Republic's financing needs for 2006, 2007, and 2008, and because of the importance of the agreed policy actions, which include passage of a budget and finance reform package, implementation of the social assistance rational budgeting plan, recovery of spending levels in health and education, and advances in the strategic modernization of these same sectors.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower is the Government of the Dominican Republic and the executing agency will be the Secretariado Técnico de la Presidencia [Technical Secretariat of the Office of the Presidency] (STP) or the Department of Planning and Development when it replaces the STP, in coordination with the Department of Finance (SEF). The STP has satisfactorily executed a policy-based loan (PBL) (1333/OC-DR) and an emergency loan (1527/OC-DR), and has the staff and technical and operating capacity to function adequately as an executing agency.

B. Program execution and management

- 3.2 Within the STP, the National Planning Office (ONAPLAN) will be responsible for monitoring program execution, and, as the Bank's interlocutor, will be in charge of: (i) preparing progress reports every four months to be submitted to the Bank's Country Office in the Dominican Republic and the project team; (ii) holding periodic evaluation meetings and discussions with participating institutions in order to make timely decisions that enable conditions to be met in the established timeframes; (iii) acting as counterpart during the administration missions scheduled during program execution; and (iv) compiling and submitting to the Bank the information required to authorize the disbursement of each tranche after gathering and verifying the background data and documents necessary to prove that the policy actions agreed in the loan contract have been taken.
- 3.3 Each of the sector areas involved—the Department of Public Health and Social Assistance (SESPAS), the Department of Education (SEE), and the Social Cabinet—will have a core technical group of staff devoted to monitoring policy actions, achieving outcomes, and monitoring the budget for the social assistance rational budgeting plan and recovery of public spending on education and health. This core technical group will coordinate with ONAPLAN's technical team and will have the following tools to help it adequately monitor and supervise the program: (i) a policy matrix; and (ii) the loan contract and means of verification.
- 3.4 Lastly, the SEF will ensure that the quick-disbursing financial resources are administered in accordance with the Bank's rules for PBLs. It will also provide for effective monitoring of the agreed budgetary commitments through the SIGEF.

C. Execution period, amounts, and disbursement schedule

- 3.5 The program will be executed over a period of up to 24 months and will be disbursed in three tranches. Given how important the agreed policy actions are for each disbursement tranche, an amount of US\$50 million equivalent was agreed for each. An initial disbursement of US\$50 million is being planned for December 2006; a second disbursement for the same amount has been programmed for November 2007; and disbursement of the remaining US\$50 million is scheduled for July 2008.

D. Conditions for processing the disbursements

- 3.6 The disbursement of each tranche will hinge on fulfillment of the policy actions agreed for the respective tranche as specified in chapter II, in the Policy Matrix contained in chapter V of this loan document, and as spelled out in the document, entitled “Means of Verification of Fulfillment of Contractual Conditions.” In the specific case of the first tranche, the general conditions precedent to the first disbursement, which apply contractually to all PBLs, must also be met.
- 3.7 The project team will evaluate the information submitted by the Dominican Republic as evidence that the agreed policy actions have been taken and will prepare the corresponding reports for the Bank’s Management and Board of Executive Directors, in order to request that the disbursements be authorized in accordance with existing policies.

E. Monitoring and evaluation

- 3.8 Bearing in mind the timetable for executing this program, the executing agency has agreed to systematic monitoring via monitoring reports every four months that make it possible to ensure timely completion of the accompanying policy actions, particularly so that release of the second and third tranches may be authorized. Accordingly, the budget items to be monitored have been clearly coded, which will make it possible to precisely verify spending for each of the social assistance budget items that could be streamlined, on the one hand, and the budget codes for the priority health and education programs that will benefit from the restored spending, on the other.
- 3.9 For the final program evaluation, which will be reflected in the Project Completion Report, an agreement has been reached with the Dominican authorities on a set of tracking indicators to measure the outcomes of the actions and measures included in the program. To that end, a 2005 baseline and sources of data have been established for the following indicators: (i) rational spending social assistance: social spending as a percentage of GDP, spending on social assistance as a percentage of GDP, the ratio between the number of rations received and the number consumed at the schools, and the percentage of schools whose School Meals Programs (PAE) are supervised at least twice monthly; (ii) recovery of spending on health and education: spending on education and health as a percentage of GDP as evidence of the priority given to the SESPAS’s and SEE’s strategic programs; (iii) targeting: absolute incidence of social benefits received by the two poorest quintiles of the population compared with the benefits received by the population as a whole; (iv) health: the subsidized health care system’s coverage; and (v) education: percentage of positions assigned via competitions and the percentage of regional units that are fully connected. Targets have been established for 2006, 2007, and 2008 for each of the tracking indicators in order to provide evidence of progress made vis-à-vis the 2005 baseline, with ONAPLAN taking responsibility for collecting, systematizing, and analyzing the data.

- 3.10 In accordance with existing policies and procedures, consultations were held with Dominican authorities regarding their willingness to conduct an ex post evaluation of the program. The authorities stated that they did not wish to conduct such an evaluation, but did pledge to file the necessary information about the aforementioned performance indicators and make it available to the Bank so that the Bank could, if it deemed necessary, subsequently conduct an ex post evaluation of the program.

F. Policy letter

- 3.11 The Bank concurs with the borrower on the policies established in the attached Policy Letter. This letter provides a summary of the economic and social policies being pursued by the Dominican government and the status of the agreement with the International Monetary Fund. At the same time, it makes brief reference to social policy content and progress and presents strategic reform plans for government budget and financial management, and for social management, underscoring the importance of Bank support.

G. Eligible expenditures

- 3.12 The quick-disbursing resources of the PBL may be used to cover the added cost, in foreign exchange, of eligible imports from Bank member countries. In such cases, Bank procedures governing PBLs, set forth in document GN-2001-2, will apply. The funds will be disbursed when requested by the borrower and once evidence that all of the contractual conditions have been met to the Bank's satisfaction has been submitted.

H. External audit

- 3.13 The Bank reserves the right to request financial reports from the borrower regarding the use of loan resources; such reports must be audited by independent auditors previously approved by the Bank. The borrower thus undertakes to: (i) keep separate accounting records and support documents that make possible the external audits or requested verifications of the use of resources; (ii) maintain a separate bank account into which the loan proceeds will be deposited; (iii) prepare and submit disbursement requests to the Bank; and (iv) not use loan resources to purchase articles on the negative list or to procure goods from countries that are not members of the IDB.

I. Inspection and supervision

- 3.14 The Bank will establish the inspection procedures it deems necessary for the satisfactory execution of this policy program. To that end, the borrower, through the executing agency, will cooperate fully by providing all necessary assistance and information. The project team, in close coordination with the Bank's Country Office in the Dominican Republic, will be responsible for supervising the program based on the reports and monitoring and evaluation tools agreed upon in this loan proposal.

IV. FEASIBILITY AND RISKS

A. Feasibility

- 4.1 The Dominican government has executed both a policy-based loan (PBL) and an emergency loan over the last four years that provided support for the development and implementation of significant reforms in the social sectors and in the public finance management system. The STP's role of integrating and coordinating activities was positive and generated confidence with respect to the institutional and technical feasibility of this program, especially because at a substantive level, the policy matrix that has been prepared largely follows the conceptual line of reforms already under way. At the same time, the participating government departments have been working with adequate technical and financial resources since the previous administration was in office. Moreover, the Dominican government continues to conduct an information campaign to convince the public in general, and the civil service in particular, of the urgent need to make the changes and of the merits of the package of reforms.
- 4.2 The fact that passage of the Budget Act and Public Debt Act is among the conditions met prior to consideration by the Board of Executive Directors, solidifies the operation's political feasibility since the development of regulations is left to the policy matrix, the responsibility for which falls to the Executive Branch, which has the technical capacity to carry out this task.

B. Social and environmental impact

- 4.3 Given its focus on making social assistance programs with little distributional impact rational and restoring public spending on education and health, this operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (AB-1704). As this is a policy-related operation, it does not qualify as a poverty-targeted investment.
- 4.4 Because it is a PBL, this operation will have no direct impact on the environment and therefore no precautions to protect the environment will need to be taken during its preparation and execution.

C. Benefits and beneficiaries

- 4.5 Upon program completion, public spending on education and health is expected to increase by about US\$200 million (approximately 0.6% of GDP between 2006 and 2008) as a result of rational spending on social assistance programs with little distributional impact and greater economic growth. The reallocation of funds will primarily benefit strategic programs in the respective sector policies and is expected to have a positive impact on the efficiency of spending on health and education. The budget for those priority programs was approximately US\$109 million in 2006 and could triple by 2008, thus benefiting the most vulnerable sectors of the population with a greater investment in human capital.

- 4.6 Rounding this out, the impact of the social safety net on human development in poor households is expected to improve qualitatively through the strengthening of the *Solidaridad* program and the monitoring of beneficiary families' co-responsibilities.

D. Risks

- 4.7 The encouraging signs with respect to sustained economic growth in the Dominican Republic might make implementation of the measures contained in this program's policy matrix seem less urgent, particularly those related to changes in the composition of social spending. STP authorities believe, however, that the proposed measures are irreversible. The Executive Branch has already begun talks with the Congress of the Republic to show the need to reduce spending on social assistance and enhance its efficiency. It has also publicly committed to increasing spending on education and health under the 2007 Revenue and Expenditures Law. And lastly, estimated external financing needs for the Dominican Republic for the 2006-2008 period are significant and will require the resources included in this program; this makes it more probable that the agreed policy actions will be executed.
- 4.8 There is also the risk that the diversity of political interests may reduce the scope of the proposed reforms to create a single institutional framework for providing stewardship for and executing social assistance and safety net programs, including managing the Master Beneficiaries System (SIUBEN). To mitigate this risk, this program combines a strategy for streamlining the institutional framework with a commitment to cutting the budget and permanently eliminating a number of programs. Such an approach should soften resistance to changes in the institutional framework by some sectors, thereby making the policy actions more sustainable in the long term.

V. POLICY ACTIONS MATRIX

Objectives	Conditions precedent to release of the first tranche	Conditions precedent to release of the second tranche	Conditions precedent to release of the third tranche
I. MACROECONOMIC ENVIRONMENT			
To help maintain sustainable economic growth as a foundation for the macroeconomic stability of the country.	Macroeconomic conditions are consistent with the program's objectives.	Macroeconomic conditions are consistent with the program's objectives.	Macroeconomic conditions are consistent with the program's objectives.
II. PUBLIC FINANCE AND BUDGET MANAGEMENT			
To support the creation of a transparent legal and institutional framework for efficiently allocating and executing the government's budget.	Enactment of the Budget Act, which modernizes and adjusts the rules governing budget management and programming by centralizing budget management under a single government Department and eliminating discretionary appropriations in government spending. Enactment of the Public Credit Act, which centralizes under a single government Department the contracting of domestic and external debt for the central government and for local governments.	Budget Act and Public Credit Act regulations approved and implemented. Approval of the Department of the Treasury's (SEH) and the Department of Planning and Development's internal regulations and organizational manuals. Entry into force of the law that makes the Single Planning Regions (RUPs) official. Elimination of the discretionary allocation of budget surpluses in the execution of the 2006 budget and in the 2007 budget appropriations.	Elimination of the discretionary allocation of budget surpluses in the execution of the 2007 budget and in the 2008 budget appropriations.
III. SOCIAL ASSISTANCE AND SPENDING RECOVERY			
A. Streamlining of social assistance programs			
To reduce the volume of government resources invested in social assistance programs with little redistributive impact.	Submission of a budget streamlining plan for 2007 and 2008 for social assistance and National Price Stabilization Institute (INESPRE) programs, including the elimination in 2008, by law, of those programs with little redistributive impact.	Confirmation that when comparing the 2007 Revenue and Expenditures Law with the 2006 current budget, in nominal terms: (i) the budget of the School Meals Program (PAE) remains the same; (ii) the respective budgets allotted to INESPRE programs and the <i>Comedores Económicos</i> are slashed by at	Confirmation that when comparing the 2008 Revenue and Expenditures Law with the 2006 current budget, in nominal terms: (i) the PAE's budget remains the same; (ii) the budget allocated to the <i>Comedores Económicos</i> is cut by at least 30%; (iii) the budget allocated to the INESPRE is slashed

Objectives	Conditions precedent to release of the first tranche	Conditions precedent to release of the second tranche	Conditions precedent to release of the third tranche
		least 20%; and (iii) the overall budget for the social assistance programs that could be streamlined is cut by 15%.	by 60%; and (iv) the overall budget for the social assistance programs that could be streamlined is cut by 25%.
	Submission, based on evaluations, of a quality and management improvement plan for the PAE in the following areas: (i) procurement; (ii) operations; (iii) quality management and supervision; and (iv) administration.	Evidence of progress in implementing the measures proposed in the PAE quality and management enhancement plan.	Verification that, when executed, the 2007 budget for the PAE, <i>Comedores Económicos</i> , INESPRE, and the social assistance programs that could be streamlined does not exceed the respective appropriations made to them under the 2007 Revenue and Expenditures Law. Entry into force of an Executive Decree that eliminates social assistance programs with little redistributive impact not established by law, together with submission to Congress of a law to eliminate the INESPRE and social assistance programs that could be streamlined that were established by law. Evaluation of what was achieved by the measures implemented to enhance the PAE's quality and management, as well as of the actions adopted to consolidate this process.
B. Restoration of spending on education and health			
To change the composition of social spending by increasing government funding allocated to the education and health sectors, targeting it to programs expected to have a positive impact on spending efficiency in these sectors.	Submission of a plan for a cumulative increase in government spending of 0.6% of GDP for 2007 and 2008 in the education and health sectors, and its proposed allocation to priority programs for those sectors.	Evidence that the budget allocated to education and health under the 2007 Revenue and Expenditures Law has increased by at least 0.2% of GDP, compared to the budget allocated under the 2006 Revenue and Expenditures Law. Evidence that the amounts equivalent to such an increase have been allocated under the	Evidence that the budget allocated to education and health under the 2008 Revenue and Expenditures Law has increased by at least 0.6% of GDP, compared to the budget allocated under the 2006 Revenue and Expenditures Law. Evidence that the amounts equivalent to such an increase have been allocated under

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		2007 Revenue and Expenditures Law to priority social programs in the respective sector policies, as summarized in the " Códigos Presupuestarios " [Budget codes] document, with their budget appropriations under the 2006 Revenue and Expenditures Law.	the 2008 Revenue and Expenditures Law to priority social programs in the respective sector policies, as summarized in the " Códigos Presupuestarios " document.
			Evidence that, when executed, the overall 2007 budget for the education and health sectors accounts for at least 4.06% of GDP. Evidence that, when executed, the 2007 budget for the priority social programs summarized in the " Códigos Presupuestarios " was at least 90% overall with respect to what was provided for under the 2007 Revenue and Expenditures Law.
C. Solidaridad Program			
To increase the impact of the social safety net on human development in poor households by strengthening management of the <i>Solidaridad</i> program.	Development of a unified institutional and operations model for the <i>Solidaridad</i> program, including use of the Sistema Único de Beneficiarios [Single Beneficiaries System] (SIUBEN). Entry into force of the <i>Solidaridad</i> program's Operating Regulations.	Submission of quarterly monitoring and verification reports of the co-responsibilities of <i>Solidaridad</i> 's beneficiaries. Evidence that the SIUBEN's and <i>Solidaridad</i> 's operations have been evaluated.	Submission of quarterly monitoring and verification reports of the co-responsibilities of <i>Solidaridad</i> 's beneficiaries. Evidence that recommendations from the evaluation of the SIUBEN's and <i>Solidaridad</i> 's operations have been implemented. External quantitative evaluation of the effectiveness of targeting the SIUBEN.
D. New social safety net institutional framework			
Creation of a formal institutional framework for the social assistance and social safety net sector under	Entry into force of an Executive Decree that initiates the process of developing a single institutional	Submission of a proposal for a single institutional framework for overseeing and executing social assistance and social safety	Entry into force of the law creating the single institutional framework for overseeing and executing social assistance

Objectives	Conditions precedent to release of the first tranche	Conditions precedent to release of the second tranche	Conditions precedent to release of the third tranche
which the SIUBEN is consolidated and oversight of currently scattered programs is centralized.	framework for overseeing and executing social assistance and social safety net programs through the creation of a temporary committee devoted to preparing the definitive institutional framework proposal.	net programs, including management of the SIUBEN.	and social safety net programs, including management of the SIUBEN. Presentation of a bill that provides for transforming the National Statistics Office (ONE) into the National Statistics Institute.
IV. HEALTH AND SOCIAL SECURITY			
A. Regional health networks			
To help improve the strategic management of the health sector, geared toward strengthening the process of separating regulation, insurance, and service delivery functions.	<p>Making the organizational structure and operating rules of the SRS Network Model official via a SESPAS resolution.</p> <p>Evidence that SESPAS has differentiated between and separated spending on collective health care and individual care in all the SRS under the 2006 Revenue and Expenditures Law.</p>	<p>Evidence that at least one SRS is implementing the human resources management regulation and the new performance incentives system.</p> <p>Submission of a plan for the gradual transfer of the budget for individual care from SESPAS to the National Health Care System (SENASA), with backing from the Public Servants Administration System (SASP).</p>	<p>Evidence that at least three SRSs are implementing the human resources management regulation and the new performance incentives system.</p> <p>Evidence that the 2008 Budget reflects the overall transfer of the budget for individual care from SESPAS to SENASA, and from SENASA to at least three SRS, depending on the coverage of the subsidized health care system.</p>
B. Medications			
To support the development, regulation, and implementation of the national medications policy.	Entry into force of the National Medications Regulation (RNM) approved by the National Health Council, along with an official National Medications Policy.	Evidence that the RNM has been applied in the following ways: (i) medicines registry; (ii) acquisition of medications in accordance with the core table; and (iii) inclusion of pharmacies in the SESPAS database.	Evidence that the RNM has been broadened to include the use of medical prescriptions or orders and the use of drug therapy guides and protocols.
C. Coverage of the subsidized family health insurance system			
To promote enrollment of the most vulnerable sectors of the population in the subsidized system.	Verification that at least 400,000 people are enrolled in the subsidized social security health system.	Verification that at least 460,000 people are enrolled in the subsidized social security health system.	Verification that at least 530,000 people are enrolled in the subsidized social security health system.

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V. EDUCATION			
A. Human resources management, monitoring, and supervision procedures			
To establish a modern human resources management system in the SEE.	<p>The new human resources management procedures manuals for SEE teachers and non-teaching staff have been made official.</p> <p>Standards and procedures for the selection and hire of SEE school principals and assistant principals have been made official.</p> <p>Implementation of the national registry of eligible teachers.</p> <p>Validation and supervision functions granted to and exercised by six regional staff management units.</p>	<p>Computer platforms set up to support the new human resources management processes.</p> <p>Competitions held for SEE school principals and assistant principals.</p> <p>Standards and procedures for the selection and hire of SEE schoolteachers have made official.</p> <p>Validation and supervision functions granted to and exercised by the 12 remaining regional staff management units.</p>	<p>Human resources management processes implemented in all of the SEE's decentralized agencies.</p> <p>Competitions held for hiring new teachers in SEE schools and further competitions being held for principals and assistant principals.</p> <p>Audit of all teaching and non-teaching positions listed in the SEE database.</p>
B. Information systems			
To have key information systems for managing the SEE and its decentralized agencies.	<p>Process of recoding the active student enrollment database.</p> <p>Implementation of online communication in all regional offices.</p>	<p>Evidence of the progress made in using the student enrollment database to obtain statistics on repetition, overage pupils, and attrition rates for the 2006-2007 school year.</p> <p>Design and operation of the human resources system for hiring from the SEE's decentralized levels.</p>	<p>Evidence of the progress made in using the student enrollment database to obtain statistics on repetition, overage pupils, and attrition rates for the 2007-2008 school year.</p> <p>Verification of the complete convergence of the different databases on human resources management available in the SEE.</p> <p>Human resources database updated online via a decentralization of the processing for hiring staff.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/_

Dominican Republic. Loan ____/OC-DR to the Dominican Republic
Program to Reform Social Sector Management

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Dominican Republic , as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to reform social sector management. Such financing will be for the amount of up to US\$150,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____ 200_)

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