

PROGRAM TO SUPPORT SOCIAL SECTOR INSTITUTIONAL REFORM

(DR-0140)

EXECUTIVE SUMMARY

Borrower:	Dominican Republic	
Executing agency:	Technical Secretariat of the Presidency	
Amount and source:	IDB:	US\$200 million (OC)
	Total:	US\$200 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	18 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	United States dollars under the Single Currency Facility
Objectives:	<p>The ultimate objective of the program is to help reduce poverty and support economic growth in the Dominican Republic. The program aims to enhance the efficiency and efficacy of public spending in priority social sectors, particularly health and education. To this end, the program will introduce policy reforms to: (i) strengthen the institutional framework of the social sectors; (ii) protect social expenditure and increase its efficacy in the current economic circumstances; and (iii) strengthen institutional capacity for formulating and monitoring social policy.</p>	
Description:	<p>The program has been designed as a sectoral operation with three disbursement tranches: the first for up to US\$80 million; the second for up to US\$20 million; and the third for up to US\$100 million. The program is an initial step in a series of longer-term reforms seen as essential for the functioning of the Dominican State.</p> <p>The amount of the loan is justified by the magnitude of the country's balance of payments needs (paragraphs 1.5 to 1.7), and is proportionate to the level and scope of institutional changes to be carried out.</p>	

The institutional changes envisaged in the program are of three types: (i) structural changes will be implemented to reduce discretionary action and improve public spending management. Given its transversal nature, this is expected to affect all public institutions and help reduce poverty, while also contributing to macroeconomic stability; (ii) to complement the above, the program envisages major changes, albeit on a smaller scale, within the priority education and health sectors, execution of which will lead to greater efficiency and better quality in the provision of these social services; and (iii) in addition, the program will build basic institutional capacities for sectoral coordination, which will also make it possible to take qualitatively significant steps toward consolidating a State poverty reduction policy.

Disbursements of program funding will be subject to satisfactory completion of the institutional changes to be implemented in the following three reform areas: (i) strengthening of the institutional framework in the social sectors; (ii) protection and greater effectiveness of social expenditure during the current economic circumstances; and (iii) strengthening of institutional capacity to formulate and monitor social policy.

The conditions for the first tranche of financing will primarily involve drawing up the regulations and procedures needed to put the institutional changes into practice in the public sector. Initial implementation of these changes corresponds to disbursement of the second tranche, and obtaining results to the third.

**The Bank's
country and
sector strategy:**

The proposed operation is consistent with the Bank's strategy of developing the institutional capacities the country needs to tackle its present social vulnerability, while preserving growth and stability and also rising to the challenge posed by the accumulated social debt. The proposed operation draws on lessons learned from the Bank's previous sectoral operations, as well as those of other multilateral agencies, particularly the introduction of executable conditions during the current administration and the analysis of institutional and policy viability to identify targets with major impact and high probability of execution.

**Environmental
and social
review:**

The Committee on Environment and Social Impact has approved the operation without comment. The program centers around policy actions that do not require civil works or any other actions with the potential for direct environmental impact.

Benefits:

This program will support the Government of the Dominican Republic in the initial stages of implementing a State and

public-institution structural reform program, in order to overcome the current paradox of sustained economic growth and persistent poverty. The program will help develop basic institutions, common to the functioning of the Dominican State, which will reduce macroeconomic and fiscal fragility, and at the same time allow public spending to be more effectively programmed and targeted on the poorest sectors.

Risks:

Recent economic and legislative measures demonstrate the government's political will to make in-depth reforms. The maintenance of this level of political commitment during program execution is a requirement for its success.

The risks of the program stem from: (i) shortcomings in technical capacities to implement institutional reforms; (ii) the multisectoral nature of the institutional changes envisaged; and (iii) internal resistance to the redefinition of functions and responsibilities contained in the institutional changes promoted by the program.

To minimize these risks, the program includes the following design elements: (i) an execution monitoring system to help the executing agency monitor the operation; (ii) responsibility for program monitoring rests with the Social Portfolios Council; this is the logical forum for dialogue and political consensus among those involved in the institutional change process; and (iii) a technical unit is to be set up to support the executing agency and the Social Portfolios Council.

Special contractual clauses:

Disbursement of the three financing tranches will be subject to the conditions set out in Annex I to this document, "Policy conditions matrix".

Poverty-targeting and social sector classification:

This operation does not qualify as a poverty-targeted investment, but it does qualify as a social equity enhancing project, as described in the core objectives for the Bank's activity in the report on the Eighth General Increase in Resources (document AB-1704) (see paragraph 4.5).

Exceptions to Bank policy:

None.

Procurement:

Not applicable, for reasons indicated in paragraphs 3.10 and 3.11.

I. BACKGROUND

A. The macroeconomic context

- 1.1 During the 1990s, the Dominican Republic enjoyed rapid and sustained economic growth, accompanied by falling unemployment, moderate inflation, public finances in relative balance, a significant improvement in its external accounts and a systematic decline in external public debt (see Table 1.1).

Table 1.1 Selected economic and financial indicators

	1993	1994	1995	1996	1997	1998	1999	2000
GDP growth (%)	3.0	4.3	4.8	7.3	8.2	7.3	8.3	7.8
Per capita GDP growth (%)	0.9	2.2	5.5	5.4	8.3	4.8	6.5	7.9
Unemployment (% of EAP)	19.9	16.0	15.8	16.7	15.9	14.3	13.9	12.0
Average inflation (%)	5.3	8.3	12.5	5.4	8.3	4.8	6.5	7.7
Weighted average exchange rate (DR\$:US\$)	12.5	12.8	13.4	13.6	14.2	15.1	16.0	16.3
Average interest rate on loans (%)	29.9	28.0	30.8	24.8	21.3	26.6	25.3	26.9
Financial result of consolidated public sector (% of GDP)	-0.8	-4.1	-1.0	-4.8	-2.1	-2.6	-2.8	-2.0
Current account of the balance of payments (% of GDP)	-5.1	-2.6	-1.5	-1.6	-1.1	-2.1	-2.5	-5.2
Gross international reserves: in months of GNFS imports	1.9	0.7	1.0	0.8	0.8	0.9	1.0	0.9
as % of M2	27.8	10.5	13.3	11.6	10.5	11.8	13.5	10.7
External public debt (% of GDP)	46.8	36.6	32.9	28.1	23.5	22.1	20.9	17.8
Scheduled external public debt service:								
as % of GNFS exports	19.6	10.0	7.9	6.7	5.4	5.5	5.1	5.7
as % of current government income	61.7	33.1	24.7	21.4	15.9	16.0	14.9	16.7

- 1.2 This enviable economic performance was a result of a confluence of many factors, including: relative stability on the monetary, exchange-rate, financial and prices fronts, resulting from commercial, fiscal and financial reforms initiated in the early 1990s; strong foreign investment inflows, large remittances from Dominican residents abroad; and a favorable external environment.
- 1.3 The economy continued to grow in 2000, but, unlike previous years, growth was now accompanied by significant macroeconomic imbalances that clearly revealed the economy's vulnerability to both internal and external shocks. Fiscal accounts deteriorated as a result of policies and institutions that allowed substantial tax cuts and higher expenditure during electoral years. The current account of the balance of payments also deteriorated sharply, not only because of greater fiscal pressure on domestic aggregate demand, but also because of the Dominican economy's heavy dependence on international oil prices and the performance of the American and European economies.

- 1.4 When the current government took office on 16 August 2000, it found itself in a tricky fiscal and external situation, which, in the absence of corrective measures, would have resulted in much more pronounced macroeconomic imbalances than those eventually recorded at the end of the year. Net international reserves in August 2000 amounted to just US\$197 million.¹ Interest rates soared as a result of greater fiscal pressure and the consequent tightening of monetary policy. Net external borrowing by the banking system increased significantly, presumably in order to maintain the pace of credit expansion to the private sector, and because of official encouragement of foreign currency inflows. The spread between the official and private-sector exchange rates grew to 2%, thereby discouraging exports subject to compulsory sale of foreign currency at the official exchange rate.
- 1.5 Given this reality, the new government adopted a series of economic measures that demonstrated a significant degree of political will. The most important of these were: (i) successive hikes in domestic fuel prices, and the adoption of an automatic adjustment rule based on variations in international oil prices and the exchange rate; (ii) increases in certain taxes, particularly the tax on transfers of manufactured goods and services (ITBIS); (iii) tariff reduction and simplification, lowering the average tariff from 20% to 12%; (iv) cuts in a number of government spending programs, particularly transfers and investment expenditure; (v) a 2% devaluation in the official exchange rate to better reflect currency market conditions; and (vi) an enhancement of prudential regulations in the banking system.
- 1.6 These measures will probably be sufficient to restore fiscal and external balance in 2001 and cover an increase of over US\$200 million in short and medium-term external public debt service scheduled for the year.² But they are unlikely to be able to absorb the potential negative macroeconomic impact of new external shocks, such as the slowdown in the American and European economies. This is a serious risk for the country in the coming months, given its relatively low level of international reserves³ and strong social and political resistance to a further round of economic adjustment.
- 1.7 In order to underpin the country's current international reserve position and reduce its vulnerability to future external shocks, the government's macroeconomic

¹ US\$350 million below their level at the start of the year.

² The higher external public debt service is the result of off-budget loans acquired between 1999 and the first half of 2000.

³ Net international reserves held by the Central Bank of the Dominican Republic decreased from US\$547 million at the end of 1999 to US\$442 million by end-2000, even though net external borrowing by private banks grew from US\$114 million to US\$248 million in the same period. As a result of this, the net international reserve position of the consolidated banking system went from US\$410 million at the end of 1999 to US\$137 million in 2000. Gross international reserves at the Central Bank shrank by US\$69 million in 2000, falling from US\$706 million at the end of 1999 to US\$637 million at the close of 2000. This level of gross international reserves is equivalent to one month's imports of goods and services and 10.7% of the broad money supply (M2), thereby illustrating the country's weak international reserve position.

framework for 2001-2003 envisages increases in gross and net international reserves of US\$958 million and US\$905 million respectively.⁴ To accumulate the necessary reserves, the authorities are projecting fiscal surpluses for the next three years in the non-financial public sector, equivalent to 0.8% of GDP,⁵ together with about US\$1 billion in disbursements of existing and new loans.⁶

- 1.8 Against this backdrop, the new government has applied to the Bank for a fast-disbursing loan, which, apart from helping to shore up the international reserve position, will be used to support institutional change in social sectors. Given that one of the main objectives of this program is to increase the predictability and control of social expenditure, it will promote major budgetary and public-finance management reforms to help strengthen fiscal and external results, and provide the country with fiscal management tools to make it less vulnerable to domestic and external shocks.
- 1.9 At the present time, the Dominican Republic is not implementing any formal program with the International Monetary Fund (IMF), except the annual Article IV consultation. On 23 February, the IMF's Executive Board concluded the 2001 consultation, indicating that the country's macroeconomic prospects were favorable in the medium-term, provided the authorities kept fiscal accounts under tight control, especially on the expenditure side. If this does not happen, monetary policy will be unable to achieve the targets for inflation and reserve accumulation envisaged in the medium-term macroeconomic framework. The IMF also identified the main short-run risks facing the country as a further increase in international oil prices and an abrupt slowdown in economic growth among its main trading partners, particularly the United States and Europe.

B. The social setting

1. Poverty and inequality in the Dominican Republic

- 1.10 The Dominican Republic enjoyed robust economic growth throughout the 1990s, with real GDP expanding at an annual rate of 7% — one of the highest in the world. As would be expected in such a situation, poverty levels fell during the period, but

⁴ The accumulation of reserves in 2001-2003 will enable gross reserves to rise from one month's imports in 2000 to 1.8 months' in 2003, and from 10.7% of M2 to 17.9%, thereby reducing the country's vulnerability to future external shocks.

⁵ These fiscal targets assume tight control over current expenditure, particularly payroll expenses and transfers. Should this not be achieved, the higher current expenditure would force the government to abandon its fiscal targets in order to preserve a minimum indispensable level of public investment to guarantee the country's short-term economic growth potential. In this scenario, abandoning fiscal targets would undermine the reserve accumulation targets the government itself has set.

⁶ Despite the sharp rise in disbursements, total external public debt as a percentage of GDP is expected to fall from 17.8% of GDP in 2000 to 12.1% in 2003.

not as much as was both desirable and possible. Although there are discrepancies between sources, the consensus is that poverty did decline during the period. According to the World Bank,⁷ the nationwide poverty rate decreased from 37.5% to 28.6% between 1986 and 1998. When the population of Haitian origin is included, the corresponding rates would be 41.6% in 1986 and 30.8% in 1998. The reduction poverty would have been greater but for a significant deterioration in income distribution during the period. If this had maintained its 1986 levels, the poverty rate would have decreased by 14.5 percentage points (falling to 23.0%) instead of 8.9 points as in fact happened.

- 1.11 Poverty in the Dominican Republic is mostly a rural phenomenon, with about 1.3 million poor people living in the country. Poverty rates are particularly high and acute in rural areas near the border with Haiti. Up to 42.1% of the rural population and 20.5% of the urban population are living below the poverty line. Poverty in the Dominican Republic has a greater incidence among children, afflicting 40% of all children under five. In addition, households headed by women and those containing a higher proportion of women tend to be the poorest. Finally, there is a clear correlation between poverty and the age of the head of household, with 27.1% of households in the poorest decile headed by someone over 60 years of age.

2. The institutional setting

- 1.12 There are three groups of institutional problems that undermine the efficacy and efficiency of social policy in the Dominican Republic.⁸ The first of these is the absence or weakness of the legal and regulatory framework governing the social sector; the second stems from shortcomings in the conception and management of the budgetary system; and the third relates to the centralization of management of priority social services in the Office of the President of the Republic and in the Secretariats of State for Health and Education.
- 1.13 **Weaknesses in the regulatory framework.** Political history and practices in the Dominican Republic have combined to produce an institutional and political profile where power is highly centralized in the Office of the President of the Republic, and which is very slow to develop the institutions needed for the State to function adequately. In this context, problems are frequently diagnosed and legal reforms are subsequently approved, but little real change takes place. This is due to the slow development of institutions, including rules and regulations. Even in cases where legislation is approved, drawing up the corresponding bylaws takes a long time; once these are approved, the mechanisms and instruments to make them operational have to be developed; and when all the above is finally achieved, it is essential to

⁷ World Bank, *Dominican Republic Poverty Assessment Report – Poverty in a High-Growth Economy (1986-2000)*, Washington, DC, 2001.

⁸ Silva, J., *Análisis de viabilidad institucional del programa de reforma del sector social*. Preliminary consultancy report. February 2001.

act on the bodies responsible for implementation, as these generally lack the organization and technical capacity needed to ensure minimal levels of efficacy and efficiency.

- 1.14 The above undermines the functioning of the State, particularly in the social sector. The absence, until recently, of framework laws formalizing a “State policy”—as opposed to a government policy—towards social issues, has meant the country lacks the basic institutional and legal infrastructure to successfully tackle the poverty that afflicts a large proportion of Dominican society.
- 1.15 The education sector was the first priority social sector to have a framework Law. The General Education Act approved in 1997 (Law 66-97) laid down guidelines for the educational reform contained in the Ten-Year Education Plan. Five years on, this legislation still does not have a regulatory framework dealing with key elements of the reform such as professional training for teachers and the decentralization of the education system. In most countries, the regulatory framework for the teacher employment regime forms part of the Teacher Statute in the corresponding educational system, but the Dominican Republic has no such regulations. Among other things, this means that the responsibilities and functions of different posts are not defined, as the teaching career is not regulated. Moreover, a teacher’s entry into the educational system depends on *ad hoc* processes, rather than a merit contest or certification from a qualification-awarding body. In addition, most teachers receive the same wage incentives regardless of their job status or performance.
- 1.16 Apart from the lack of regulation, there are also no human resource management systems to allow any rules to be effectively enforced. With no personal record systems, for example, career entry requirements such as holding the appropriate professional qualification are not verifiable, and there are no established administrative procedures for recording changes in staff details, such as additional qualifications and other changes in the teacher’s career. To summarize, it is difficult to verify the professional quality of the teaching body in the Dominican educational system, and therefore hard to implement policies to encourage better teacher quality.
- 1.17 In the health sector, on the other hand, the regulatory outlook is starting to improve. After two years of debate, Congress approved the General Health Act in the current legislative session (Law 4201 of 21 February 2001). This defines the organization, financing and operation of the National Health System (SNS), appoints the Secretariat of State for Public Health and Social Welfare as the sector’s governing body, defines the basic financing scheme and its coordination with the social security system, and recognizes the potential of a mixed public-private scheme in supplying health services. Although this legislation represents a significant conceptual advance, its implementation requires extensive bylaws, particularly in relation to the organization of the health system, the separation of functions

between regulation, financing and service provision, the use of semi-contractual mechanisms for resource allocation based on results, and outsourcing. Congress also recently passed the General Social Security Act (Law 87, of 9 May 2001), on which debate lasted over two full legislative periods and the bylaws are expected to span at least two consecutive government terms.

- 1.18 Considered as a whole, these two pieces of legislation—once both have been adequately regulated—will lay the legal foundations for reforming the health sector and the implementing policies to reduce the economic vulnerability of the poorest population groups to external shocks (illness, disability and unemployment) and the effects of unequal income distribution.
- 1.19 **Shortcomings in the conception and management of the budgetary system.** The formal structure of the Dominican State is divorced from its decision-making structure, which causes major institutional problems in planning, allocating and executing expenditure. The factor that contributes most to this problem is discretionary allocation of public spending. Firstly, a significant proportion of government spending is off-budget, which has significant negative effects on macroeconomic stability and the real capacity of the government to control fiscal and monetary variables adequately. Secondly, Organic Budget Act 531 envisages the existence of extrabudgetary revenues administered exclusively by the President, without sectoral coordination mechanisms.
- 1.20 In addition, the budget's economic classification contains aggregate headings known as "global allocations", which are then reclassified after being executed. The extrabudgetary funds directly executed by the Presidency and the global allocations executed by sectors, make it possible in practice for expenditure to be allocated on a discretionary basis, thereby further weakening incipient program planning and budgeting processes, both nationally and at the sectoral level.
- 1.21 The way the budgetary system is conceived has major deficiencies.⁹ Firstly, it only covers central government expenditure and excludes sectors considered "autonomous" (decentralized bodies, public-sector firms and municipalities). This undermines the budget's utility as a tool for public expenditure planning and programming, as a mechanism for integrating policies and as a management organization tool. In addition, budgetary accounts only deal with income and expenditure, without separate consideration of financing accounts. This makes the budget less transparent, hindering macroeconomic analysis and the construction of national accounts. Lastly, budgetary classifications have internal problems that make them less useful for analysis. Although the budget is theoretically organized on a program basis, in practice this is not the case, so it cannot be used as an effective tool for planning, programming and monetary execution in any real sense. The major shortcoming, however, is the lack of relation between the different classifications, so these end up as descriptive classifications with little capacity to

⁹ Pifreiro, J., Final consultancy report. May 2001.

provide information on the effective allocation and real outcomes of public expenditure.

- 1.22 In addition to these conceptual shortcomings, the budgetary system has a number of administrative problems, stemming from the design of its operating procedures. In the first place, control of execution by the National Budget Office (ONAPRES) is not based on the cash position of the budget when taking the expenditure decision, but on the payment of liabilities once these have been contracted by the spending department. This means that non-approval by ONAPRES of a decision taken by the spending department, automatically generates a government debt with the good or service provider, because by that time the good or service will already have been delivered. The accumulation of such liabilities is known as “administrative debt”, the size of which may grow to account for a significant proportion of the total budget and effective payment could take months or even years. As would be expected, the possibility of “administrative debt” occurring and its payment being delayed, leads State suppliers to raise their prices to discount potential financial over-runs in advance.
- 1.23 Secondly, and partly as a consequence of the above, there are four mechanisms involved in the execution process: ONAPRES, which has the faculty to authorize payment or not, according to criteria that theoretically relate to the availability of funds, but in practice are not entirely transparent; the Comptroller General’s Office, which through numerical-legal analysis can detain or reverse the procedures carried out to that point; and the Treasury, which, depending on effective cash flows, can either approve payment or delay it. Lastly, the established procedure require negotiation with ONAPRES, on an item-by-item basis for fixed charges, and payment-by-payment in the case of other expenses. Apart from the delays inherent in a procedure of this type, the process naturally offers the potential for discretionary action by officials.
- 1.24 **Centralized management of health and education services.** The institutional problems described above cut across the entire Dominican State, but are magnified in social sectors by the excessive centralization of management in the corresponding secretariats. The agencies responsible for producing health and education services operate in an excessively centralized framework, and they lack the technical tools to transfer resources and responsibilities in response to users’ needs.
- 1.25 The budgets of the secretariats of state are only partly defined by them, and a very high proportion of total expenditure tends to behave as a fixed cost. In these circumstances, the real capacity of secretariats to channel incremental spending in response to sectoral needs and priorities is very limited, and this weakens the planning function in these sectors. In addition, alongside sectoral organization (secretariats of state) there are numerous bodies whose scope of action falls within the sectoral remit but which operate practically autonomously. This frequently

causes duplication of effort, loss of resources and/or development of programs and projects that turn out to be contrary to priorities established by the sectoral authorities. Finally, the active involvement of the Office of the President of the Republic in all sectors, and its discretionary capacity to allocate expenditure, means a significant proportion of sectoral activity lies outside the control of those formally responsible for it.

- 1.26 Law 66-97 provides for decentralization of educational management to the school level, and envisages the transfer of budgetary allocations to decentralized school management boards. The bylaws governing decentralized management boards were not ratified by the National Education Council until mid-2000, however. Although the regulations have now been defined, the management boards still have to be set up in each school, and representatives have to be chosen and trained in budgetary management for better educational administration.
- 1.27 The 2001 General Health Act names the Secretariat of State for Health as the sector's governing body, and provides for the decentralization of responsibilities and resources to the hospital level, within a budgetary framework based on results and management commitments. Making this process effective will require bylaws in relevant aspects and a gradual implementation of management contracts as the mechanism for allocating public hospital expenditure in the Dominican Republic.¹⁰

3. The vulnerability and ineffectiveness of education and health spending

- 1.28 In the institutional setting described above, the effectiveness of social-sector public expenditure is substantially diluted. Nonetheless, even with modern financial and economic institutions, expenditure in the education and health sectors suffers from additional problems, including: (i) traditionally low levels of expenditure in priority social sectors that have proved vulnerable in the past to external and domestic shocks; and (ii) allocation of expenditure in health and education that reduces the impact of these sectors on human capital accumulation and poverty reduction.
- 1.29 **Low levels of education and health expenditure.** In December 1999, total social spending reached its highest level in a decade to account for 6.4% of GDP. Of total social spending, 80% corresponded to the education, health and social welfare sectors, with education representing 43% and health 23%.¹¹ Nonetheless, social expenditure in the Dominican Republic is one of the lowest in Latin America:¹² in 1998, spending on education and health accounted for just 2.5% and 1.5% of GDP respectively, compared to regional averages of 4% and 3.3%.

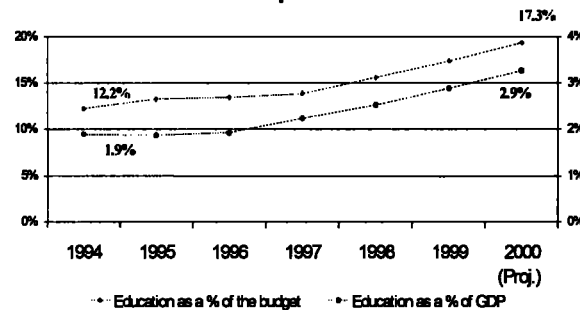
¹⁰ Hernández, N., *El sector salud en el contexto del programa de apoyo a la reforma institucional del sector social*. Final consultancy report. May 2001.

¹¹ *Estructura económica funcional y geográfica del gasto público social en la República Dominicana (1978-1999)*. National Planning Office, July 2000.

¹² The regional average is 12% of GDP (ECLAC, 1999. *Social Panorama of Latin America. 1998 Edition*).

- 1.30 Since 1994, the Dominican government has made major efforts to increase education spending, both absolutely and in percentage terms (Figure 1.1). As a proportion of the general national budget, education spending has grown at an increasing rate, rising from 12.9% of the budget in 1994 to 17.3% in 1999 and 19.3% in 2000. It represented 1.9% of GDP in 1984 and had grown to 2.58% in 1999.

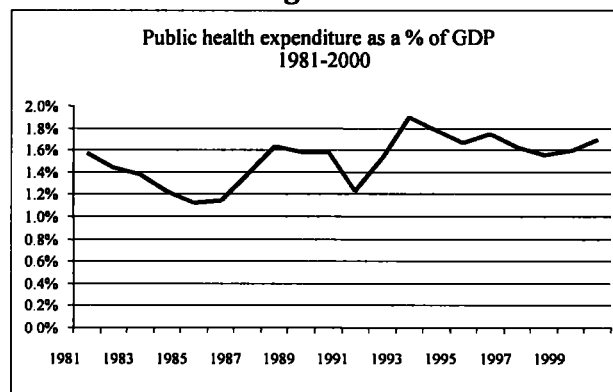
Figure 1.1
Public expenditure on education



- 1.31 Efforts by previous governments focused on raising expenditure levels but not necessarily on creating the conditions to ensure its more effective use. In the education sector, the greater public expenditure has responded to growing demand for educational services, especially at the primary level; this is expected to continue to grow with positive effects on poverty reduction.
- 1.32 As a result of the aforementioned problems in the budget structure, most of the expenditure under the social welfare heading is used to finance non-targeted subsidies on electric power rates, household gas, food supplement programs and house-building, among others. Actions undertaken in the social welfare sector reveal the lack of a clear conceptualization of the aims of a social protection policy for poverty reduction, together with marked institutional dispersion. It is estimated that between 30 and 35 different agencies or programs may currently be operating, many them directly dependent on the Office of the President of the Republic, or funded by it.

- 1.33 **Ineffective allocation of health spending.** Despite a recovery in the 1990s, current levels of health spending is only now returning to those seen in the late 1980s (Figure 1.2). This is insufficient, given the extent of unsatisfied demand that still persists in rural areas in the Dominican Republic, and the country's epidemiological and

Figure 1.2



demographic profile.¹³ In the past, greater priority has been given to infrastructure construction and provision than to maintaining and operating what already exists. In addition, the limited public health expenditure has been directed preferentially to areas that are least effective and have least impact on human capital formation, productivity increase and poverty reduction. The predominance of hospital spending over non-hospital services is such that the Dominican Republic has still not managed to eradicate or control some of the most basic and preventable health problems, such as poliomyelitis. In addition, most of the rural poor lack access to the minimal curative health services despite the nominal existence of adequate public infrastructure.

4. Limited capacities for formulating and monitoring social policy and reducing poverty

- 1.34 Apart from the institutional and sectoral problems described above, the Dominican State faces additional challenges relating to: (i) improving the coordination of social policies; and (ii) social expenditure targeting. In the absence of such instruments and capacities, shortcomings will persist for implementing a long-term poverty reduction strategy.
- 1.35 **Discoordinated social policy and lack of monitoring.** In the institutional setting described above, and even with the necessary technical capacities, the mechanisms that exist for integration and coordination within the government are insufficient. As a result, the implementation of government economic and social policies is constrained, and the possibilities for reducing poverty are undermined even if growth is maintained.
- 1.36 The government's Social Portfolios Council was created by Presidential Decree 466, of 28 January 2001, and 20 secretariats and other executive-level bodies participate in it. This council could become the political reference point for coordinating social policy in the Dominican Republic, but it still lacks bylaws regulating the way it functions and the technical support needed for it to operate adequately.
- 1.37 The absence of capacities and instruments for procuring, compiling and analyzing information and evidence to formulate, implement and evaluate social policy, also imposes a severe constraint on the performance of the Dominican social sector. Social policy has traditionally been the outcome of scattered actions.
- 1.38 **Absence of a poverty reduction strategy.** One of the greatest problems in the Dominican social sector is the lack of public expenditure targeting. Not only does the absence of modern budgeting systems reduce the State's capacity to direct its

¹³ The country's epidemiological profile combines the infectious problems characteristic of a developing country, and problems relating to epidemiological transition such as trauma, and chronic and degenerative illnesses.

priority programs towards the poorest sectors, but there are no institutional bases or technical capacities to ensure that public expenditure preferentially reaches such populations. All of this expresses itself in the absence of a comprehensive and long-term policy to coordinate resources and responsibilities so as to achieve concrete poverty reduction targets.

- 1.39 Recently, the government announced a package of social measures to alleviate poverty and reduce the social impact of the fiscal measures adopted in late 2000. Although this “social package” is an important first step toward a poverty reduction strategy, the budgetary and institutional constraints described above, compounded by a lack of instruments for public expenditure targeting, together with weak civil society consultation mechanisms and the persistence of a welfare mentality, undermine the chances of these measures having the desired medium- and long-term impact.

C. The Bank’s strategy in the country

- 1.40 The main purpose of the Bank’s strategy for 2001-2003 is to support and complement efforts being made by the Dominican government and society to develop the economic, social and institutional capacities that the country needs for its development.
- 1.41 The Bank’s diagnostic study shows that the key challenge for the Dominican Republic is not social policy formulation, although this of course can and should be further strengthened. Instead, the main challenge lies in the serious distortions and limitations in the country’s institutional framework that weaken all sectoral policies and undermine the effectiveness and sustainability of government actions. The Bank’s strategy in the country will therefore promote actions including: (i) overcome persistent macroeconomic and financial fragilities that render the economy vulnerable to potential domestic and external shocks and threaten stability; (ii) eliminate current fiscal weakness on both the expenditure and revenue sides, in order to secure the resources needed to tackle the social debt, promote productive sectors and help overcome poverty in a structural manner; and (iii) strengthen institutional capacity to respond to social demands and make the system more governable in a participatory and representative way.
- 1.42 A review of the Bank’s portfolio in the Dominican Republic reveals a high degree of complementarity between the present program and other loans currently under execution,¹⁴ particularly the following: (i) primary education improvement program (897/OC-DR); (ii) health sector modernization and restructuring program (1047/OC-DR); (iii) technical cooperation loan for integrated financial management (1093/OC-DR); and (iv) Executive Branch modernization program (1176/OC-DR).

¹⁴ Cruz-Fano, A., *Revisión del portafolio de proyectos del BID en la República Dominicana*. Washington, 2 February 2001.

This operation will contribute to the Bank's strategy in the country, insofar as the policy actions it promotes support the execution of these programs.

D. Lessons learned

- 1.43 Important lessons can be gleaned from a review of the Bank's experience with sectoral programs during the 1990s. In particular, and for the design stage, the Bank's Office of Evaluation and Oversight recommends that the results of the proposed policy reforms, along with indicators to measure and verify them, should be clearly detailed in the operations, and that they should be feasible to carry out in the short- or medium-term—in any event within the corresponding government term of office.¹⁵
- 1.44 The Bank's experience with sectoral reform programs in the Dominican Republic suggests that viability of execution decreases to the extent that the policy matrix includes conditions over which the government does not have full control. One example of such a condition is the approval of laws by the legislature.¹⁶
- 1.45 A review of the World Bank's experience with sectoral reform programs¹⁷ identified design and content differences in two types of operations carried out by that institution in the 1980s: (i) policy reforms; and (ii) institutional reforms. The first of these usually precedes the second, but experience has shown that unless institutional changes take place, policy changes are rarely implemented. Institutional reforms may entail three types of change: (i) restructuring of public bodies; (ii) changes in the regulatory and procedural framework; and (iii) generation of technical capacities.
- 1.46 Although policy reform programs tend to be disbursed rapidly,¹⁸ institutional reforms have displayed execution problems possibly originating in the design of the operations themselves. The main causes of unsatisfactory performance in institutional reform programs financed by the World Bank include: (i) failure to undertake a comprehensive institutional analysis during the design stage; (ii) the introduction of complex changes and a long execution period; and (iii) the lack of political coordination mechanisms in change processes that require participation by multiple government agencies.

¹⁵ Office of Evaluation and Oversight, *Evaluación de la Cartera de Préstamos en Apoyo a Reformas de Políticas- Fase III*. Inter-American Development Bank, Washington DC, 1999.

¹⁶ Loan 773/OC-DR for a Financial Sector Reform Program.

¹⁷ Paul, Samuel, *Institutional Reforms in Sector Adjustment Operations. The World Bank Experience*. World Bank Discussion Papers # 92. Washington, DC, 1990.

¹⁸ The execution of policies requires less administrative effort and implementation time, provided they do not imply any institutional reform.

- 1.47 Based on the problems described in the previous paragraph, along with accumulated experience with rapidly-disbursing operations, this program has been conceived as an institutional change process concentrating on changes in the regulatory and procedural framework and the generation of basic technical capacities.

II. THE PROGRAM

A. Objectives of the program

- 2.1 The ultimate goal of the program is to help reduce poverty and support economic growth, aiming to increase the efficiency and efficacy of public spending in priority social sectors. To this end, the program will make institutional changes in order to: (i) strengthen the institutional framework in the social sector; (ii) protect social spending and increase its effectiveness in the current economic circumstances; and (iii) enhance institutional capacity to formulate and monitor social policy.
- 2.2 The program will be designed so that its actions support and complement critical changes envisaged in other Bank programs currently being implemented, which have a basic conceptualization and specific resources allocated. Given this, the program to support social sector institutional change should be seen as an opportunity to organize existing initiatives, and so establish the necessary linkage between policies aimed at promoting growth and those aimed at reducing poverty.

B. Description of the program

- 2.3 The program has been designed as an initial step in a longer-term reform process that will be crucial for the optimal functioning of the Dominican State. The institutional changes envisaged in the program are of three types. Firstly, structural changes will be made to reduce discretionary action and improve the management of public expenditure, which, given its transversal nature, is likely to affect all public institutions, and help reduce poverty and increase macroeconomic stability. To complement this, the program envisages major changes, albeit on a smaller scale, within the priority health and education sectors, the implementation of which will promote greater efficiency and quality in the provision of these social services. In addition, the program will build basic institutional capacities for sectoral coordination and in order to take qualitatively significant steps towards consolidating a State poverty reduction policy.
- 2.4 The program has been designed such that the first tranche conditions mainly involve preparation of the regulations and procedures needed to put the program's institutional changes into practice. Initial implementation of those changes and the development of basic institutional capacities correspond to disbursement of the second tranche, and obtaining results corresponds to the third and last tranche.
- 2.5 The amount of the loan is justified by the scale of the country's balance of payments support needs (paragraphs 1.5-1.7) and is proportionate to the level and scope of the institutional changes to be implemented.

C. Conditions precedent to disbursement

1. Macroeconomic climate

- 2.6 The measures contained in the program will need to be implemented in a macroeconomic context that is consistent with its objectives. *The maintenance of a macroeconomic climate conducive to achieving the program's objectives will be a condition precedent to disbursement of each of the financing tranches.*

D. Reforms to the institutional framework

1. Strengthening of the social sector institutional framework

a. Conditions precedent to presentation to the Board of Executive Directors

- 2.7 **Health sector.** On 21 February 2001, the Congress passed the General Health Act (Law 4201), which was subsequently promulgated by the President of the Republic on 8 March 2001. Among other issues, the law defines a new organizational and financial structure for the health system, provides for the separation of health-service financing and production, and lays regulatory foundations for decentralized service management, community participation, and the use of mixed public-private arrangements in health service provision. *The entry into force of the General Health Act was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.*
- 2.8 **Education sector.** In this case, the General Education Act (66-97) regulates teaching activity through program standards that require bylaws to function fully. The Teacher Statute provides the underlying regulations for the law governing employment in the education sector. Application of the statute requires a human resource management system that standardizes, systematizes and ensures homogeneous control and monitoring of teachers' conduct, performance and professional track record. Implementing a human resource management system also requires a survey of the sector's existing human resources, in order to regularize teachers' employment status. *Presentation to the Bank of the following elements of a teacher employment regime that modernizes human resource management was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors: (a) a report evaluating the teacher audit fieldwork; (b) Teacher Statute proposal; and (c) proposal for re-engineering administrative processes.*

b. Disbursement of the second tranche

- 2.9 **Health sector.** The General Health Act (Law 4201) is a significant conceptual advance in the reorganization and modernization of the Dominican health system, but its implementation requires extensive bylaws. Regulation of the first volume of

the law is particularly important for achieving the objectives of this program, as it covers the following aspects: (i) organization of the national health system (Article 5); (ii) separation of functions between regulation, financing and service provision (Article 12), (iii) constitution and functioning of the National Health Council (Article 15), (iv) use of management contracts to allocate resources to suppliers of public health services (Article 25); and (v) contracting of nongovernmental and civil society organizations as health service suppliers (Article 26). Although the Secretariat of State for Public Health and Social Welfare has responsibility for regulating the law, the process requires the creation and establishment of consultative bodies such as the National Health Council and the Regulations Committee, which need to be approved before the regulations come into force. ***Presentation to the Regulations Committee of bylaws to the General Health Act covering the five issues mentioned in this paragraph will be a condition precedent to disbursement of the second tranche of financing.***

- 2.10 **Education sector.** Implementation of the teacher employment regime means putting the management system into operation at central SEE level, including mechanisms to detect and correct irregularities relating to staff actions. ***Implementation of the following elements of the teacher employment regime will be a condition precedent to disbursement of the second tranche: (a) presentation to the Bank of a plan for employment regularization and presentation of the Teacher Statute proposal to the National Education Council; (b) implementation of manuals on human resource management procedures at SEE departmental level; (c) certification of implementation of the pilot project for system computerization; and (d) completion of the report evaluating the new administrative circuits.***

c. Disbursement of the third tranche

- 2.11 **Health sector.** Regulation of Law 4201/2001 will make it possible in 2002 to carry out initial actions of health sector reform in areas such as system organization, separation of functions between regulation, financing and service provision, use of special mechanisms for improving management and results-based resource allocation, and outsourcing. Although the extension of policy actions implemented during program execution to the rest of the health sector will occur after the program has concluded, an evaluation of actions carried out will be required. This analysis will make it possible to adjust current regulations and support implementation of the General Health Act. ***Implementation of General Health Act bylaws dealing with the five areas mentioned in paragraph 2.9, as well as activation of the National Health Council and the Health Services Contracting and Procurement Unit of the Secretariat of State for Public Health and Social Welfare, will be a condition precedent to disbursement of the third tranche.***
- 2.12 **Education sector.** Full adoption of a human resource management system that gives incentives to teaching quality, means bringing regulations up to date with management and informatics support processes. Modernization of the system, with

specific standards and clear administrative rules, requires verification of employment data on teachers working in the sector today, and for the job history of each worker to be purged. The Teacher Statute is expected to be approved during the first quarter of 2002, and, based on this, new SEE human resource management administrative and informatics processes will be regulated and implemented. ***Presentation to the Bank of the following items will be a condition precedent to disbursement of the third tranche of financing: (a) an audited report of the teacher registry; (b) evidence of implementation of the Teacher Statute and departmental orders regulating chapters of the statute dealing with certification and promotion, responsibilities and categories, salary incentives, transfers and disciplinary regime; and (c) audit report verifying the functionality of the new management system in seven regional delegations.***

2. Improved budgetary management

a. Conditions precedent to presentation to the Board of Executive Directors

- 2.13 The 2001 expenditure act provides that budgetary execution by secretariats of state can be carried out using a system of programmed financial execution. Applying this rule will help to decentralize the management of social expenditure, maintain fiscal balance and reduce discretionary action by central government agencies in the use and disposal of budgetary resources assigned to priority social sectors. The system aims to manage financial execution levels in accordance available treasury funds, devolving management decisions to sectoral secretariats. Application of the system will require coordination between governing bodies, top-level decision-makers and spending units.
- 2.14 The budgetary execution financial programming system is expected to be introduced gradually. During program execution, it will be implemented in the health and education secretariats, later to be extended to the entire public sector based on lessons learned. ***Entry into force of the regulations of the budgetary execution financial programming system for secretariats of state was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.***

b. Disbursement of the second tranche

- 2.15 To prepare for its extension to other secretariats of state, implementation of the budgetary execution financial programming system is expected to show preliminary results in the Secretariat of State for Health (SESPAS) by the end of 2001. In addition, and to support its institutional development, the Secretariat of State for Education (SEE) will adopt and implement the same system as from January 2002. ***Implementation of the system in the Secretariat of State for Public Health and***

Social Welfare, and its adoption by the Secretariat of State for Education, will be conditions precedent to disbursement of the second tranche of financing.

- 2.16 In addition, effectively reducing the negative macroeconomic impact of discretionary management of extrabudgetary revenues, requires as a minimum, regulating their use so that: (i) execution is channeled through the Secretariats of State for Health and Education; and (ii) it can only relate to expenditure on administrative actions, civil works or projects that start and finish in the same fiscal period as the extrabudgetary revenues are generated. ***Implementation of the regulation on the use of extrabudgetary revenues will be a condition precedent to disbursement of the second tranche of financing.***

c. Disbursement of the third tranche

- 2.17 By the end of the program, both SESPAS and SEE will be showing results of public expenditure decentralization and implementation of the budgetary execution programming system. Evaluation of lessons learned will make it possible to extend this to the entire Dominican public sector and lay the foundations for modernization of the country's financial management system. Apart from the above, the goals of fiscal balance and social expenditure protection require any extrabudgetary revenues in 2002 to be applied to the priority health and education sectors, at least in proportion to their share in the general budget. In this way, measures aimed at modernizing budgetary management will be consistent with the government's express desire to protect social spending, while modernizing the management of public finances. ***Implementation of the budgetary execution financial programming system in SESPAS and SEE, and regulation of the use of extrabudgetary revenues mentioned in paragraph 2.16, is a condition precedent to disbursement of the third tranche of the program.***

3. Start of process of decentralizing the management of education and health services

a. Conditions precedent to presentation to Board of Executive Directors

- 2.18 **Education.** The General Education Act (66-97) establishes a program to decentralize educational management, by giving responsibility for decentralized management to decentralized school management boards, composed of representatives of the educational community. To make educational decentralization effective, the Regulation on Decentralized Management Boards was validated by Order No. 3-2000 of the National Education Council (CNE), thereby establishing a sound legal basis for the program. ***The entry into force of the decentralized school board regulation was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.*** In addition, the manual regulating the use and control of budgetary transfers to schools also needs to be put into effect. ***The entry into force of the transfers to schools manual***

was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.

- 2.19 **Health.** Articles 24 and 25 of the General Health Act (Law 4201 of 2001) establish that management contracts will be used to allocate funds to decentralized agencies and bodies governed by the health secretariat—primarily public hospitals.¹⁹ The object of such management contracts will be the provision of health services by participating hospitals. *Presentation to the Bank of a model management contract for public hospitals and other organizations and decentralized bodies governed by the Secretariat of State for Public Health and Social Welfare was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.*

b. Disbursement of the second tranche

- 2.20 **Education.** In the education sector, the first step towards decentralizing management and financial resources is to legally establish the decentralized management boards in each school. This involves convening the educational community to elect board representatives, preparing articles of association and legal registration of the representatives. *Establishment of decentralized school management boards in at least 50 secondary schools will be a condition precedent to disbursement of the second tranche of the financing.*
- 2.21 **Health.** In the health sector, implementation of a management contract system for allocating resources to public hospitals will begin in a controlled way in 2001 in six SESPAS hospitals. *The signing of management contracts between SESPAS and at least six hospitals will be a condition precedent to disbursement of the second tranche of financing.*

c. Disbursement of the third tranche

- 2.22 **Education.** The transfer of financial resources and their effective use by schools completes the educational decentralization cycle. Implementation of the budgetary transfer system will require school board representatives to be trained in managing the resources and accounting for their use. Bank accounts also need to be opened and the signatures of those responsible for them need to be registered. *Presentation to the Bank of the evaluation report containing statements of account opening issued by banks, together with budgetary entries showing transfers from the SEE to the management boards, and an analysis of the use and destination of the*

¹⁹ Management contracts are policy instruments with a minimal structure including: (i) clear definition of duties and rights of the supplier (the hospital) and the Secretariat of State for Health (the purchaser); (ii) a standardized monitoring and evaluation mechanism; (iii) a resource allocation mechanism that gives preference to efficient and effective performance and discourages productive inefficiency; (iv) a matrix of final and intermediate results that are feasible to achieve during the contract period, and which are also measurable, simple and unambiguous; and (v) an arbitration mechanism for dispute settlement.

resources transferred, will be a condition precedent to disbursement of the third tranche of financing.

- 2.23 **Health.** In the health sector, a pilot program of resource allocation via management contracts will provide SESPAS with preliminary results and enable it to extend this instrument to the entire hospital sector, as provided for in the General Health Act. Evaluation of the lessons learned from program execution will make it possible to fine-tune the management contracts and support the move to a forward-looking hospital budgeting system encompassing all of the country's public hospitals. ***Evaluation of the impact of management contracts on hospital performance, and presentation of an action plan for extending their use to all SESPAS hospitals, will be a condition precedent to disbursement of the third tranche of the financing.***

E. Reforms aimed at protecting social expenditure in the health and education sectors, and enhancing its effectiveness

1. Protection of expenditure in health and education sectors

a. Disbursement of the second tranche

- 2.24 The growth of social expenditure in the Dominican Republic over the last decade is a public-policy achievement that needs to be maintained, even though the general level of Dominican public expenditure may fall as a result of unforeseen shocks. One of the years in which public expenditure on health and education grew fastest was 1999, and this represents a valid benchmark for future targets. ***An increase in the 2002 budgets assigned to the Secretariats of State for Public Health and Social Welfare and Education, of at least 3% in real terms compared to budgetary expenditure in 2001, will be a condition precedent to disbursement of the second tranche of financing.*** Apart from agreeing expenditure targets, the protection of expenditure in health and education in the Dominican institutional context requires the central offices (ONAPRES and the Treasury) to authorize the maximum amounts allowed under the existing legal framework for the health and education secretariats. Accordingly, ***as a condition precedent to disbursement of the second tranche of financing, the 2001 budgets approved by ONAPRES and the Treasury for the Secretariats of State for Health and Education should be equivalent to at least 90% of the legal limits for that period.***

b. Disbursement of the third tranche

- 2.25 Given the likelihood of future domestic and external shocks, but maintaining the same health and education expenditure protection targets, expenditure in those sectors is expected at least to be maintained at the same real level during 2002. ***An increase in the budgets assigned to the Secretariats of State for Health and Education in 2003, of at least 3% in real terms compared to budgeted expenditure in 2002, will be a condition precedent to disbursement of the third tranche of***

financing. As mentioned above, apart from agreeing expenditure targets, protection of health and education expenditure requires ensuring that the central offices (ONAPRES and the Treasury) authorize the maximum amounts possible under the existing legal framework for the Secretariats of State for Health and Education. Accordingly, *the 2002 budgets approved by ONAPRES and the Treasury for the Secretariats of State for Health and Education, should be equivalent to at least 92% of the legal limits for the period, as a condition precedent to disbursement of the third tranche of financing.*

2. Improvement in social expenditure allocation and management tools

a. Conditions precedent to presentation to the Board of Executive Directors

- 2.26 The gradual implementation of a results-based management system, or program budgeting, in the health and education secretariats will generate information for identifying and resolving fundamental sectoral problems, and make it possible to prioritize expenditure and establish linkages between budgetary programming and financial processes. In addition, it will be possible to systematize financial management based on a re-engineering of current financial management processes and the development of basic capacities in management areas.
- 2.27 This process has begun in the Secretariat of State for Public Health and Social Welfare, with approval of a health-sector resolution establishing methodology and prioritization manuals and program budgeting, and mandating its use in every SESPAS area or dependency. The health-sector resolution has approved implementation of the integrated financial management model for the health sector along with its respective procedures. *The implementation of the program budgeting methodology and local financial management model in the Secretariat of State for Public Health and Social Welfare was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.*

b. Disbursement of the second tranche

- 2.28 **Health.** Implementation of the program budgeting methodology in the Secretariat of State for Public Health and Social Welfare will allow the 2002 expenditure and income budget law to lay down targets and results to be achieved in the sector during that fiscal year. *Implementation of the financial management system and the program budgeting methodology in formulating the SESPAS budget in the 2002 income and expenditure bill will be a condition precedent to disbursement of the second tranche of financing.*
- 2.29 On the other hand, and based on experience gained by SESPAS in the second half of 2001, the Secretariat of State for Education (SEE) will adopt the program budgeting methodology and the integrated financial management model, and will

start to implement them. ***Activation of the program budgeting methodology and the local financial management model in the Secretariat of State for Education will be a condition precedent to disbursement of the second tranche of financing.***

c. Disbursement of the third tranche

- 2.30 Implementation of the program budgeting methodology in the Secretariats of State for Health and Education will make it possible for the 2003 income and expenditure budget law to set down targets and results to be achieved during that fiscal year in the two sectors. It will also make it possible to begin programmed targeting of their priority services. The programming of targets and results should reflect the priority given by the Government of the Dominican Republic to basic health service provision and the decentralization of resources to decentralized management boards in the health and education secretariat budgets, respectively. ***Presentation to the legislature of an income and expenditure bill for 2003 showing the programming of priority targets for the health and education secretariats will be a condition precedent to disbursement of the third tranche of financing.***

F. Reforms to strengthen institutional capacities to formulate and monitor social policy and reduce poverty

1. Increase in strategic capacity of the Social Portfolios Council to coordinate and monitor social policy

a. Conditions precedent to presentation to the Board of Executive Directors

- 2.31 The technical weakness of the Social Portfolios Council and its fundamental role as a mechanism for coordinating social policy requires the development of minimum institutional capacities. The decree creating the Social Portfolios Council also called for a Social Policy Monitoring Unit (USPS) to be set up. This unit will have a dual role. Firstly, it will provide technical support to the Social Portfolios Council, and secondly, it will carry out monitoring functions in this program. Consultants to the USPS will be hired gradually. ***Hiring the Social Policy Monitoring Unit coordinator in accordance with terms of reference agreed with the Bank was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.***

b. Disbursement of the second tranche

- 2.32 Among other things, the USPS will be responsible for compiling and analyzing data available in the Dominican Republic useful for social policy formulation. Using this information together with by specific studies contracted for this purpose, the USPS will assist the Social Portfolios Council in creating a social policy monitoring system. ***The hiring of all USPS technical staff and implementation of the social policy monitoring system will be conditions precedent to disbursement of the second tranche of financing (paragraphs 3.8 and 3.9).***

- 2.33 A poverty reduction strategy will be produced by mobilizing the political capacities of the Social Portfolios Council, together with technical support from the USPS and a consultative process with civil society. To formulate the strategy, it will be necessary to develop an analytical framework, carry out specific sector analyses, enhance some of the government's policy instruments and—at the end of the process—secure approval from the Social Portfolios Council and the President of the Republic for the strategy agreed upon with civil society. ***Starting the process to formulate a poverty reduction strategy under the terms of reference agreed with the Bank²⁰ will be a condition precedent to disbursement of the second tranche of financing.***

c. Disbursement of the third tranche

- 2.34 Once the process of consultation and analytical studies is concluded, the Social Portfolios Council will submit the poverty reduction strategy (ERP) to the President of the Republic for approval by executive decree. ***Approval of a poverty reduction strategy will be a condition precedent to disbursement of the third tranche of financing.***
- 2.35 By the end of 2002, it will be possible to make an analysis of the functioning and future of the Social Portfolios Council and the Social Policy Monitoring Unit in coordinating social policy, and their role in preparing and subsequently implementing the poverty reduction strategy. ***Approval by the Social Portfolios Council of action plans for institutionalizing the USPS, the social policy monitoring system, and a plan for restructuring the social welfare sector, will be conditions precedent to disbursement of the third tranche of financing.***

2. Establishment of institutional bases for targeting priority social expenditure

a. Condition precedent to presentation to the Board of Executive Directors

- 2.36 Two of the fundamental changes included in the program will enable the government to target public expenditure more effectively in social sectors. Firstly, the modernization of budgetary management will allow expenditure to be prioritized and allocated to specific budgetary programs. Secondly, formulating a poverty reduction strategy will equip the country with new or enhanced policy tools in order to target social spending. The progress currently being made by the Secretariat of State for Health in extending coverage of basic health services to populations living in extreme poverty, especially women and children, will serve as

²⁰ The terms of reference agreed with the Bank have a gender perspective and will include at least the following: a civil society consultation system; a proposal for restructuring the social welfare sector; a public expenditure targeting system; and a poverty monitoring system.

a learning experience to support the Social Portfolios Council in reviewing and enhancing the country's current poverty-targeting and monitoring mechanisms. ***Public-spending targeting methodologies will be one of the outcomes of these policy actions. Implementation of the program to target public expenditure on basic health services in five high-poverty communities was fulfilled as a condition precedent to distribution of the loan proposal to the Board of Executive Directors.***

b. Disbursement of the second tranche

- 2.37 ***Extension of the basic health services program considered in paragraph 2.36 to seven additional communities will be a condition precedent to disbursement of the second tranche of financing.***

c. Disbursement of the third tranche

- 2.38 Execution of the program of basic health service provision will offer important experiences and lessons for extending similar policies to other sectors, and even within the health sector itself. ***Extension of the program to provide basic health services in at least 50 additional communities, and presentation to the Bank of the evaluation of implementation of the basic health services targeting program, together with an action plan to extend it over a two-year period, will be conditions precedent to disbursement of the third tranche of financing.***
- 2.39 Moreover, execution of the program to extend health services to vulnerable communities within the conceptual framework developed under the poverty reduction strategy will provide input for the Social Portfolios Council to recommend to the President basic changes in instruments and mechanisms to target social spending to the poorest of the poor, especially women, the elderly, and children. ***Executive Branch approval of the instruments and procedures to target social spending in keeping with the terms agreed upon in advance with the borrower will be a condition precedent to disbursement of the third tranche of financing.***

III. FINANCING, EXECUTION AND MONITORING

A. Financing

- 3.1 The loan will be for a total of US\$200 million, and will be subject to the normal financial conditions governing sectoral adjustment loans financed out of the Bank's Ordinary Capital. The terms and conditions of the loan are set out in Table 3.1.

Table 3.1
Terms and conditions

Amount	IDB	US\$200 million (OC)
	Program total	US\$200 million
Amortization period	20 years	
Grace period	5 years	
Disbursement period	18 months	
Interest rate	Variable	
Inspection and supervision	1%	
Credit fee	0.75%	

B. Disbursement scheme and conditions

- 3.2 The loan has been structured in three consecutive tranches, with disbursements subject to compliance with conditions set out in the policy matrix (Annex I), which will be included in the loan contract.
- 3.3 The disbursement timetable envisaged is presented in Table 3.2. The conditions precedent to disbursement of the first tranche primarily entail preparation of the regulations and procedures needed to put the institutional changes in the public sector into practice. Initial implementation of these changes corresponds to disbursement of the second tranche, while achievement of results corresponds to the third. In view of experience gained by the IDB and the World Bank, the disbursement structure of the financing gives greater relative importance to carrying the institutional reforms through and achieving measurable results.

Table 3.2 Disbursement schedule

Disbursement	Estimated date	Amount (US\$ million)	%
1	August 2001	US\$80	40%
2	December 2001	US\$20	10%
3	December 2002	US\$100	50%

C. Borrower and executing agency

- 3.4 The loan will be granted to the Dominican Republic. The executing agency will be the Technical Secretariat of the Presidency (STP), which is responsible for coordination of planning and budgeting processes at the national level, and is a key actor in integrating the government's economic and social policies. In view of its privileged hierarchical and functional position in the Dominican State, the STP will have two key functions in this program: firstly, to coordinate the activities envisaged in the program and supervise compliance with conditions set out in the policy matrix; and secondly, to ensure adequate coordination of all participating entities, via the Social Portfolios Council, and timely adoption of the measures needed to achieve the program's expected results.

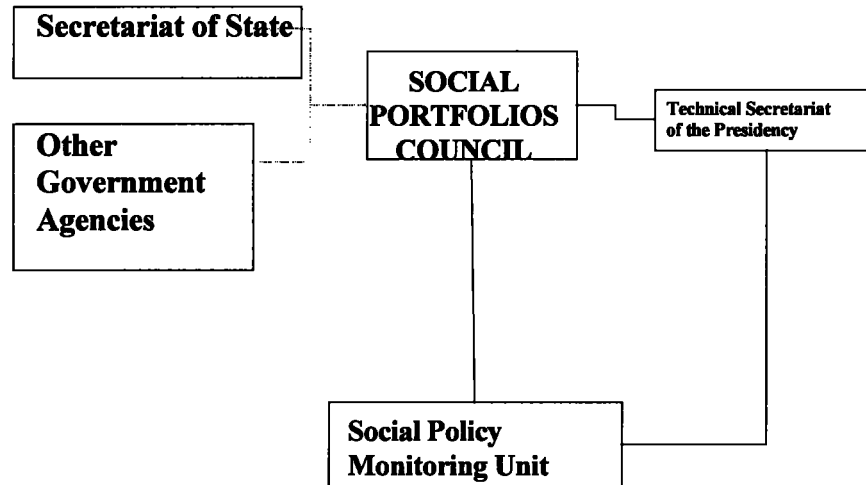
D. Program execution and management

- 3.5 In its capacity as executing agency, the STP will be responsible for management, monitoring and general evaluation of the program, in its formal and substantive aspects.
- 3.6 As regards formal aspects, the STP will ensure compliance with the conditions precedent to disbursement of each of the three tranches of program financing, to ensure that the respective disbursements can be made according to the agreed timetable. On substantive aspects, the STP will ensure adequate coordination of the general objectives of the program with actions carried out in the health and education sectors, as well as timely decision by the Social Portfolios Council on the legal and regulatory developments envisaged by the program and other elements included in the matrix of loan conditions.
- 3.7 In discharging its functions, the STP will rely on the Social Portfolios Council as the program's political reference point, and as a mechanism for coordinating and monitoring social policy. Given that strengthening the Social Portfolios Council is one of the program's strategic objectives, it is expected to act not only as guarantor of program execution quality, but by the end of it to have strengthened its capacity for coordinating the country's social policy.
- 3.8 **The Social Policy Monitoring Unit.** From the operational point of view, the STP will carry out its functions through a Social Policy Monitoring Unit (USPS),²¹ which will have a dual role. Firstly, it will perform the technical functions needed to make sure the programmed objectives of the operation can be satisfactorily fulfilled, including the technical support needed by the Social Portfolios Council to carry out its functions as envisaged under current rules. Secondly, it will support the STP in financial and managerial activities relating to loan execution, as stipulated in the contract. The USPS will consist of nine full-time consultants, including a

²¹ A full description of the Social Policy Monitoring Unit can be found in Silva, J. *Diseño de la Unidad de Seguimiento a la Política Social*, Consultancy report. May, 2001.

coordinator, three lead economists, three specialized professionals, an information technology specialist and a manager. The organizational set-up envisaged for execution is shown in Figure 3.1.

Figure 3.1



- 3.9 The USPS will be set up gradually. During 2001, 100% of the costs of the USPS consulting team will be funded from the program to formulate a poverty reduction strategy (TC-01-04-008-DR), which is currently in process financed by the Japanese Fund (JSF/JPO). According to the design of this program, in 2002 the technical cooperation will finance 70% of the cost of the unit's consultants, and the remaining 30% will be financed by the government. As from 2003, 100% of USPS costs will be covered out of government funds. Table 3.3 sets out the USPS financing structure.

Table 3.3 Structure of USPS costs and financing (US\$)

Consulting services	Year 1	Year 2	Year 3
General coordinator	30,000	42,000	60,000
3 lead economists	12,000	16,800	24,000
Manager	7,800	10,920	15,600
3 specialized professionals	6,600	9,240	13,200
Informatics specialist	6,600	9,240	13,200
IDB (JSF/JPO)	63,000	88,200	-
Government of the Dominican Republic	-	37,800	126,000
TOTAL	63,000	126,000	126,000

E. Disbursement procedures

- 3.10 The program's rapidly-disbursing funds will be used to finance the aggregate foreign-currency cost of eligible imports from Bank member countries. In this case, Bank procedures on sectoral loans established in document GN-2001-2 will be applicable. The STP, in coordination with the Comptroller General of the Republic, is responsible for maintaining financial and accounting records on the sources and uses of program's funds.
- 3.11 With regard to the management of the loan proceeds, the borrower, acting through the STP, undertakes to: (a) maintain specific and separate bank accounts in the name of the program; (b) maintain separate accounting records and support documentation, making it possible to identify the use of resources and carry out external audits and/or any verification that the Bank may require. The Bank reserves the right to request financial reports from the borrower on the use of the loan proceeds, duly certified and signed by an independent auditor acceptable to the Bank.

F. Inspection and supervision

- 3.12 The Bank will establish the inspection procedures it deems necessary to ensure satisfactory execution of the program. Annex II contains the loan monitoring matrix.

G. Ex post evaluation

- 3.13 The borrower has not indicated an intention to carry out a formal ex post evaluation of the program. However, the Bank may undertake its own ex post evaluation to verify achievement of the program's objectives. If the Bank carries out such an evaluation, it will finance this out of internal funds, using its own procedures and methodology.

H. Environmental and social aspects.

- 3.14 The program concentrates on policy actions and institutional changes that do not involve measures with potential for direct environmental impact. The social aspects of this operation are positive, since: (i) the program will lay institutional foundations and build basic capacities for formulating and implementing a poverty reduction strategy in the Dominican Republic; (ii) it will protect expenditure in the health and education sectors within a framework of fiscal balance and macroeconomic stability; and (iii) it will implement pilot programs to reform the health and education sectors with benefits primarily targeting the country's poorest population groups, especially women and children.
- 3.15 This operation does not qualify as a poverty-targeted investment, but it does qualify as a social equity enhancing project, as described in the core objectives for the Bank's activity in the report on the Eighth General Increase in Resources (document AB-1704).

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 This program will support the Government of the Dominican Republic in the initial stages of implementing a State and public-institution structural reform program, in order to overcome the current paradox of sustained economic growth and persistent poverty. The program will help develop basic institutions, common to the functioning of the Dominican State, which will reduce macroeconomic and fiscal fragility, and at the same time allow public spending to be more effectively programmed and targeted on the poorest sectors. The operation will also enable the government to protect its social expenditure in the current economic context and against unforeseen external shocks. At the same time, it will initiate the implementation of an in-depth long-term reform of the social sector
- 4.2 The protection of social expenditure and institutional strengthening to formulate and implement social policy will facilitate the adoption and monitoring of a long-term State social policy, which is expected to become an effective tool for combating poverty. If the above is achieved, implementation of the program will have benefits lasting beyond its own lifetime that include reducing inefficiency and inequity in current mechanisms for allocating expenditure and supplying social goods and services.
- 4.3 Institutional reform of the social sector will also create capacities lasting beyond program execution, and will help present and future governments define priorities in the fight against poverty, as well as enhancing the performance of the education and health sectors and strengthening inter-institutional coordination in the provision of social goods and services. Human resource management in the education sector will be modernized, leading to a significant improvement in teaching quality. The health sector will also undergo major changes including not only a reorganization of the national health system as a whole, but also the separation of functions between regulation, financing and service delivery. In both the education and health sector, the project will initiate a decentralization process in service management, bringing the process of producing public services closer to the beneficiary communities. In the health sector particularly, the project will carry out actions to reduce the inequality of women and children's access to health services.
- 4.4 The main benefit to be generated by the project is a more effective and transparent management of public social spending. Modernization of the way the budgetary system is conceived and administered will reduce the traditional discretionary approach to public expenditure management, and will increase the transparency of public administration in the health and education sectors. These actions will give extra impetus to measures being taken by the government in this direction, and will

have a demonstration effect on other secretariats of state, paving the way for future reform of financial management at all levels of the Dominican public sector.

B. Risks

- 4.5 The recent economic and legislative measures adopted by the government demonstrate its political will to introduce in-depth reforms; and the maintenance of this political commitment throughout program execution is a requirement for its success. This important assumption will be closely watched during the execution of measures to modernize budgetary management and reduce the discretionary use of extrabudgetary revenues in social sectors. These two institutional changes in themselves represent the most ambitious public sector reform seen in the Dominican Republic in recent years.
- 4.6 The risks of the program basically stem from: (i) limitations in technical capacities to implement institutional reform; (ii) the multi-sectoral nature of the institutional changes proposed; and (iii) internal resistance to the redefinition of functions and responsibilities implied by the institutional changes contained in the program.
- 4.7 To minimize these risks, the program contains the following design elements: (i) a system of execution monitoring to help the executing agency monitor the operation; (ii) program monitoring entrusted to the Social Portfolios Council, a natural mechanism for political dialog and consensus among those involved in the institutional change process; and (iii) a technical unit will be created to support the executing agency and the Social Portfolios Council.
- 4.8 Institutional shortcomings, which in their technical aspects are characteristic of the Dominican social sector, will be reduced through design elements in the loan and technical assistance actions. Firstly, to reduce problems arising from the country's scant experience with sustained structural reforms, disbursement tranches have been designed so as to encourage the fulfillment of concrete and measurable targets at each stage of the program. Secondly, the executing agency will be supported by the USPS in monitoring execution based on a detailed monitoring plan constructed during the preparation phase with participation from all institutions involved (Annex III).
- 4.9 To mitigate the risk associated with the multi-sectoral nature of the program, the Social Portfolios Council will be strengthened as a high-level mechanism for technical discussion and political decision-taking as required for program execution. Although this is an eminently political risk, there are technical capacity elements that will be minimized through technical assistance provided to the Social Portfolios Council by the Social Policy Monitoring Unit.
- 4.10 The potential risk arising from natural resistance to the changes proposed by the reform program was considered in the analysis of institutional and political feasibility. Although such risks exist in any reform program, a combination of

political will on the part of the government and identification of policy targets that are achievable during the program execution period will reduce their potential impact.

- 4.11 Creation of the Social Portfolios Council is evidence of the present government's political will to implement a coherent social policy. Nonetheless, the current fragmentation of the social sector, in which every government dependency and every social welfare institution negotiates its funding and social programs directly with the President, represents a major challenge for institutionalizing the Social Portfolios Council. Political commitment will be needed to prevent the Council being weakened.
- 4.12 In addition, whereas the expected short-run changes described here depend exclusively on the capacity and political will of authorities at the central level, other program components, aimed at strengthening the regulatory framework in social sectors and implementing changes such as decentralization of service delivery, will necessarily involve other actors and interests. As regards the regulatory framework of the education sector, the political dynamic of the National Education Council (CNE) will be monitored, as the Council will be responsible for issuing orders regulating the Teacher Statute governing the management of Secretariat of Education human resources, as well as orders devolving management to secondary schools. In the health sector, potential resistance to management contracts with public health service suppliers and the role of the National Health Council will need close monitoring; and participants will need training and information on managing such contracts, and on the consequences at SESPAS level and among participating hospitals.
- 4.13 Lastly, the program's social expenditure protection targets are likely to be put to the test in the event of the country suffering a new external economic shock, for this would generate pressures making compliance with the agreed health and education expenditure targets more difficult. A variety of macroeconomic and fiscal scenarios were analyzed during program preparation, and on the basis of this, minimum levels of social expenditure protection were identified, as shown in the policy matrix. These scenarios assume in all cases that real economic growth in the Dominican Republic in 2001 will be below the trend of the past decade, although those levels are expected to be regained in 2002.

DOMINICAN REPUBLIC. PROGRAM TO SUPPORT SOCIAL SECTOR INSTITUTIONAL REFORM

POLICY CONDITIONS MATRIX

Institutional change	Conditions precedent to presentation to the Board	Conditions precedent to disbursement of second tranche	Conditions precedent to disbursement of third tranche
<p>Macroeconomic climate</p> <p>Strengthen the framework of the priority</p>	<p>Maintenance of macroeconomic climate conducive to achieving program objectives.</p> <p>General Health Act in force (paragraph 2.7).</p> <p>Presentation to the Bank of the following elements of a teacher employment regime that modernizes human resource management in the sector: (a) report evaluating teacher audit fieldwork; (b) Teacher Statute proposal; and (c) proposal for re-engineering of management processes</p>	<p>Maintenance of macroeconomic climate conducive to achieving program objectives.</p> <p>Presentation of General Health Act regulations on issues mentioned in paragraph 2.9 to Regulations Committee (paragraph 2.9).</p> <p>Implementation of the following elements of the teacher employment regime: (a) preparation of an employment regularization plan and presentation of Teacher Statute proposal to the National Education Council; (b) implementation of procedural manuals for human resource management at SEE departmental level; (c) certification of implementation of pilot project to computerize the system; and (d) presentation to the Bank of report evaluating new administrative circuits.</p>	<p>Maintenance of macroeconomic climate conducive to achieving program objectives.</p> <p>Implementation of regulations of the General Health Act covering aspects mentioned in paragraph 2.9, activation of National Health Insurance and the Health Services Commission, and the Procurement Unit of the Secretariat of State for Public Health and Welfare (paragraph 2.11).</p> <p>Presentation to the Bank of: (a) audited report on the teacher employment regime; (b) evidence of implementation of the Teacher Statute and departmental regulations regulating the chapters thereof, with certification and promotion, transfers, and disciplinary regulations; and (c) audit report verifying functioning of the new management system in regional delegations.</p>

Institutional change	Conditions precedent to presentation to the Board	Conditions precedent to disbursement of second tranche	Conditions precedent to disbursement of third tranche
modernize budgetary	Activation of regulations for budgetary execution financial programming system for secretariats of state	<p>Implementation of budgetary execution financial programming system in Secretariat of State for Public Health and Social Welfare, and its adoption by SEE.</p> <p>Implementation of regulations on the use of extrabudgetary revenues (paragraph 2.16)</p>	Implementation of budgetary execution financial programming system in SESPAS and SEE, and regulation of the use of extrabudgetary revenues according to current rules.
decentralize management of health and education	<p>Education Secretariat (a) Implementation of regulations for decentralized school management boards. (b) Implementation of manual on budgetary transfers to schools.</p> <p>Health Secretariat Presentation to the Bank of a model management contract for public hospitals and other decentralized organizations and bodies governed by SESPAS.</p>	<p>Education Secretariat Establishment of decentralized school management boards in at least 50 secondary schools.</p> <p>Health Secretariat Signing of management contracts between SESPAS and at least six hospitals.</p>	<p>Education Secretariat Presentation to the Bank of a management report containing evidence of the opening issued by banks, budgetary entries recording transfers from management boards, and an audit of the use and destination of the funds transferred.</p> <p>Health Secretariat Evaluation of the impact of management contracts on hospital performance, and presentation of an action plan for their extension to SESPAS hospitals.</p>
reduce the vulnerability of health and education sectors	None	<p>2002 budgets for the Health and Education Secretariats to be at least 3% higher in real terms than budgeted expenditure in 2001.</p> <p>2001 budgets for the Health and Education Secretariats approved by ONAPRES and Treasury equivalent to at least 90% of the legal limits for that period.</p>	<p>2003 Health and Education Secretariat budgets to be at least 3% higher in real terms compared to budgeted expenditure in 2002.</p> <p>2002 Health and Education Secretariat budgets approved by ONAPRES and Treasury equivalent to at least 90% of the legal limits for that period.</p>

Institutional change	Conditions precedent to presentation to the Board	Conditions precedent to disbursement of second tranche	Conditions precedent to disbursement of third tranche
Enhance the allocation of expenditure	Implementation of program budgeting methodology and local financial management model in SESPAS.	Implementation of financial management system and program budgeting methodology in formulating SESPAS budget for the 2002 income and expenditure budget bill.	Presentation to the legislature of income and expenditure bill, setting priority targets for the Secretariats of State for Health and Education (paragraph 2.30).
Capacity of Social Portfolios to coordinate and monitor	Hiring of coordinator for Social Policy Monitoring Unit (USPS) under terms of reference agreed by the Bank (paragraph 2.31).	Implementation of program budgeting methodology and local financial management model in SEE. Hiring of all USPS technical staff and implementation of social policy monitoring system. Start of process to formulate poverty reduction strategy in accordance with terms of reference agreed with the Bank (paragraph 2.32).	Approval of poverty reduction strategy. Social Portfolios Council approve action plans for USPS institutionalization, social policy monitoring system, and plan for restructuring the social welfare.
Institutional foundations for priority social spending	Implementation of a program for targeting public expenditure on basic health services in five high-poverty communities.	Extension of basic health services program to seven additional communities.	Extension of basic health services delivery program in at least five additional communities. Presentation to the Bank of a plan for evaluating implementation of health services targeting program, an action plan to extend it over a year period.

institutional change	Conditions precedent to presentation to the Board	Conditions precedent to disbursement of second tranche	Conditions precedent to disbursement of third tranche
			Executive Branch approval of all financial instruments and procedures for social expenditure in accordance with the terms agreed upon in advance between the borrower and the Bank.

AREA OF CHANGE: MODERNIZATION OF BUDGETARY MANAGEMENT

ACTIVITIES	MEANS OF VERIFICATION	AGENCY RESPONSIBLE	DATE
1: Activation of regulations for budgetary financial programming system in secretariats	Publication of Presidential Decree regulating the budgetary execution financial programming system.		20 Jun
Preparation of draft decree and regulations for budgetary execution financial programming system.	Approval of decree and regulations, and official publication thereof in a national daily newspaper.	ONAPRES and ONAPLAN	15
Formal communication of Decree and Regulations to of Health and Education Secretariats, establishing dates of start-up and application in each case.	Memorandum to State ministries from Technical Secretariat of the Presidency (STP).	ONAPRES and STP	20
Organizational and regulatory adjustments in governing bodies in accordance with proposed regulation.	Internal resolutions of each governing body adjusting missions and functions.	ONAPRES, Comptroller, Treasury and SESPAS	15
Appointment of members of technical operational group, and implementation thereof.	STP resolution appointing officials making up technical operational group.	ONAPRES, Comptroller, Treasury and SESPAS	15
Conceptualization and implementation of expenditure stages on which the system is based (appropriations, commitment, accruals and accounts paid) by technical operational groups and Health Secretariat.	Training program and list of participants.	Commission and ONAPRES	8
Opening and adjustment of record systems for implementing spending stages in governing bodies and in Health Secretariat.	Report from Comptroller confirming opening and execution to first semester of accruals paid and accruals payable in health ministry.	Comptroller, ONAPRES and SESPAS	2
Formal reply to SESPAS accepting its request for financial management autonomy, and appointing it as a pilot unit to manage its expenditure through programmed execution procedures.	Notes sent to SESPAS from the Technical Secretary of the Presidency.	ONAPRES and STP	8

approval and implementation of a monthly cash flow projection methodology, according to seasonal revenue and cash flows in banks.	Projection by income-type methodology.	Secretariat of Finance and General Treasury	12 J
Implementation of budgetary execution programming system in the Secretariat of State Health and Social Welfare and its adoption by Secretariat of State for Education.	(A) Presentation of external audit report on implementation of the budgetary execution programming system in SESPAS; and (B) SEE administrative minutes putting the budgetary execution financial programming system into effect, along with its respective manuals and procedural guidelines.		5 Dec
assign quarterly limits, maintain execution records up-to-date under system methodology.	Report on operation, state of execution and decision-making autonomy.	Comptroller and IDB	28 Sep De
Monthly reconciliation between health budget and accounting records with governing bodies.	Report on operation, state of execution and decision-making autonomy.	Comptroller and IDB	28 Sep De
Formal reply to SEE accepting its request for financial management autonomy, appointing it as second pilot unit for managing its expenditures through programmed execution procedures.	Note sent to SEE from the Technical Secretariat of the Presidency.	ONAPRES and STP	20 S
Opening and adjustment of record systems for implementing expenditure stages in governing bodies and in the Education Secretariat.	Report from the Comptroller confirming opening and execution to first semester of accruals paid and accruals payable in the Education Secretariat.	Comptroller, ONAPRES and Education Secretariat	5 D

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				10 Dec
Activation of regulation on use of extrabudgetary revenues (paragraph 2.16).	Official publication of Government Decree.			
Implementation of budgetary execution programming system in SESPAS and SEE, and on for use of extrabudgetary revenues in paragraph 2.16.	External audit report.			5 Dec
administrative measures for the management of budgetary funds in accordance with the modality or.	External audit report on operation, state of execution and decision-making autonomy.	Comptroller and IDB		28 Dec
of system operation, and updating of execution under system methodology in priority social	External audit report on operation, state of execution and decision-making autonomy.	Comptroller and IDB		28 Jun an
reconciliation between budget and accounting in priority social sectors with governing bodies.	External audit report on operation, state of execution and decision-making autonomy.	Comptroller and IDB		28 Jun an
Activation of program budgeting strategy and local financial management model in the Secretariat of State for Public Health and Social	SESPAS health-sector resolution and procedural manuals.			5 Jul
of proposed regulations for program budgeting	Health-sector resolution approving program budgeting manuals.	SESPAS		6 J
of proposed financial management model, functions and processes.	Health-sector resolution approving and implementing the local financial management model throughout the secretariat.	SESPAS		6 J
ing of consulting services to implement the management system in the Secretariat of State	Memorandum of start-up of signed consultancy contract.	CERSS - SESPAS		5 J

<i>: Implementation of financial management and program budgeting methodology to prepare budget for the 2002 income and expenditure bill.</i>	Copy of 2002 Budget Act.		5 Dec
on of budget for 2002, applying program methodology and setting targets and quantified results achieved in that financial year.	Budget approved, setting targets and results for 2002.	SESPAS - ONAPRES	3 Dec
<i>: Activation of program budgeting methodology and local financial management model in Secretariat of State for Education.</i>	SEE resolution and procedural manuals.		6 Dec
of proposed financial management model, functions and processes.	Resolution approving local financial management model throughout SEE.	SEE Office	6 Dec
<i>: Income and expenditure bill for 2003 sent to Congress, setting priority targets for Secretariats of Health and Education (paragraph 2.30).</i>	Copy of 2003 Budget Act.		3 Dec
tion of programs as expenditure unit, prioritizing highest priority in each sector.	External audit report showing program classification with clear identification of priority programs in health and education.	Secretariat of State for Health and Education offices and ONAPRES	3 Dec

AREA OF CHANGE: PROTECTION OF SOCIAL EXPENDITURE

RESULT	ACTIVITIES	MEANS OF VERIFICATION	AGENCY RESPONSIBLE	D
2.A: Verification that Health and Secretariat budgets for 2002 are % higher in real terms than expenditure in 2001.	1. Include in expenditure law amounts resulting from this condition, destined exclusively for health and education programs.	2002 expenditure law indicating increased amounts under economic, institutional and functional classification.	ONAPRES and ONAPLAN	28 D
2.B: Evidence that health and expenditure allocations and tions approved by ONAPRES and ury are equivalent to at least 90% ts requested within the legal limits.	2. Registration of levels requested to compare with amounts executed, and information from ONAPRES on the causes of amounts not approved.	Report on level of allocations or authorizations granted to Secretariats of Health and Education in 2001.	Comptroller and IDB	26 D
3.A: Verification that health and secretariat budgets for 2003 are % higher in real terms than expenditure in 2002.	1. Include in expenditure law amounts resulting from this condition, destined exclusively for health and education programs.	2003 expenditure law indicating increased amount under economic, institutional and functional classification.	ONAPRES and ONAPLAN	28 D
3.B: Presentation of evidence that getary allocations approved by ES and the Treasury for ts of Health and Education are t to at least 92% of the legal limits eriod.	1. Registration of levels requested to compare with amounts executed, and information from ONAPRES on the causes of amounts not approved.	Report from Comptroller General of the Republic on level of allocations or authorizations granted to Secretariats of Health and Education in 2002.	Comptroller and IDB	26 D

HEALTH SECTOR				
RESULT	ACTIVITIES	MEANS OF VERIFICATION	AGENCY RESPONSIBLE	DATE
1: Implementation of General Health Act (paragraph 2.7).		Official publication of law.	SESPAS	15 J
2: Presentation of model management contract for public hospitals and decentralized organizations and governed by SESPAS.		Model management contract.	SESPAS and CERSS	15 J
	1. Validation of proposal from consulting firm.	Memorandum containing observations on management contract from SESPAS.	CERSS - SESPAS INYPISA	10 M
	2. Approval of proposed model management contract.	Model management contract approved by SESPAS.	SESPAS	30 M
3: Preparation of regulations for General Health Act with Articles 5, 12, 15, 25, and 26 (paragraph 2.9).		Regulations presented to the Committee.		30 M
	Constitution of General Health Act Regulations Committee.	Memorandum of constitution.	CERSS - SESPAS	30 J
	General Health Act Regulations Committee operating.	Minutes of committee session	CERSS SESPAS	Jul -
	Preparation of regulations for SNS organization.	Regulations presented to committee	CERSS - SESPAS	1 J
	Presentation of regulations on SNS organization to Regulations Committee.	Committee memorandum	Regulations Committee	1 J
	Presentation of regulations separating functions between regulation, financing and service provision.	Regulations presented to committee	CERSS - SESPAS	1 S
	Presentation of regulations separating functions between regulation, financing and service provision to Regulations Committee.	Committee memorandum.	Regulations Committee	1 S
	Preparation of regulations for CNS organization and operation.	Regulations presented to committee.	CERSS - SESPAS	1 C

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	Presentation of regulations for CNS organization and operation to Regulations Committee.	Committee memorandum.	Regulations Committee	1 C
	Preparation of management contract regulations.	Regulations presented to committee.	CERSS - SESPAS	31 C
	Preparation of management contract regulations to Regulations Committee.	Committee memorandum.	Regulations Committee	31 C
	Preparation of regulations contracting NGOs as health service providers.	Regulations presented to committee.	CERSS - SESPAS	31 C
	Presentation of regulations for contracting NGOs as health service providers to committee.	Committee memorandum.	Regulations Committee	31 C
2: Verification of signing of management contracts between SESPAS and six hospitals.				30 M
		Copies of contracts.		
	Negotiation and signing of six management contracts.	Copy of six signed management contracts.	SESPAS - HOSPITALS	15 C
	Technical assistance and training for hospitals in contract monitoring mechanisms.	Contract monitoring reports.	CERSS - SESPAS INYPSA	1 N
3: Evaluation of impact of management contracts on hospital performance, and presentation of an action plan for extending their use to all hospitals.				30 M
	Preparation of terms of reference (<i>TOR</i>) for hiring consulting services.	TOR approved by SESPAS	CERSS	30 M

Implementation of s for General Health Act of ling with the five aspects in paragraph 2.7; and g of National Health Council SESPAS Health Services g and Procurement Unit h 2.11).	Presentation of TOR for Bank's no objection.	TOR approved by Bank	IDB	30 A
	Selection and hiring of consulting services.	Contracts signed.	CERSS	30 J
	Preparation of report to SESPAS and action plan to extend the use of management contracts.	Consultancy reports approved by CERSS and SESPAS.	SESPAS - CERSS	30 J
	Preparation of management contracts for 2003.	Management contracts for 2003 approving incorporation of recommendations made in evaluation.	SESPAS - CERSS	1 N
Report evaluating implementation of General Health Act.				1 Nov
	Preparation of TOR for hiring consulting services.	TOR approved by SESPAS.	CERSS	30 M
	Presentation of TOR for Bank's no-objection.	TOR approved by Bank.	IDB	1 M
	Selection and hiring of consulting services.	Contracts signed.	CERSS	1 A
	Preparation of report to SESPAS, together with action plan for implementing recommendations.	Reports approved by SESPAS.	SESPAS	1 N

AREA OF CHANGE: EDUCATION SECTOR

RESULTS	ACTIVITIES	MEANS OF VERIFICATION	AGENCY RESPONSIBLE	D.
Design of a teacher nt regime modernizing human management and containing the elements: (a) presentation to the report evaluating the teacher work; (b) Teacher Statute and (c) proposal for ative process re-engineering.		Evaluation report, Teacher Statute proposal, and proposal for process re-engineering.		5 Jun
teaching resources in the sector.	Preparation of teacher audit operational plan.	Selection and training of interviewers and supervisors, and design of audit form.	Planning	D
	Pilot test of operations.	Evaluation report and recommendations presented.	Planning	D
	Fieldwork.	Report on results of fieldwork presented.	Planning	D
Statute	Preparation of working draft identifying general guidelines to be contained in preliminary version of new Teacher Statute.	Technical report including preliminary version of new Teacher Statute.	Secretarial Office.	D
Implementation of teacher nt regime containing the elements: (a) a plan for nt regularization, and on of Teacher Statute proposal to Education Council; entation of procedural manuals a resource management at SEE ital level; (c) certification of tation of pilot project for system ization; and (d) presentation to f report evaluating the new ative circuits.		Minutes of the National Education Council, SEE departmental order, evaluation report.		30 N

tion plan.	Processing of survey forms.	Procedural plan for document management and data processing.	Planning	30 Ju
	Analysis of inconsistencies between results of audit and existing databases.	Report on inconsistencies identified and corrective action plan presented.	Planning	30 Au
on of new Teacher Statute to Education Council.	Analysis and evaluation of comments made on working draft.	Presentation of report containing conclusions reached on comments made on working draft.	Office of the Secretariat	30 Jul
	Analysis, evaluation and comments on comments and alternatives presented to preliminary version.	Presentation of report containing conclusions reached on comments and alternatives presented to preliminary version.	Office of the Secretariat	30 Se
: Presentation to the Bank of: d report on teacher registry; ce of implementation of Teacher d departmental orders regulating f the statute dealing with on and promotion, posts and salary incentives, transfers and y regime; and (c) audit report unctionality of new management seven regional delegations.		Audited report Official publication of Teacher Statute and departmental Orders. External audit report.		30 No
tion of teacher employment	Evaluation of economic impact of adapting registry to new provisions of the new Teacher Statute.	Technical report presented.	Planning	31
	Incorporation of corrections arising from technical report into teacher registry databases.	Database of corrected registry available and updating procedures applied.	Planning	30
	Preparation of definitive version incorporating comments and alternatives accepted.	Preparation of final and definitive version of Teacher Statute.	Office of the Secretariat	30

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and implementation of primary rules facilitating execution Teacher Statute in chapters relating ation and promotion, incentives ers.	Analysis and identification of issues complementary to Teacher Statute that warrant the preparation of complementary provisions.	Preparation of report identifying issues that merit provisions to complement the Teacher Statute.	Office of the Secretariat	28
	Preparation of alternatives for issues warranting regulation.	Presentation of regulatory alternatives.	Office of the Secretariat	30
	Preparation of regulations.	Regulations submitted for consideration.	Office of the Secretariat	31
: Implementation of manual of transfers to schools.				5 Jun
: Establishment of decentralized management boards in at least 50 schools.		Memorandum setting up management boards.		30 Nov
ment of decentralized school ent boards.	Call to elect members of decentralized boards.	Memorandum appointing representatives.	Planning	1 Sep
	Composition of decentralized boards.	Memorandum of establishment of decentralized boards.	Planning	30
: Presentation to the Bank of a report containing statements of opening issued by banks, together with entries verifying transfers to school boards, and analysis of and destination of resources d.		Evaluation report. Analysis of use and destination of transferred resources.		30 Nov
f financial resources to decentralized secondary school management	Training for those responsible for managing resources to be transferred.	Technical report presented.	Planning	15 Feb
	Opening of individual accounts and registration of signatures.	Certification of account opening issued by banks.	Planning	30 Mar
	Effective transfer of financial resources.	Budgetary entry.	Planning	30 Sep

INSTITUTIONAL STRENGTHENING OF SOCIAL POLICY MONITORING AND POVERTY REDUCTION CAPACITIES

RESULTS	ACTIVITIES	MEANS OF VERIFICATION	AGENCY RESPONSIBLE	
: Hiring of coordinator for Policy Monitoring Unit (USPS), in accordance with terms of reference with the Bank (paragraph 2.31).		Copy of coordinator contract.	IDB and Dominican Republic government	20
unit.	Presentation of list of candidates.	Document presented.	STP	
	Hiring of coordinator.	Copy of coordinator contracts.	STP	
: Verification of start of implementation of poverty reduction strategy in accordance with terms of reference with Bank (paragraph 2.32).		Progress report from USPS to Social Portfolios Council.		30
	Preparation of general specifications for formulation of poverty reduction strategy	Preparation of terms of reference.	USPS	3
	Presentation of general specifications for design of social policy monitoring system	Document presented.	STP/USPS	3
	Presentation of proposed by-laws for Social Portfolios Council.	Proposal presented.	STP	3
	Presentation of proposed regulations for Social Portfolios Council and system design to Bank for comment.	Proposal forwarded to Bank.	USPS/IDB	1
	Presentation of implementation plan for poverty reduction strategy to Social Portfolios Council.	Progress report from USPS to Social Portfolios Council.	STP	30

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3: Approval of a poverty strategy		Official publication of Presidential Decree approving the strategy.		3
	Development of civil society consultation mechanism.	TOR approved and consulting services being carried out.	USPS	
	Analysis of public expenditure targeting system, preparation of a proposal to restructure the social welfare sector, and analysis of poverty monitoring system and proposals to improve it.	TOR approved and consulting services being carried out.	USPS	
	Publication of records of civil society consultation.	Publication carried out.	USPS	3
	Publication of poverty reduction strategy document and the decree approving it.	Presidential Decree approving the strategy.	Social Portfolio Council/STP	3
4: Approval of a State policy for poverty reduction		Official publication of Presidential Decree approving the strategy.		3
	Development of civil society consultation mechanism.	TOR approved and consulting services being carried out.	USPS	
	Development of public expenditure targeting system including program for restructuring social welfare sector, and poverty monitoring system.	TOR approved and consulting services being carried out.	USPS	
	Publication of records of civil society consultation.	Publication carried out.	USPS	3
	Publication of poverty reduction strategy document.	Presidential Decree approving the strategy.	STP	3
5: Approval by Social Portfolios of action plans for realization of USPS, social policy monitoring system, and plan for restructuring social welfare sector.		External evaluation report and Social Portfolios Council minutes.		
	Prepare TOR for contracting evaluation of USPS operations, social policy monitoring system.	TOR	USPS	

	Presentation of TOR for Bank's no-objection.	TOR approved.	USPS and IDB	1
	Contracting of evaluation.		USPS	15
	Presentation of evaluation to Social Portfolios Council and approval of action plans.	External evaluation report and Social Portfolios Council minutes.	USPS	1
2: Verification of extension of a program to target expenditure on basic health service in five high-poverty communities.		Copy of five service provision contracts		0
	Selection of five health service providers.	Minutes of selection process signed and approved.	CERSS - GWU - SESPAS	
	Signing of contracts with five health service providers.	Copy of five service provision contracts.	CERSS	15
	Start of basic health service provision programs in five communities in the province of Azúa.	Minutes of start-up and annexes of activity plans between service providers SESPAS - CERSS and GWU approved and signed.	CERSS - GWU PROVIDERS SESPAS	30
3: Verification of extension of health service program to seven communities.		Presentation of copy of service provision contracts and minutes of start-up.		3
	Gathering of basic information to provide health services in the provinces of San Juan de la Maguana and Elías Piña.	Quantification of beneficiary population.	GWU - SESPAS - CERSS	
		Needs assessment presented.	GWU - SESPAS - CERSS	1
	Invitation and preselection of suppliers.	List of suppliers to be invited to present proposals.	GWU - SESPAS - CERSS	3
	Training of providers and OCBs.	Training records and number of people trained.	GWU - SESPAS - CERSS	1
	Call for proposals, selection and contracting of seven health service providers in the provinces of San Juan de la Maguana and Elías Piña.		GWU - SESPAS - CERSS	3
	Start-up of basic health service provision programs.	Memorandum of start-up and work plan approved by SESPAS and GWU	GWU - SESPAS - CERSS	15

3: (A) Extension of basic health provision program to at least 50 communities; and (B) Submission to the Bank of evaluation of extension of basic health service provision program and action plans for its	Copies of contracts and memorandums of start-up of 50 basic health service provision contracts. Evaluation report Action plan.	15
Preparation of TOR for hiring consulting services to evaluate 50 health service provision contracts. Presentation of TOR for Bank's no-objection. Selection and hiring of consulting services. Preparation of report to SESPAS and CERSS.	TOR approved by SESPAS. TOR approved by the Bank. Contracts signed. Evaluation report and copies of contracts and memorandums of start-up of 50 additional basic health service provision contracts.	CERSS IDB CERSS SESPAS - CERSS 1
3: Executive Branch approval of instruments and procedures to target ending	Presidential Decree Publication in a nationally circulated newspaper.	1
Preparation of TOR for preparation of new system based on pilot experience with basic health services. Presentation of TOR for Bank's no-objection. Selection and hiring of consulting services. Preparation of report for Social Portfolio Council. Approval of new targeting methodology. Preparation, issue, and publication of executive decree on new targeting system.	TOR approved by STP TOR approved by IDB Contracts signed. Evaluation report submitted to Social Portfolio Council Clearance by Social Portfolio Council. Presidential Decree Publication in a nationally circulated newspaper.	USPS/STP IDB STP USPS Social Portfolio Council/STP/USPS Office of the President of the Republic/ STP/USPS

DOMINICAN REPUBLIC
PROGRAM TO SUPPORT SOCIAL SECTOR INSTITUTIONAL REFORM
POLICY LETTER

Santo Domingo, 28 June 2001

Mr. Enrique Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias,

The core objectives being pursued by the Dominican authorities are a substantial reduction in poverty and better distribution of income. To this end, they have implemented or intend to implement sweeping changes in the policies that provide the framework for productive activities, as well as institutional changes that will bring greater efficiency and transparency to the management of public resources and better targeting and delivery of basic social services. However, an essential condition for attaining these objectives is the maintenance of stability and economic growth.

1. Macroeconomic framework

Over the past decade, the economy of the Dominican Republic exhibited high growth rates and relatively low inflation. This enviable macroeconomic performance can be attributed to the reforms implemented in the early 1990s, to prudent fiscal, monetary, and exchange-rate management during the period, and to a favorable international climate. Still, the country remains vulnerable to internal and external shocks essentially because the economic, social, and institutional reforms launched in the early 1990s have stagnated. This vulnerability became evident in 2000 in view of the impact of higher international prices for oil and relaxed fiscal discipline during an election year, which is only possible in a context of weak tax and budgetary institutions.

In 2000, the pace of economic activity began to slow down slightly as of the second quarter, and the year ended with growth of 7.8%. At the same time, the general price level rose by 9.02%. Domestic prices thus maintained their moderate trend of recent years, with increases in the one-digit range despite domestic fuel prices being raised twice in 2000 after the new administration took office. Of the aforementioned price increase, 3.4 percentage points can be attributed to domestic price hikes for petroleum products, and the general view is that prices would have risen more but for the tight monetary conditions prevailing when the adjustments were made.

Despite this relatively good performance, the economy came under strong destabilizing pressures in the wake of the external shock caused by the rise in international oil prices that started in mid-1999. As a result, the country's oil bill increased about US\$634 million, which combined with lower prices for such export commodities as coffee, cocoa and tobacco to generate a significant negative impact on the country's terms of trade.

Internally, the situation of the country's fiscal accounts deteriorated significantly, especially during the first half of the year. This can be traced to the decision taken by the previous administration to keep domestic fuel prices unchanged in the face of rising international prices, and to the expansion in public spending during the first half of the year with an eye to the coming elections. As of August, the estimated deficit in central government accounts was about 4% of GDP. In that month, however, the new administration adopted a policy for adjusting domestic fuel prices and more austere expenditure management, and this made it possible for the central government deficit to close the year at 1.8% of GDP.

Excessive public spending during the first half of the year and the decision to delay the adjustment of domestic fuel prices were reflected in pressure on the country's balance of payments on current account. However, the new administration's fiscal effort, which took the form of adjustment of domestic prices for petroleum products, adjustments in the exchange rate, and cuts in public spending, brought the balance-of-payments current account deficit at the end of 2000 to 5.2% of GDP, which was 1.7% of GDP below the September projection for the year overall.

The expansionary expenditure policy in force for most of 2000 boosted aggregate demand growth, and by midyear there were signs that the economy was growing at an unsustainable rate. Private consumption showed greater buoyancy in real terms and more than compensated for the slowdown in private investment. Private-sector spending was generally supported by the maintenance of an appreciated real exchange rate that attracted higher imports.

A restrictive monetary policy and a fiscal policy that diverted significant resources from the banking system that could otherwise have been channeled to the private sector pushed up interest rates. By August, the country's international reserves were down by US\$349.7 million from their level of US\$547.0 million at the end of 1999, and the average interest rate on 90-day loans stood at 28.52%.

The correction made to fuel prices in August, backed up by public expenditure cuts, brought about a significant reduction in the fiscal deficit. The maintenance of higher interest rates until December, coupled with an exchange-rate policy adjustment in September that led to a more competitive official exchange rate, generated a strong recovery in the Central Bank's international reserves during the final two months of the year, especially December; by the end of 2000, they had climbed back to US\$442.0 million.

The current administration has reiterated its commitment to continue with the economic, social, and institutional reforms that the country needs not only to secure sustained growth but also to reduce poverty and improve income distribution. This is evidenced by the presentation of key legislation to the Congress, which has already voted the legislation into law. For instance, on 1 November 2000, the Fossil Fuels and Petroleum Products Tax Act (Law 102) was promulgated, eliminating discretionary management of fuel prices by the authorities and guaranteeing a stable flow of funds in the future for external public debt service.

Tax and tariff reforms were also approved, namely: (i) tariffs were reduced from 18.5% to 11.4% on average; (ii) the ITBIS was increased from 8% to 12%; (iii) advance payment of 1.5% of income tax; and (iv) selective excises were increased. The tax hikes aim to offset lost revenue from lower tariffs and higher valuation of imports and also to raise tax pressure in order to provide the government with the necessary resources to honor its financial and social commitments. The Dominican authorities are also committed to strengthening tax administration and introducing policy and institutional changes to provide more transparent management of government accounts.

The commitment to macroeconomic stability is also reflected in the selection of the members of the Monetary Board, the policy-setting body of the Central Bank, and the government's firm backing of that body's decision not to grant any further credits to the central government, so as not to generate inflationary pressure but maintain a sound monetary policy as a basis for sustained economic growth in the medium and long term.

2. Macroeconomic prospects for 2001

The Dominican economy shrank by 1.5% in the first quarter of 2001 in the wake of the taxation measures adopted in late 2000, the economic slowdown in the United States and the persistence of higher oil prices. Still, monetary policy has been aimed at lowering domestic interest rates and making the exchange rate more flexible in order to promote recovery in productive sectors, especially tourism and in duty-free zones. Indicators as of March were showing some economic recovery in response to higher levels of liquidity, which allowed interest rates to start moving down in that month and made for less uncertainty about government policies.

The higher growth forecast for the rest of the year is expected to turn the first-quarter current account surplus into a deficit of about 3% of GDP by year-end 2000. This is due to the increased import needs of an expanding economy. At the same time, the fiscal authorities have set a surplus of about 0.8% of GDP as a fiscal target for 2001. It is worth mentioning that, since the fuel price adjustment in August 2000, and particularly with the approval of the Hydrocarbons Act, the central government has thrown its full weight behind honoring its external commitments, as evidenced by its decision to maintain fiscal discipline and to forgo monetary financing.

The economy's liquidity requirements are expected to be satisfied by building up international reserves at the Central Bank and redeeming participation certificates in

order to guide interest rates gradually lower. This policy is consistent with an inflation target of between 7% and 8%, taking into consideration the knock-on price effects of phasing out the electric-power subsidy and increasing oil prices. If the latter come down, the inflation target could be lowered still further.

With regard to fiscal policy management, the adjustment implemented at the end of 2000 made it possible to absorb the oil price shock and generate revenues to make payments against the external public debt for 2001, which was approximately US\$200 million higher than last year and accounts for about 20% of fiscal revenues. The adjustment will also make it possible to re-establish fiscal and external balance in 2001, in the absence of any major unforeseen circumstances.

Even so, the Dominican economy continues to be highly vulnerable to external shocks as well as to an abrupt slowdown in the U.S. or European economies, or a new jump in international oil prices. These pose serious risks to the economy over the coming months, especially given the relatively low level of international reserves, limited access to international financial markets on favorable terms, and strong social and political resistance to any further economic adjustments by the government. Against such a backdrop, fresh lending from international sources will be required if the country is to re-establish its international reserve position and reduce its vulnerability to external shocks in the future. Naturally, the government would agree to introduce institutional changes, especially in the area of public spending management, as will be explained below; this would help to bolster macroeconomic stability and strengthen the economy against such shocks, while enhancing efficiency, efficacy, and transparency in the delivery of basic social services.

3. Social reality and the poverty reduction strategy

Social policy has traditionally been a neglected area in the Dominican Republic, resulting in cumulative inequalities and major social deprivation. The economic progress of recent years has had little impact on poverty, and large social groups have clearly been excluded from the benefits of economic growth resulting from the stabilization programs that have been implemented.

The high and sustained economic growth seen during the 1990s was not adequately reflected in social development, and results were meager in terms of productive job creation, income growth, and more and better access to basic social services for the socially deprived majority. The country is lagging significantly behind by regional standards, in terms of open unemployment, equitable income distribution, the quantity and quality of access to health, education, and sanitation services, and other basic social indicators. Consequently, the relative bonanza and stability of recent economic performance, mainly in the second half of the 1990s, is in fact fragile, given the persistence of poverty and indigence as a key unresolved problem and the widespread deprivation revealed by the country's social welfare indicators.

Conscious of the State's pivotal role in poverty alleviation and distributive equity, the current Dominican government recognizes this social debt and views it as the most pressing ethical priority of its political-administrative project. Accordingly, it intends to expand coverage and enhance the efficiency and quality of most basic public services, and expand social welfare programs, targeting them on the large socially deprived population sectors.

Social investment as a proportion of GDP and total expenditure has grown significantly in the Dominican Republic in recent years, thanks to a set of programs implemented during the 1990s. However, the meager results achieved point to institutional deficiencies that generate major inefficiencies and undermine the sustainability of social development efforts.

Given this persistent lag in the social sectors and the ineffectiveness detected at the institutional level, the government proposes to keep up efforts to increase social investment, strengthening the use of social expenditure as a development tool and fostering institutional change with an eye to enhancing the efficiency and efficacy of human development efforts. To this end, the government has agreed to preserve macroeconomic stability and to launch a program of institutional change and reform in the social sectors, as described below.

a) Poverty reduction

In February 2001, the Dominican government announced and launched a *Social Package* aimed at alleviating in the short term poverty conditions that affected broad sectors of the population. Using funds from the 2001 budget, the government is currently carrying out a broad set of policy actions to address the different dimensions of social development. These include the following: (i) in the education sector nationwide, it has increased the number of beneficiaries of subsidies for dietary enhancement and uniforms, transport, training, rehabilitation and the construction of new facilities; (ii) in the public health sector, also at the national level, the government has intensified vaccination programs, built new primary health-care centers, and boosted the program to set up local pharmacies; (iii) in the water supply sector, the government plans to build 60 new water supply systems, in addition to the Línea Noroeste system, and repair a large number of pipes; (iv) in the housing sector, the government has embarked upon an ambitious program to build or improve homes throughout the country; (v) in the sanitation and local roads sector, the government has initiated a wide-ranging program to rehabilitate roads and rebuild drains across the country, together with an ambitious neighborhood improvement program in poor urban zones, acting through PROCOMUNIDAD; and (vi) in the area of subsidies and social welfare, the government is maintaining the subsidies for propane gas and electric power, and has also started a broader financial subsidy program for poor and indigent families, and has adopted special programs for indigent mothers and children.

The government is also committed to designing as soon as possible—and with civil society participation—a comprehensive, long-term strategy that will make a more

substantive contribution to eradicating poverty and indigence in the country. Against this backdrop, the reform program agreed upon with the Bank calls for studies and consultations with an eye to producing a poverty reduction strategy that would be a policy of the State rather than simply a government plan.

The government's social vocation stems from the fact that per-capita social spending in the Dominican Republic is only one quarter of the regional standard; and that, given budgetary shortfalls, the State has very little capacity to finance its social policy and exert a greater impact on overcoming poverty and indigence and improving distributive equity.

b) Support for the Social Portfolios Council

The government is aware of the need for better articulation among the institutions responsible for public social-sector management in order to remedy the lack of coordination and inefficiency that permeate these sectors. The Social Policy Coordination and Monitoring Commission was created (by Decree 405-01) to provide technical support to the Office of the President of the Republic in the specific area of social policy. Subsequently, Decree 466-01 of 19 April created the Social Portfolios Council, whose board includes the Education Secretariat as chair, the Secretariats of the Presidency, Health, and Agriculture, the Technical Secretariat of the Presidency, as well as twelve other secretariats and institutional members.

To lend technical support to the Social Portfolios Council in formulating and monitoring sector policy, the government also decided to create the Social Policy Monitoring and Support Unit (USPS), a very high-level technical body that would be responsible for developing core technical capacities in support of the Council during execution of the proposed program. In this connection, the government has agreed that the Council, with support from the USPS, is to produce the following outputs: a long-term strategy for poverty reduction in the Dominican Republic, a design for a social policy monitoring system, a design for a system to monitor the results of poverty reduction efforts, and support for modernization of the public-expenditure targeting system. This unit will also be formally responsible for the administration and management of the proposed Bank loan.

The government agrees to provide financial and logistic support for USPS set-up and operations in aspects such as support services, offices, equipment and furniture. Apart from this, however, the government will also finance 30% of the costs of the unit during 2002. As of 2003, the unit's functions will be incorporated into the official government structure, and the government will finance 100% of its operation. The 2002 and 2003 Expenditure Acts are to contain the respective budgetary allocations.

The government will also analyze available policy options for a root-and-branch reform of the social welfare sector, where problems of fragmentation and inefficiency have been clearly identified. During execution of the DR-0140 program, the government will analyze, by way of the Social Portfolios Council, alternatives for reorganizing this

important subsector; and it will submit a bill to the Congress during the present administration for restructuring of the subsector.

c) Protection of social expenditure

The government agrees to give the highest political and budgetary priority to expenditure in the two priority sectors of health and education, which between them accounted for 77.2% of total social spending in 2000. In this connection, regardless of the situational factors that may impact the economy, the government pledges to protect spending in these priority areas and to promote changes in the legal, regulatory, institutional, and operations spheres so as to make it more effective. Specifically, the government agrees that the real expenditure budgeted for the Health and Education Secretariats should be committed at levels of 90% and 92% during the 1991 and 1992 fiscal years, present expenditure execution schedules and targets for each year, presentation of action plans as exercises in planning and administration of resources earmarked for social development, establishment of mechanisms to control and monitor spending, and improvement in the composition of expenditure in these areas, so that allocations reflect the priorities established in the social policy guidelines, *inter alia*.

d) Modernization of budgetary management

The Dominican government is committed, during the current administration, to the reform and financial modernization of the State through implementation of an integrated financial administration system intended to ensure transparency and efficiency in the financial management of public institutions. To lay the institutional foundations for this process, the respective legal and regulatory frameworks are being designed for government accounting, cash management, public credit, public investment, internal control, administration of national property, and procurement, among others. By means of these changes, the government hopes to integrate, strengthen, and specialize the central level of public financial management in the planning and budgeting of revenue, expenditures, and financing; in the collection and monitoring of government revenue; in consolidated cash administration during the budget execution phase; in the administration of public credit; in the production of timely, reliable, and pertinent financial information; and in the evaluation of the impact of public spending. The government also intends to develop the responsibility of the executing units for public spending and redesign collection and payment processes to make them more transparent and efficient, *inter alia*. To this end, the Executive Branch recently submitted draft legislation on government accounting and is drafting a public financial administration bill.

To bolster the process of creating greater financial efficiency in the social sectors, the government proposes—in the first stage (2001)—to place the Health and Education Secretariats, on a pilot basis, in charge of the financial management of spending, which would mean setting up their own financial administration systems in the two secretariats. In the second stage (2002), the government pledges that the Expenditure Act will reflect the implementation of the program-budget methodology in the aforementioned secretariats as well as in the sphere of social welfare. The second stage would also see the

transfer to the Health and Education Secretariats of programs and resources that were previously executed by the Office of the President and that, by their nature, fall to these sectors, as well as the entry into force of regulations on the use of extrabudgetary revenues. In a third stage (2003), it is proposed that the financial administration system be up and running in the Health and Education Secretariats, and that the 2003 Expenditure Act reflect the transfer to agencies of the programs and resources previously executed by the Office of the President.

e) Health sector reform

As a key component of social development, the Dominican government recently promoted legislative approval of a bill creating the Dominican Social Security System. The bill was approved by the Congress on 24 April 2001 and promulgated by the Executive Branch on 9 May 2001 (Law 87-01). This legislation is expected to have an impact on key social development indicators such as health quality, distributive equity, and poverty and indigence levels among the population at large. With a view to creating a modern framework for health sector reform, on 21 February the Congress passed the General Health Act (Law 42-01), which was promulgated by the Executive Branch on 8 March 2001.

Among other things, the General Health Act defines the organization, funding and operation of the National Health System, and makes the Secretariat of State for Health the sector's governing body. It also defines basic funding arrangements for the health sector, as well as its coordination with the social security system, recognizing the potential of a mixed public-private system in health service delivery. Although this legislation represents a significant conceptual advance, implementation requires extensive bylaws, particularly with reference to the organization of the system, separation of functions between regulation, financing and service delivery, the use of special mechanisms for improving management, results-based resource allocation and outsourcing. The General Health Act is expected to produce important results in terms of effective protection of citizens' health rights and substantial progress in the area of social security; more streamlined organization and more efficient operation of the national health services system; delivery of a service that is more decent, efficient, equitable, accessible, and comprehensive, that reflects better levels of civic solidarity; improvement of the quality and humaneness of health services and broader access, especially for priority groups, with a positive impact on curative and preventive care. In this last area, the positive impact is expected to be felt on levels of health education, food and nutrition, water and sanitation, hygiene, environment, and others.

The Social Security Act, on the other hand, is expected to: promote gradual development of the social security system, setting the stage for greater protection of citizens against unemployment, illness, disability, and old age; contribute to improving the quality of life and reducing poverty and social inequity; raise national and individual savings levels and contribute to economic development of the country; equip Dominican society with a social safety net and guiding principles that guarantee its efficient, transparent operation;

foster a new culture of security and citizens' awareness and a fairer and more solidary society.

f) Modernization of the education sector

To promote modernization in the education sector, the government agrees to present the preliminary version of the new Teacher Statute, which will include a system for promotion and certification, a structure of salary incentives aimed at motivating teaching quality, and the establishment of regulations for the transfer of teachers between schools. The government also agrees to submit the statute to the National Education Council for approval and its adoption as a regulatory decree. It will also draft additional rules to facilitate implementation of the new statute in the areas of certification and promotion, incentives, and transfers.

4. Support from the Inter-American Development Bank

The government has adopted the premise that the institutional lag is generated by inefficient application of social spending, thus neutralizing efforts to control poverty. In this connection, the program to support social sector institutional change (DR-0140) calls for the implementation of policy reforms that will have a positive impact on the general institutional framework for social policy, agencies of the central government, the secretariats of state, and the levels of intersectoral coordination for implementation of that policy. This objective will be pursued through three areas of reform that will be promoted under the program: (i) reforms to strengthen the institutional framework of the social sectors; (ii) reforms aimed at protecting and enhancing the effectiveness of social expenditure on health and education; and (iii) reforms to build institutional capacity to formulate and monitor social policy and reduce poverty.

Accordingly, the government agrees to continue with the execution of investment programs that are currently under way and are significant complements to the proposed program. These include: Basic Education Improvement Program (897/OC-DR); Health Sector Modernization and Restructuring Program (1047/OC-DR); Technical Cooperation Loan for Integrated Financial Management (1093/OC-DR); and Executive Branch Modernization Program (1176/OC-DR).

The government wishes to acknowledge the support provided by the Government of Japan through the Japanese Fund for Poverty in the form of nonreimbursable cooperation to finance a program to support preparation of the country's poverty reduction strategy. This program, which the government will cofinance, will provide special support for technical strengthening of the Social Portfolios Council during the transition period, and will give technical support in formulating the above-mentioned poverty reduction strategy.

As has been shown, the reforms called for under program DR-0140 complement other social development policy measures that are currently under way and are being pursued by the government as a means to optimize the use of existing resources and expand the coverage and efficiency of social development programs.

By means of this framework, the Dominican government manifests its commitment to find an effective, comprehensive solution to the problem of poverty and social exclusion. The support of the Inter-American Development Bank and other international lending agencies represents a valuable contribution that will strengthen the credibility of its action in the social management sphere.

Sincerely,
/signed/

Rafael Calderón
Technical Secretariat of the Presidency

PROPOSED RESOLUTION

REPUBLICA DOMINICANA. LOAN No. ____/OC-DR TO
THE REPUBLICA DOMINICANA

(Program to Support Social Sector Institutional Reform)

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 República Dominicana, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program to Support Social Sector Institutional Reform. Such financing will be for the amount of up to US\$200,000,000, 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 Executive Summary of the Loan Proposal.