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IDB GROUP COUNTRY STRATEGY 2017-2020

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ABBREVIATIONS

CAFTA-DR	Dominican Republic-Central America-United States Free Trade Agreement
GDP	Gross domestic product
ICT	Information and communication technologies
IDEICE	Dominican Institute for Educational Quality Evaluation and Research
ITBIS	Tax on Transfers of Goods and Services
NFPS	Nonfinancial Public Sector
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan

EXECUTIVE SUMMARY

Economic and social context	<p>The Dominican Republic faces the challenge of converting its economic growth into greater well-being for its citizens. Between 2006 and 2016 the country experienced one of the strongest economic growth rates in the region and managed to reduce poverty by 14 percentage points. Nevertheless, levels of poverty and inequality remain higher than the regional average for Latin America and the Caribbean, with notable gaps in terms of gender and between urban and rural areas. The bulk of employment is concentrated in the informal sector, and in activities with very low productivity. On the fiscal front, the country has continued with a process of gradual consolidation, but negative balances persist, and the electricity sector still represents an important burden on public finances. The 2016-2020 Government Plan establishes inclusive growth as the core of its policies, and offers the opportunity to deepen the reforms begun during the previous presidential mandate.</p>
The IDB Group in the Dominican Republic	<p>Over the period 2013-2016 the Bank's Strategy was focused on three pillars: (i) macroeconomic stability and fiscal management; (ii) investment in human capital; and (iii) productive development policies. Thirteen sovereign guaranteed loan operations were approved for US\$1.854 billion and 10 non-sovereign guaranteed loans for US\$101.6 million, together with 11 MIF operations for US\$7.2 million and 28 nonreimbursable technical cooperation operations for US\$9.2 million. Disbursements amounted to a total of US\$1.714 billion.</p>
Priority areas	<p>The Country Strategy 2017-2020¹ has the central objective of promoting inclusive and sustainable growth compatible with the generation of quality jobs that will reduce levels of poverty and inequality. The IDB Group intends to pursue and deepen the interventions from the previous strategy that are in line with the medium and long-term challenges facing the country: (i) improve the quality and coverage of basic services; (ii) expand productive opportunities; and (iii) improve the management of public finances, institutional strengthening, and transparency. The strategy includes actions to promote gender equality, protect the environment, and adapt to climate change, as well as to foster innovation and greater use of information and communication technologies (ICT). The strategy is aligned with the Update to the Bank's Institutional Strategy 2010-2020, and the 2017-2019 IIC Business Plan.</p>
Lending framework	<p>The 2017-2020 lending scenario for new sovereign-guaranteed operations is estimated at US\$1.950 billion, and disbursements at US\$1.938 billion. To guarantee prompt execution, the Bank will work on strengthening the execution units and will explore innovative execution mechanisms.</p>
Risks	<p>The main risks to implementation of the strategy are: (i) macroeconomic risks associated with the possible deterioration of the external context and with progress in fiscal consolidation, (ii) the country's vulnerability to natural disasters, and (iii) institutional weaknesses that could delay execution. The strategy includes measures for mitigation and monitoring of these risks.</p>

¹ This country strategy will be effective from the time of its approval by the Board of Executive Directors until December 2020.

I. COUNTRY CONTEXT

- 1.1 The Dominican Republic is an upper middle-income country with a small, open economy that is highly vulnerable to natural disasters. Economic performance has traditionally been driven by manufacturing and agriculture, although recent decades have seen a shift towards services and extractive activities. The degree of trade openness in the economy is 54%, and tourism and free trade zones account for nearly 70% of its total exports. Family remittance flows, together with income from tourism and foreign direct investment, represent 20% of GDP. The majority (80%) of the Dominican population, estimated at 10.2 million, lives in urban areas.
- 1.2 **In the last decade the Dominican Republic has recorded one of the highest economic growth rates in Latin America and the Caribbean.** Between 2006 and 2016, annual growth averaged 5.5% in real terms, making the country the second fastest-growing economy in the region, above the average level of 3% for Latin American and Caribbean countries. During this time the construction, local manufacturing, and services industries contributed nearly 80% of average growth.² Over the medium term it is expected that real growth will be close to potential, at around 5%.³
- 1.3 This dynamic economic performance is associated with a **favorable external environment and public policies that have encouraged domestic demand.** The drop in international oil prices, the better performance of the U.S. economy, and low interest rates on international markets have contributed to the country's better economic performance.⁴ In the external sector, the current account deficit declined from 7.5% of GDP in 2010 to 1.4% of GDP in 2016, below the historical average of recent decades. This was due in large part to income from tourism, positive and growing flows of family remittances, and lower oil prices. Policies aimed at developing the agricultural sector and small and medium-sized enterprises (SMEs) also served to boost economic activity. This trend in the economy has taken place within a context of low inflation, a flexible exchange rate, and the consolidation of monetary policy.⁵
- 1.4 **The country has continued its gradual fiscal consolidation process, although negative balances still persist.** After the Nonfinancial Public Sector (NFPS) recorded a deficit of 6.9% of GDP in 2012, the country began a process of consolidating the public finances and was able to reduce the deficit to 2.8% of GDP in 2016. This improvement was due to a major adjustment in public spending as a percentage of GDP, which declined from 20% to 17.6% over that period, due primarily to cuts in capital spending.⁶ Transfers to the electricity sector continued to

² Based on information published by the Central Bank of the Dominican Republic (BCRD). In the services sector, the activities that had the greatest impact were trade, transportation and warehousing, financial intermediation, and tourism, which contributed 30% of average growth over the decade.

³ BCRD 2017 Monetary Program and estimates by the International Monetary Fund (IMF) in WEO April 2017.

⁴ Low interest rates on international markets allowed the Dominican government to place bonds at longer maturities of up to 30 years, with average weighted interest rates of 6.6% annually, below the 7.3% recorded prior to 2013.

⁵ In 2012 the BCRD adopted a system of inflation targets as its monetary policy strategy. In 2016, inflation was 1.7%, the lowest in the last three decades, and for the third year running it fell below the lower limit of the target range (4.0% ±1.0%) established in the monetary program.

⁶ Capital spending fell from 6.4% of GDP in 2012 to 3.2% of GDP in 2016.

represent a significant fiscal burden: between 2012 and 2016 such transfers represented on average 1.5% of GDP. On the revenue side, the tax ratio in the Dominican Republic amounts to 13.7% of GDP, compared to 12.2% in 2010. This level of revenue collection, the second lowest in the region, is associated with a high level of tax exemptions (6.5% of GDP in 2016), technical weaknesses in tax and customs administration, and high levels of tax evasion.⁷

- 1.5 **Despite the effort at fiscal consolidation, the public debt has continued its upward trend.** Between 2010 and 2016, NFPS debt rose by nearly 10 percentage points of GDP, reaching 37.4% of GDP, while the consolidated debt, including that of the Central Bank, stood at 47.6% of GDP.⁸ About 70% of the total debt is denominated in foreign currency, compared to a regional average of 54%, a fact that increases the vulnerability of the public finances to fluctuations in the exchange rate. The level of the deficit, moreover, increases the refinancing risk, in the event of unfavorable shifts in international markets. It is important to seize the opportunity of the positive economic cycle to continue moving forward with fiscal consolidation.
- 1.6 **Poverty has declined significantly, but it remains higher than the Latin American and Caribbean average.** Between 2006 and 2016, poverty fell from 44.5% to 30.5% of the population. Nearly 11 percentage points of this reduction came between 2013 and 2016, thanks to higher per capita household incomes and, to a lesser extent, to improvements in income distribution.⁹ Despite this recent decline, poverty levels remain higher than the average for Latin America (28.2% in 2014), and the country only recently returned to levels similar to those prior to the 2003 banking crisis. Moreover, there are persistent divergences in the poverty rate between urban and rural areas, and between the sexes. The urban poverty rate was 26.8% in 2016, compared to 38.1% for the rural population. At the end of 2015, the incidence of poverty and indigence was, respectively, 4.6 and 1.7 percentage points greater for women than for men.¹⁰ With respect to the inequality coefficient, in 2016 it stood at 0.468, one of the highest rates in the region, and that year it recorded a slight reversal of the downward trend of previous years. The average open unemployment rate¹¹ for 2016 was 7.1%, while 50.3% of workers were employed in the informal labor market.
- 1.7 **The country faces the challenge of converting its economic growth into greater well-being for its population.** The dynamic economic performance of recent years has failed to improve the economy's capacity to create quality jobs. Half of employment remains concentrated in the informal sector, largely in sectors with very low productivity (services and commerce).¹² Moreover, real wages have shown a downward trend: for 2016, the average income per hour worked for

⁷ Rojas, E. and F. Díaz Yubero (2016). "Desafíos para la recuperación de la Administración Tributaria de la República Dominicana." IMF.

⁸ The debt of the BCRD is 14.2% of GDP. The consolidated debt does not include intergovernmental debt, which stands at 4.0% of GDP.

⁹ For further details, see Ministry of Economy, Planning, and Development (2017). "Boletín de estadísticas oficiales de Pobreza Monetaria." February 2017.

¹⁰ IDB (2017). "Desigualdades de género en República Dominicana 2018-2020." Draft for discussion.

¹¹ The open unemployment rate refers to the proportion of the population 15 years and older who, during the period of reference, had no occupation from which they received wages or earnings, were actively seeking employment, and were available to start work.

¹² Since 2000, the sector contributing the most to job creation has been "other services" (explaining 41% of total jobs created). Occupations in this sector tend to have a less qualified labor content.

employees in the formal sector amounted to only 87% of its real value in 2000.¹³ The bulk of growth can be attributed to the accumulation of physical capital and, to a lesser extent, to an increase in total factor productivity.¹⁴ This situation, which is due to a series of structural factors related to institutional weaknesses, low investment in technology and innovation, and persistent gaps in the human capital accumulation, prevents economic growth from being more inclusive.¹⁵ The government is in the process of adopting substantive reforms aimed at improving productivity and formality in the economy.

- 1.8 The various aforementioned challenges could be exacerbated by the country's great vulnerability to natural disasters¹⁶ and the negative impacts caused by climate change, which pose a risk for the future to the country's productive infrastructure, its poverty reduction efforts, and its fiscal accounts.¹⁷

II. THE IDB GROUP IN THE DOMINICAN REPUBLIC

- 2.1 The IDB Country Strategy (2013-2016) had as its core goal to stimulate growth compatible with the creation of quality jobs, so as to enable a sustained reduction in poverty. The strategy prioritized three pillars of support to the country, enshrined in the government plan: (i) macroeconomic stability and fiscal management; (ii) investment in human capital; and (iii) policies for productive development. It focused on six sectors: fiscal management, energy, social protection, education, health, and productive development. To implement this strategy the Bank used a combination of loan instruments, technical cooperation, and dialogue that supported progress in all areas of action, thereby strengthening the Bank's position as the country's strategic partner and principal source of multilateral financing.
- 2.2 **During 2013-2016, the Bank approved 13 sovereign-guaranteed loan operations for US\$1.854 billion.**¹⁸ This amount consists of US\$804 million in investment loans and US\$1.050 billion in policy-based loans (PBL). Under the macroeconomic stability and fiscal management pillar, the Bank approved US\$375 million to strengthen public finances and modernize financial and budgetary administration. It also supported the electricity sector with US\$78 million, with a view to improving the power distribution segment and reducing losses in the sector, which have involved a heavy fiscal burden for the government. Under the human capital pillar, US\$1.084 billion was approved. In health, reforms were supported to

¹³ Calculation based on information published by the Central Bank of the Dominican Republic, taken from the National Labor Force Survey.

¹⁴ See Guzmán, R. and M. Lizardo (2003) "Crecimiento económico, acumulación de factores y productividad en la República Dominicana." IDB; Mota, José Manuel (2011). "Crecimiento económico dominicano: acumulación y productividad total de factores 1966-2007." Pontificia Universidad Católica de Chile.

¹⁵ See details in IDB (2016). Dominican Republic. Country Development Challenges.

¹⁶ According to the Global Climate Risk Index prepared by Germanwatch, the Dominican Republic ranks eleventh among countries that have suffered the greatest impacts from extreme climatic events. It is expected that this vulnerability will increase from "high" to "severe" by 2030.

¹⁷ For example, the UNDP (2012) estimates that US\$4.451 billion will be needed to adapt to the impacts of climate change in the tourism and water sectors.

¹⁸ The approvals during the period 2013-2016 (calendar years) were added to an outstanding portfolio of 23 sovereign guaranteed operations, with an original approved balance of US\$904 million, and US\$432 million pending disbursement. In addition, in 2016 the Bank approved the Contingent Loan for Natural Disaster Emergencies (DR-X1011) for US\$300 million, a reformulation and expansion of the contingent loan approved in 2009 for US\$100 million, in consideration of the magnitude of the disaster risk facing the country.

consolidate the sector, including major investments to improve primary care for vulnerable groups; in social protection, the Bank supported efforts to improve the efficiency and effectiveness of expenditure; and in education, in late 2016, it approved a program to enhance early childhood development for children under five living in conditions of vulnerability. In productive development and competitiveness, the Bank approved US\$315 million essentially for implementing reforms to facilitate SME access to credit and to promote productive restructuring in specific territories. A second phase of the program to revitalize the Colonial City of Santo Domingo was also approved. Total disbursements recorded during 2013-2016 amounted to US\$1.714 billion, with a net positive cash flow from the Bank to the country of US\$500.1 million.

2.3 **Approvals by the Inter-American Investment Corporation (IIC) amounted to US\$101.6 million for 10 operations.** Most of these approvals represented lines of credit to financial intermediaries, through the Trade Finance Facilitation Program, and to banks that support SMEs and finance housing improvements. A direct loan was also approved to one firm in the productive sector. The Multilateral Investment Fund (MIF) approved 11 new operations—one investment and 10 technical cooperation operations—for a total of US\$7.2 million, and it disbursed US\$6.4 million to support the strategic pillars of human capital and productive development as well as the climate change and gender areas.

2.4 In addition, **28 nonreimbursable technical cooperation operations were approved for US\$9.2 million.** These supported customer response projects that supplemented investments in social protection, education, health, social security, fiscal management, energy, productive development, and competitiveness.

1. Main outcomes under the Country Strategy 2013-2016

2.5 Interventions by the IDB Group made for significant progress against the three pillars of the strategy.¹⁹ Maintaining the country's high growth rates while generating new sources of employment and continuing to improve social inclusion will require sustained efforts over the medium and long term in the various sectors of intervention of recent years. For this reason, political continuity in the Dominican Republic offers the IDB Group the opportunity to continue supporting, deepening and broadening the reforms and areas of intervention of the previous strategy during the life of the new strategy.

2.6 Under the **Macroeconomic Stability and Fiscal Management** pillar, Bank interventions contributed to the process of fiscal consolidation. The Bank supported the major tax reform that the country undertook in 2013, which helped to reduce the NFPS deficit from 6.9% in 2012 to 2.8% in 2016. The Bank also supported the country in strengthening the management and transparency of public finances, thanks to which in 2016, 99% of central government revenues were executed under the control of the Financial Management System and the Single Treasury Account, compared to 75% in 2012, and 96% of the public payroll was handled through the Civil Servant Administration System, compared to 65% in 2012. Moreover, given the fiscal burden represented by the *electricity sector*, the Bank focused its support to the sector on the distribution segment, through investments in rehabilitating grids and improving management to reduce technical and nontechnical losses, as well as

¹⁹ According to the document prepared by OVE, the Bank's strategy and program were relevant and consistent with the medium and long-term priorities of the Government of the Dominican Republic. OVE (2017) "Country Program Evaluation: Dominican Republic 2013-2016." Document RE-505-1.

technical cooperation in the dialogue process concerning sector reforms.²⁰ Despite this progress, there is a need to pursue further improvements in the management of public finances, including the strengthening of the tax administration. In the electricity sector, challenges remain with respect to reducing losses, controlling the operating costs of power distributors, strengthening the regulatory and rate-setting framework, and deepening the reforms initiated in the sector.

- 2.7 Under the pillar for **strengthening human capital**, the Bank promoted reforms to help boost the effectiveness of the social protection, health, and education networks. In social protection, interventions benefited more than 3 million people and strengthened the operational management and the instruments for targeting and verifying coresponsibilities under the *Progresando con Solidaridad* (“Progressing with Solidarity”) program, raising from 5% to 59% the proportion of assistance targeted on the basis of official criteria, and boosting the program’s coverage to 81% of poor households. There was also an increase in the capacity for verifying coresponsibilities of beneficiary families, from 14% in 2012 to 99.9% in 2015.²¹ In social security, a regulation was enacted governing the procedure for granting social pensions based on the Single System of Beneficiaries. Consolidating this progress requires additional efforts to ensure the fiscal sustainability of social protection programs and to continue building management and targeting capacities, as well as monitoring and evaluation systems.
- 2.8 In *health*, Bank interventions increased the coverage of primary care services and advanced system reforms. Of particular note are the construction and equipping of 72 primary care units; the rehabilitation of another 100 primary care institutions; registration of more than 111,000 new beneficiaries in the primary care system; and construction of the country’s first blood center, a key facility for reducing morbidity and mortality from postpartum hemorrhage. As for the reform process, there has been progress in separating the functions of the system, establishing a new health quality policy, accrediting more than 2,000 health centers, and updating the Basic Health Services Plan. The Bank is currently supporting the separation and strengthening of the functions of health system administration, the development of a new primary care model and of quality policies, updating the services plan for strengthening the National Health Insurance program in its actuarial role, and preparing the Master Plan for the National Pharmaceutical Policy.
- 2.9 In *education*, Bank actions complemented government efforts to expand school infrastructure and extend the school day in basic education, and supported the design and implementation of the National Program for Comprehensive Early Childhood Care. Fifty-eight buildings were adapted for the extended school day, and six new basic education schools were built, along with 56 secondary education classrooms; training was provided for more than 8,450 teachers and technical staff on pedagogical and management issues; and more than 500 educational resource packages were delivered to beneficiary schools. Pending tasks for the medium and

²⁰ Under DR-L1026 nearly 400 km of distribution networks were rehabilitated, and improvements were introduced in the corporate management of the utilities so as to raise the quality of service to more than 100,000 customers, while increasing the effective recovery rate from 61.3% in 2012 to 65.5% in 2016, and reducing total distribution losses from 35.5% to 31.5% over the same period.

²¹ Data from the Social Policies Coordination Office of the Dominican Republic.

long term include further efforts to strengthen the quality of the faculty and expand early childhood development services.²²

- 2.10 Under the pillar of **Productive Development and Competitiveness**, results were achieved in three main areas: (i) improvements to the regulatory and institutional framework with a view to enhancing the country's productivity, innovation, and competitiveness; (ii) connectivity and market access; and (iii) productivity of clusters, agricultural producers, and tourism offerings. Under the point (i), there was progress in introducing *reforms to strengthen financial regulation*, such as the development of microcredit policies, the bankruptcy law, the draft law to promote reciprocal guarantees, and creation of the Dominican Export Bank; *reforms to improve the productive innovation system*, such as the launch of the Dominican Quality Institute and the startup of the Technology Support Center; and *initiatives to improve social security policies and incentives for formality*, such as formulation of the Strategic Plan to Reform Social Security, and consolidation of tax and social security registries. Under point (ii), the Bank supported preparation and implementation of the National Logistics Plan, and the rehabilitation of 245 km of highways and 294 km of trunk roads under maintenance contracts. On point (iii), the productivity of 46 clusters (tourism, vegetables, fruits, and manufacturing) was improved, gaining them entry to new markets, new tourist routes were developed, and the quality of productive processes was improved, while farmers benefited from technology transfer programs.²³ The tourism development program in the Colonial City has improved and broadened the country's tourism offerings by restoring 2,560 m of streets prioritized as tourist routes, rehabilitating 850 historic facades, preparing a sustainable mobility plan, and putting into operation a center for security monitoring and surveillance in the zone. Effective implementation of the reforms under this pillar will have to be monitored. Over the medium term, a systemic and strategic framework of policies will be needed to support productive development, foster exports, and encourage integration into global value chains.
- 2.11 The IIC provided financing for 70 business development projects for SMEs, totaling US\$5.6 million, and through the Trade Finance Facilitation Program it supported 180 individual foreign trade transactions with local banks in order to establish new relationships with financial institutions and institutional investors around the world. The MIF sponsored projects that facilitated financing for SMEs through the banking system, the integration of 28,500 persons into the financial system, and technical training for the job placement of more than 6,000 young people.
- 2.12 **There was important progress in crosscutting areas.** On climate change, within the framework of the Contingent Loan for Natural Disaster Emergencies (DR-X1003, DR-X1011), the country has the Integrated Natural Disaster Risk Management Program, which is promoting the effective development of the national policy on comprehensive and financial management of disaster risks, the handling of disasters, and the strengthening of governance. On gender, in addition to the results mentioned in the health area, the country has been supported in formulating a pilot project to address maternal health as well as the comprehensive adolescent health, and the Dominican Republic is the first country to implement the Emergent Women

²² As a contribution to this objective, operation DR-L1077, Early Childhood Development Support Program, was approved at the end of 2016.

²³ A total of 1,513 farmers benefited from technology transfer programs that allowed them to increase their net farming incomes by an average of 9%, their total productivity by 9%, the average net value of output by 90%, and average crop and livestock yields per hectare by 42%, compared to nonbeneficiaries.

Leaders in the Public Sector program. The MIF also supported the government procurement agency in implementing a pilot program to increase the involvement of women-led SMEs in public bidding processes.

- 2.13 **Technical cooperation operations approved by the IDB played a fundamental role in the reform program and opened doors for new operations.** In the electricity sector, the Bank contributed with the program for modernizing the distribution network and reducing losses, and it supported a study to optimize power generation. The Bank also supported the strengthening of public management, teacher quality, and early childhood development. In addition, it contributed to the design of mechanisms to support SMEs, ICT, and broadband.

2. Current status of the portfolio

- 2.14 As of 30 June 2017, the outstanding portfolio comprises 15 sovereign guaranteed operations for US\$1.114 billion, with an available amount of US\$446.4 million concentrated in the sectors of education (44.8%), tourism and urban development (20.9%), health (11.9%), energy (6.8%), water (6.3%), social protection (4.6%), productive development and competitiveness (4.5%), and agriculture (0.2%). In IIC Non-sovereign guaranteed operations, there is an exposure of US\$129.5 million, distributed among eight operations that support financial institutions, trade facilitation, transportation, telecommunications, and housing. The MIF portfolio comprises 16 operations for US\$9.2 million, and an available balance of US\$4 million, backing initiatives in the tourism sector, financial inclusion for vulnerable groups,²⁴ access to microcredit, health, and business opportunities.
- 2.15 **The main lesson related to the gradual implementation required to achieve policy reforms that are fundamental for the country.** The Bank has been supporting the Dominican Republic with in-depth reforms that, given their importance, require extensive dialogue with the government and with political forces. This means that achieving the objectives underpinning the Country Strategy will require sustained support over the medium and long term. Technical cooperation and nonfinancial products have shown themselves to be very effective instruments in coordinating sector dialogue and generating knowledge, which has allowed the Bank to support the reform process and provide a quick, effective response to emerging demands.
- 2.16 At the **sector level**, it has been found that to increase the yield from fiscal reforms the tax administration must be strengthened and the institutional framework improved. Programs for cutting losses in the power sector also require, as a complement to rehabilitation of the grids, greater investments to expand the electricity metering systems, and ongoing improvements in the business area of the distribution utilities. In the social area, it is important to supplement efforts to expand coverage with steps to improve quality in service delivery. Programs in the water and sanitation sector need to include improvements in the sector's governance and alternative execution mechanisms, in order to mitigate delays and shortfalls in planned project outcomes. It is also important to create synergies within the IDB Group in order to strengthen the counterpart's management capacities. It was also noted that loans to SMEs (through financial institutions) would have a greater impact if SMEs could strengthen their debt management capacities, for example through

²⁴ According to the Social Protection Sector Framework Document, the vulnerable population is considered to be the population at risk of falling into poverty. Vulnerability is defined as the presence of situations of dependency.

greater coordination between the IDB, the MIF, and the IIC and that, in order to reduce the risk of currency mismatch in the case of operations with a nonexporting SMEs, consideration should be given to local currency financing. In addition, Bank support in implementing social housing projects proved helpful in mitigating operating risks, meeting standards, and achieving greater efficiency in the construction process.

- 2.17 With respect to **execution**, effective internal coordination made it possible to execute programs without delays and respond promptly to clients. At the same time, execution of the portfolio improved when planning for the Bank's investment programs was provided in time for the Ministry of Finance to formulate the national budget. This point is reflected in the conclusions of the Bank's Office of Evaluation and Oversight (OVE), in its Country Program Evaluation: Dominican Republic, where it found that the efficiency of the loan portfolio had improved, reducing preparation and execution costs.
- 2.18 The Country Strategy 2017-2020 takes into account the recommendations from the 2013-2016 Country Program Evaluation by OVE: (i) give priority in the IDB Group's policy dialogue and in its financial and nonfinancial product offerings to supporting reforms in the electricity and fiscal sectors; (ii) tailor the supply of loan modalities to the country with the aim of achieving the necessary balance between budgetary support and achieving the development objectives of the IDB Group's strategy; (iii) increase emphasis on components aiming to make public spending more efficient and improve the quality of operations to support human capital accumulation and the provision of basic services; and (iv) step up efforts to promote private sector participation in the provision of basic infrastructure, renewable power generation, and rural electrification. In this sense, it should be noted that the reform processes supported during the Country Strategy 2013-2016 continue moving forward. Phases of the productivity improvement support programs and support for the sustainability and efficiency of the power sector are expected to be completed during the remainder of 2017 and early 2018. In the fiscal area, this year the Bank approved and the government signed a new operation to strengthen the tax administration, a major link in the broad fiscal reform process.

III. PRIORITY AREAS

- 3.1 The 2016-2020 Government Plan makes inclusive growth the focal point of its policies, and accordingly it has prioritized four areas of action contemplated in its 2030 National Development Strategy: (i) the provision of public services that will improve people's living conditions, including promotion of early childhood education, improved quality of education, and expanded access to social security and family health insurance; (ii) economic stability, productive development, and competitiveness for a more inclusive economy capable of generating quality jobs; (iii) consolidation of a more efficient, transparent, and participatory public institutional framework; and (iv) protection of the environment and adaptation to climate change for sustainable economic development. The government has proposed the use of public-private partnerships as an instrument with the potential to improve the competitiveness and quality of infrastructure and public services. The Government Program offers an opportunity to deepen the reforms launched during the previous presidential term (2012-2016), and ensure continuity of the IDB Group Program. In line with the challenges facing the country, the Bank will continue its support to the sectors that were prioritized under the previous strategy.

- 3.2 Government priorities are in line with the objective of overcoming the main development challenges identified in the IDB document “Dominican Republic: Country Development Challenges 2016.” These challenges are: (i) shortages in human capital and coverage of quality basic social services; (ii) stagnating output in traditional export sectors; (iii) limited access to productive financing; (iv) low quality of electric power service; (v) lack of coherent and coordinated actions to foster the use of technologies and innovation; (vi) mismatch between labor market demand and occupational training; and (vii) institutional shortcomings that limit the efficient and transparent delivery of public services.
- 3.3 **Strategic focus.** The central objective of the Country Strategy 2017-2020 is to promote inclusive and sustainable growth compatible with the generation of quality employment that will help to reduce levels of poverty and inequality. By maintaining this strategic focus the Bank will be able to incorporate more effectively the lessons learned and consolidate the results achieved under the previous strategy. The IDB Group intends to provide continuity for interventions that are in line with the development challenges: (i) improve the quality and accessibility of basic services; (ii) expand productive opportunities; and (iii) strengthen public management, institutions, and transparency, making use of operations under way and new approvals to support achievement of the new strategy’s objective. Public-private synergies will continue to be promoted between the IDB, the IIC, and the MIF. The Country Strategy 2017-2020 is aligned with the IDB’s Update to the Institutional Strategy 2010-2020 and the 2017-2019 IIC Business Plan.

1. Improving the quality and coverage of basic services

- 3.4 Although the Dominican Republic has undertaken reforms to expand education and health coverage and improve social safety nets, there are still some important challenges to be addressed. In the education sector there is a pressing need to improve the quality of education and offer quality care to children under five. In the health area, efforts have been made to expand coverage, but investment is still relatively low, the health system is not functioning effectively, and the quality of service is low. With respect to the social assistance network, its effectiveness needs to be further improved. It is also essential to address the gender inequalities that persist in the country, to strengthen opportunities for inclusion of the most vulnerable population, and to promote innovation and ICTs in service delivery and monitoring.
- 3.5 In **education**, the government has given priority to investment at the pre-university level,²⁵ but this effort has yet to produce a substantive impact.²⁶ The government commitment to education is evident in the earmarking of greater funding to the sector, which now amounts to 4% of GDP, more than double the historical allocations, and this has allowed for expansion of the extended school day. Nevertheless, the performance of Dominican students is still among the poorest in the region and globally. The 2015 Program for International Student Assessment (PISA) test²⁷ for 15-year-olds ranked the country at the bottom of the list in science,

²⁵ Early childhood, primary, and secondary levels.

²⁶ Due in part to the time that must pass between the increase in the investment and measurable results in the indicators.

²⁷ The PISA test covers 72 countries worldwide, including 10 in Latin America. The 2015 PISA focused on science, leaving reading, math, and collaborative problem-solving as secondary areas of evaluation.

mathematics, and reading.²⁸ In the latest regional test (TERCE-2013)²⁹ the country earned the lowest scores in the region in all the evaluated areas of reading, writing, mathematics, and natural sciences.³⁰

- 3.6 These poor educational outcomes reflect limitations in teaching capacity. Studies conducted by the Dominican Institute for Educational Quality Evaluation and Research (IDEICE)³¹ showed that elementary teachers' average rate of mastery of the mathematical curriculum contents they are supposed to impart was only 59%, and that this was in turn linked to a higher school failure rate. Moreover, more than half the teachers evaluated showed only an intermediate level of mastery of the cognitive operations evaluated.³² At the same time it was found that teacher training in the country responds more to teachers' own demand for training and to the supply of training service providers, instead of responding to the training challenges identified by the Ministry of Education.³³
- 3.7 The coverage of early childhood education, which is crucial for promoting equal opportunities, is low with respect to Latin America and the Caribbean, and reveals disparities across regions within the country and by level of income. In early childhood education (children ages 3 to 5 years), the gross enrollment rate in 2014 was 44%, well below the Latin American and Caribbean average of 73%. Between urban and rural areas there is a gap of eight percentage points in the enrollment rate. By level of income, only 25% of children ages 3 to 5 in the lowest income quintile participate in early childhood education, compared with 48% in the wealthiest quintile. Although the government has given priority to early childhood needs,³⁴ the coverage rate of these services is very low, and they are offered for the most part by private institutions. The coverage of service for children under five was only 18% nationwide in 2016. Moreover, 85% of children under five receiving early childhood services do so in private centers, and for those under three years

²⁸ On average, Dominican students' score in the sciences was 332 points, placing the country last among the 72 countries evaluated; 86% of students performed at the lowest level in science (50.5% in Latin American countries evaluated). In mathematics, the average score was 332 points, ranking the country 68 out of 72; 91% of students performed at the lowest level in mathematics (62.2% in the Latin American countries evaluated).

²⁹ Conducted by UNESCO, the Third Regional Comparative and Explanatory Study (TERCE 2013) assessed performance in the areas of reading, writing, mathematics, and sciences for students in grades 3 and 6 of primary school. In the last test 15 of the region's countries participated: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay, as well as the Mexican state of Nuevo León.

³⁰ On average, 56% of Dominican students in grades 3 and 6 performed at the lowest level in reading, well above the regional average of 29%. In mathematics and science, their performance was even worse. In mathematics, 80% of Dominican students evaluated for both grades performed at the lowest possible level (47% for Latin America and the Caribbean), and in science, 65% were at the lowest level (40% in Latin America and the Caribbean).

³¹ IDEICE (2013). "Dominio de los contenidos matemáticos por parte del docente, como factor de éxito o fracaso escolar en el primer ciclo de nivel básico en República Dominicana." Santo Domingo, Dominican Republic.

³² The same study found that the performance of teachers in education institutions with low school failure rates was significantly better than that of teachers in centers with high school failure rates.

³³ Instituto Nacional de Formación y Capacitación del Magisterio (the National Teacher Training Institute).

³⁴ In 2012 the government launched its early childhood strategy, known as "Quisqueya Empieza Contigo". At the end of 2014 the government created the National Institute for Comprehensive Early Childhood Care (INAIFI), a decentralized body under the Ministry of Education, with responsibility for managing the delivery of comprehensive childcare services for children between 45 days and 4 years 11 months of age. Priority was given to 65 districts with the highest rates of poverty, social vulnerability, territorial equity, and other child protection needs.

coverage of these services is virtually nonexistent.³⁵ The lack of public child care services constitutes an important barrier to access for the poorest children, given the cost that their families must bear. At the same time, the lack of sufficient services prevents Dominican students from entering the education system with minimum learning skills.³⁶

- 3.8 In **health**, the Dominican Republic has high levels of infant and maternal mortality in comparison to Latin America and the Caribbean. The country's health indicators improved between 1990 and 2015,³⁷ accompanied by an increase in the coverage of public health insurance.³⁸ However, the infant mortality rate, at 26 per 1,000 live births, is still well above the average for Latin America and the Caribbean (15 per 1,000 live births), and although the majority of childbirths take place in institutions and prenatal care is almost universally provided, in 2015 maternal deaths from causes related to pregnancy amounted to 92 per 100,000 live births in the country, compared to 67 for Latin America and the Caribbean.³⁹ Reports from the medical audits of the Health Ministry suggest that 80% of maternal deaths could be avoided by timely, quality medical and hospital care.⁴⁰ This is consistent with evidence showing that health professionals do not adhere very closely to care protocols during hospitalized childbirths.⁴¹
- 3.9 A critical factor for health quality is the training and availability of health professionals. The ratio of physicians per 10,000 inhabitants at the national level is 17, lower than the estimated level for Latin America and the Caribbean of around 20 physicians.⁴² There are also wide regional disparities: in urban areas this proportion can be as high as 52 physicians per 10,000 inhabitants, while in some rural areas it is only 9 per 10,000.⁴³ In 2013 the government analyzed the skills of primary healthcare professionals⁴⁴ and found that the workforce scored 4.3 out of 9. This situation is further aggravated by the absence of career plans and a pay policy

³⁵ Data provided by INAIPI.

³⁶ The evidence indicates that investment in early childhood has positive impacts on people's performance throughout their lives. It has been shown to be an effective means for promoting equal opportunities and reducing inequality in a structural way. In particular, when these programs are of sufficient quality they can mitigate or compensate for shortcomings that arise from unfavorable environments and situations of poverty, such as those relating to cognition, aptitudes, and behavioral problems. Carneiro et al. (2003); Heckman et al. (2007).

³⁷ Infant mortality (0-12 months) dropped from 47 deaths per 1,000 live births in 1990 to 26, and child mortality (under five years) declined over the same period from 60 to 30 deaths per 1,000 live births. Over the period 1990-2015 maternal mortality rates fell from 198 to 92 per 100,000 live births. The coverage of prenatal care in the Dominican Republic is 99.3%, and the rate of childbirth in health care institutions is 98.5%.

³⁸ The number of people affiliated with a family health insurance plan (from 6% in 2007 to 70% in March 2017).

³⁹ World Bank (2015), World Development Indicators.

⁴⁰ Extracted from the Millennium Development Goals Monitoring Report, 2010.

⁴¹ Only 57% of the centers observed followed the corresponding care protocols (Pérez-Then, 2011; CERSS, 2002; Miller et al., 2003; Pérez-Then, 2008; and Quiterio et al., 2008). Various audits of maternal deaths have revealed, as a common denominator, a delay in care due to the lack of defined benchmarks for each Primary Care Center.

⁴² World Bank data for 2011, the latest information available.

⁴³ Ministry of Public Health (2015). "Indicadores Básicos de Salud República Dominicana." This proportion includes only medical staff of the Ministry of Public Health.

⁴⁴ This study evaluated a series of indicators, such as the capacity to develop health promotion strategies, to understand the local health system, to make evidence-based decisions, to conduct research, and to communicate with patients of different origins.

for health professionals, as well as the lack of mechanisms for monitoring and periodic evaluation of their performance.

- 3.10 There are high costs and inefficiencies associated with the lack of a generalized primary healthcare model and networked health institutions.⁴⁵ While health spending has risen to 2.9% of GDP, the coverage of the health system remains low, and 30% of the population is not affiliated with the Dominican Social Security System.⁴⁶ This contributes to high out-of-pocket expenses for patients,⁴⁷ which in turn constitutes a barrier for the use of preventive services. Moreover, many patients turn immediately to the hospitals for assistance with conditions that could be addressed at the primary care level. Ministry of Public Health estimates indicate that 33% of outpatient activity in the country occurs at the primary care level, whereas the WHO (World Health Organization) recommends a rate of 80%.⁴⁸ The main causes include: inefficient use of resources, as evident in the lack of health centers in some of the country's regions and neighborhoods; shortages of inputs and equipment; inadequate health infrastructure; human resource quality limitations; and a financing model that generates no incentives to improve the quality of care. In addition, because institutions are not organized in networks, the tertiary hospitals are overwhelmed with cases of low complexity, which reduces their capacity to deal with more complicated cases and generates inefficiencies and negative impacts on morbidity and mortality indicators. In addition to the foregoing are the institutional weaknesses in the Ministry of Public Health itself, which limit its ability to play its leading role, especially in the areas of health intelligence and regulation.⁴⁹
- 3.11 The poor quality of water and sanitation services also affects Dominicans' health. According to the 2013 Basic Health Indicators, of the 20 leading causes of external medical consultations⁵⁰ at least three are directly related to lack of access or shortcomings in the quality of drinking water and basic sanitation services, representing nearly 12% of all medical visits. Diarrhea is one of the most important health problems for children under five, and this is directly related to the low coverage of these services in periurban and rural areas where poverty rates are highest. In addition, 3% of households have no sanitary facilities of any kind,⁵¹ and only 27.4% of children from birth to two years are able to have bowel movements in safe conditions. This poor quality is associated with financial problems in the utilities

⁴⁵ The IDB has financed technical assistance to support implementation of the primary care model as well as integrated health service networks in three health regions. In 2015 the scale of the resources necessary for development of the new model nationwide was determined.

⁴⁶ The 2001 reform created the Dominican Social Security System (SDSS), which instituted Family Health Insurance and defined three financing structures: contributory, contributory-subsidized, and subsidized.

⁴⁷ Estimated at 42.5% of total health spending. Ministry of Public Health (2015). "Compendio estadístico de Cuentas Nacionales de Salud del Ministerio de Salud Pública."

⁴⁸ Ministry of Public Health (2012). "Adecuación del modelo de red de los servicios regionales de salud."

⁴⁹ When it comes to health intelligence, there is no central information system to consolidate and process data on health services and on vertical programs and make them available to different sectors and management levels. In the area of regulation, there is a need to develop instruments for monitoring the quality of care. The SNS (National Health System) faces the challenge of organizing its new functional structure and strengthening the new Regional Health Services (SRS), decentralized units of the SNS responsible for organizing and managing the service networks.

⁵⁰ These are medical acts performed on an outpatient basis in premises adapted to this end for patient diagnosis, treatment, or monitoring on the basis of clinical history and physical examination.

⁵¹ In some districts of the country this percentage is even higher: in Enriquillo it is 11.7%, in El Valle 7.7%, and in Higuamo 6.7%.

responsible for providing the service, as well as weaknesses in the effective allocation of investment,⁵² and an institutional and legal framework that has not been consolidated. Given the current situation, many families store drinking water in improper receptacles, contributing thereby to the proliferation of mosquitoes and the increase in related diseases such as dengue fever, a situation that could exacerbate the impact of climate change on the population. Climate change is also affecting the quality and availability of public services.⁵³

- 3.12 **Social assistance programs** have had a positive impact on poverty, although there is room for improvement. Various studies have suggested that, without the targeted transfers introduced in 2014, the poverty rate would have been 2.3 percentage points higher, and the extreme poverty rate 1.9 percentage points greater.⁵⁴ While this points to progress with these programs, there is still room for improving the efficiency and effectiveness of social assistance spending. It is estimated that 41% of such spending is still not allocated in accordance with official criteria: it is executed by various institutions and in various ways (such as transfers in cash and in kind, delivery of services, and investments). This situation leads to duplication and inefficiency. Estimates are that some 43% of beneficiaries in 2014 did not qualify as poor, while 56% of the extremely poor received no benefits from the *Progresando con Solidaridad* (“Progressing with Solidarity”) program.⁵⁵ Moreover, the levels of benefits have not been adjusted⁵⁶ and their structure has not been redesigned.
- 3.13 Gaps in the accessibility and quality of basic services have an impact on the high level of **teenage pregnancies and violence against women**.⁵⁷ The country ranks first in adolescent fertility in the region, with 97 births per 1,000 girls, compared to a Latin American and Caribbean average of 64.⁵⁸ One of the risk factors associated with adolescent pregnancy is the lack of knowledge about sexual and reproductive health to which young people have access, in addition to the low availability and use of contraceptive methods.⁵⁹ Moreover, the teenage girls most affected are those with

⁵² Investment in the sector has focused on boosting production rather than addressing the need to expand and rehabilitate networks and ensure the sustainability of these new facilities, despite the fact that installed water production capacity (in INAPA, CAASD, and CORAASAN), at between 430 and 500 liters per person per day, exceeds the Latin American and Caribbean consumption average of approximately 170 liters per person.

⁵³ It is estimated that the total volume of water available in the Rio Haina watershed (which supplies 25% of Santo Domingo’s drinking water) will drop 9% by 2030. In addition, rising sea levels will affect the availability of water resources due to their impact on groundwater. SAMARENA and UNDP (2009).

⁵⁴ Carrasco, H.; E. García; S. Parodi; and M. Vásquez. (2016). *¿Cómo se redistribuyen los recursos públicos en República Dominicana?*

⁵⁵ For purposes of comparison with other countries, the leakage error under-coverage rates were recalculated using as a benchmark the international poverty and indigence lines of the World Bank, adjusted for purchasing power parity. The recalculated under-coverage rate for the extremely poor in the Dominican conditional cash transfer program drops to 52.5% in 2010, six percentage points below the rate using the national indigence cutoff point. The recalculated leakage rate of the program for 2010 rises to 46.8%, 15 percentage points above the rate using the national line. These results exceed those for countries such as Brazil (44.9% and 28.1%) and Mexico (46.6% and 35.8%). See Carrasco et al., 2016.

⁵⁶ The amounts of the transfers represent 14% of the country’s indigence line.

⁵⁷ For further details see “Estrategia para el desarrollo de las mujeres, República Dominicana 2018-2020.” Draft.

⁵⁸ World Bank (2017), World Development Indicators. The average for sub-Saharan Africa in the same year was 100 births for every 100,000 girls.

⁵⁹ IDB (2017), “Estrategia para el desarrollo de las mujeres, República Dominicana 2018-2020.” Draft.

lower levels of education (50.4% among girls with one to four years of schooling),⁶⁰ and the lowest levels of income (35.1% in the poorest quintile, and 8.7% in the wealthiest quintile). In terms of violence against women, in 2014 the country stood in fourth place among 16 countries of the region in the number of femicides, with a rate of 2.7 for every 100,000 women, compared with 2.4 in Latin America and the Caribbean.⁶¹ There is evidence of a negative and statistically significant correlation between the level of wealth and the probability of suffering violence at the hands of one's partner. Moreover, the prevalence of violence is notably higher for women with lower levels of education.⁶²

- 3.14 **Proposed action.** Interventions by the IDB Group will focus on improving the coverage and quality of education services, strengthening healthcare, and improving the efficiency of social protection spending. In education, the IDB Group will support the expansion of coverage of quality early childhood education focused on the poorest segments of the population, and on teacher training at the primary and secondary levels. In *health*, it will continue to work to strengthen primary care and improve the quality and efficiency of expenditure. In addition, it will support effective implementation of the new care model and integrated health networks, and efforts to identify an efficient and operational execution mechanism to support improved access to drinking water and sanitation services, as well as the strengthening of service provider management. In *social protection*, it will move forward with targeting and the reduction of leakage, and the reform of social security. The planned actions will rely on the existing portfolio and on new approvals.⁶³ The Group will explore private sector participation in the delivery of basic social infrastructure, provided the appropriate prerequisites are in place and improved efficiency of the services offered under this modality is projected.
- 3.15 The planned actions are aligned with the challenge of social exclusion and inequality as described in the IDB's Update to the Institutional Strategy 2010-2020 and its strategic objectives of eradicating extreme poverty, developing quality human capital, and providing inclusive infrastructure and infrastructure services. These actions are also aligned with the priority business areas set out in the 2017-2019 IIC Business Plan, particularly with the area for provision of basic goods and services, income generating opportunities, and social mobility for vulnerable populations, opening room for public-private coordination throughout the Country Strategy.

⁶⁰ This is consistent with the results of the Analysis of Teenage Pregnancy Determinants in the Dominican Republic, which found that an increase of one standard deviation in years of schooling is associated with a reduction of four percentage points in the probability of having a pregnancy in adolescence.

⁶¹ CEPALSTAT database.

⁶² IDB (2017), *Análisis de Determinantes de la Violencia de Pareja contra la Mujer en República Dominicana*.

⁶³ The portfolio in execution will support the following proposed actions: the Early Childhood Development Support Program (DR-L1077) promotes expanded coverage of early childhood services; the operations in Program to Support the Strengthening of Health Sector Management (DR-L1069) and Strengthening Results-based Management in the Dominican Republic's Health Sector (DR-L1067) have supported greater efficiency in expenditure and the implementation of the new health care model; the INAPA Water and Sanitation Investment Program (DR-L1041) and the Santiago Water Supply Service Improvement Program (DR-L1057) will support better access to drinking water and sanitation services; and the programs Support for the Social Protection Program, Third Phase (DR-L1047), Support for Consolidation of the Social Protection System (DR-L1053), and Support for the "Progresando con Solidaridad" Program (DR-L1059) will promote actions in the area of social protection.

2. Expanding productive opportunities

- 3.16 **The performance of the Dominican export sector** in recent years has been fairly sluggish. Goods exports in real terms have grown by only 1.3% per year since 2000, well below the growth of GDP. The country's economic openness index⁶⁴ has declined, dropping to 54% in 2016, lower than the 77% recorded in 2000, and below the Central American average of 93%.⁶⁵ At the same time, the country is estimated to have achieved only 40% of its export potential, and the average annual growth of exports to markets with preferential access was only around 2% between 2003 and 2014.⁶⁶ Moreover, there is a high concentration in terms of target markets (with the United States, Haiti, and Canada accounting for 76% of goods exports), as well as little diversification in the basket of exported goods.⁶⁷ Services exports, especially in tourism, averaged around 8.3% of GDP between 2010 and 2016, growing by around 8% each year during that time.
- 3.17 The share of local inputs in export production is low, and this limits the spillover effects from export firms into the economy. The free zones acquire no more than 20% of their total inputs locally, and this constrains efficiency gains and the transmission of know-how between firms.⁶⁸ The World Economic Forum's 2016-2017 Global Competitiveness Index indicates that, in terms of the scope of Dominican companies' presence in global value chains, the country scores 3.7 out of a maximum of 7 (ranking 79 out of 138 countries), below the average score for the other Central American countries that belong to CAFTA-DR (3.8 points and 76th place). When it comes to the quality of local providers, the country earns a score of 4.1 out of 7, and ranks in 81st place, again below the Central American average (4.2 points and 74th place).
- 3.18 The *tourism sector*, an important source of growth for the Dominican economy, has limited ties to the local economy and faces challenges over the medium term. It has benefited from a more dynamic U.S. economy and, at the end of 2016, tourism revenues represented 37% of total exports, and 9.4% of GDP. These revenues have now become the main source of foreign currency for the country, and the tourism sector is the principal destination of foreign direct investment in the Dominican Republic. Despite this, the sector faces the challenges of concentrated demand, weak links to the local economy, and problems of access, quality, and sustainability

⁶⁴ Defined as the ratio of total exports and imports to GDP.

⁶⁵ See IDB (2016), Dominican Republic: Country Development Challenges 2016, section 3.A.

⁶⁶ IDB (2017): "República Dominicana: Promover las exportaciones para mejorar la calidad de vida. Revisión y análisis de los mecanismos y mejores prácticas en materia de promoción de las exportaciones y atracción de la Inversión Extranjera Directa." Draft discussion paper.

⁶⁷ According to Central Bank figures, in 2016 goods and services accounted for 54% and 46% of total exports, respectively. Exports from the free zones represented 55% of total exports of goods, and the bulk of these (70%) was concentrated in the manufacture of medical and surgical equipment, clothing and textiles, electrical goods, and labor-intensive manufacturing. Domestic exports, which represent the remaining 45% of goods exports, were concentrated to the extent of 74% in exports of gold, industrial goods (other), bananas and aircraft fuel. Tourism accounted for 80% of service exports.

⁶⁸ World Bank (2015). "How to Sustain Export Dynamism by Reducing Duality in the Dominican Republic." Report AUS6804 and Comisión Internacional para el Desarrollo Estratégico de la República Dominicana (2010). "República Dominicana: 2010-2020."

of support services,⁶⁹ and it must also cope with the impacts of climate change in coastal and marine areas and the natural disasters that afflict the country.

3.19 There has been no substantial improvement to the country's competitiveness and its business climate in recent years. The 2016-2017 Global Competitiveness Index gives the country a score of 3.9 points out of 7, and places it 92nd among 138 countries, compared with its score of 3.7 and its ranking of 101 out of 139 in 2010-2011. At the same time, the World Bank's 2016 Doing Business Report ranks the country 93rd out of 189 economies, a decline compared with its ranking of 86 out of 183 in 2010. These results position the country at a distance of between 59 and 66 points from the best performance benchmark or "frontier," below the average for Latin America and the Caribbean, and they reflect a market that is unsophisticated, relatively small, and with little capacity to leverage the country's natural competitive advantages.⁷⁰ The main factors undermining the country's competitiveness are described below:

1. *Problems with access, quality, and cost of electricity supply.* According to Doing Business 2017, the country ranks 148th out of 190 in the "getting electricity" parameter (a distance of 52.2 points from the performance benchmark), and this is rated as one of the most difficult factors for doing business in the country.⁷¹ This outcome stems from the high number of procedures and the time needed to obtain service. As to the quality of electricity supply, the Global Competitiveness Report 2016-2017 awards a score of 2.4 out of 7 points, ranking the country 123rd out of 138 economies evaluated, given the high number of hours of blackout programmed daily and the technical condition of the distribution network.⁷² The cost of service is significant for MSMEs, for which it represents 29% of total expenses, compared to 12% for large enterprises.
2. *Shortcomings in transportation infrastructure and logistics.* In 2016, the country ranked 91st out of 160 on the Logistics Development Index, down by 22 slots from the 69th position achieved in 2014.⁷³ This outcome reflects low efficiency in customs clearance, weak regulation, failure to leverage port infrastructure, absence of competition in the ground transport of port cargo, and high costs of

⁶⁹ IIC (2016). "Retos y Oportunidades de Desarrollo de República Dominicana: Una Perspectiva del Sector Privado."

⁷⁰ It is under the "Institutions" Pillar of the Global Competitiveness Index that the country has the worst ranking (118 out of 140) among all the pillars evaluated, and this is due primarily to poor performance in matters relating to ethics and corruption. In the Doing Business Report, the country's low score reflects shortcomings in the regulatory framework governing bankruptcies, the high cost of electricity, and the length of time and the number of procedures required to obtain a fixed connection to the electricity grid.

⁷¹ According to Doing Business 2017, getting electricity is the second most difficult factor for doing business in the country. The first factor is the difficulty in resolving bankruptcies, i.e. the time and cost needed to resolve a situation of insolvency. On this factor, the country ranks 160th out of the 190 economies assessed.

⁷² According to the World Bank, a firm will experience an average 25 power blackouts a month, compared to 4 in Latin America and the Caribbean and 8.8 worldwide. This increases firms' production costs, and especially those of SMEs: it is estimated that 60% of the electricity consumed by the industrial sector is self-generated, at a cost higher than that for power from the grid, and there are substantial differences by size of firm. See World Bank (2007), "Closing the electricity supply-demand gap. Energy and mining sector board discussion paper." Paper 20; World Bank (2013). "¿Rentas o Reformas?: La economía política del desarrollo en República Dominicana."

⁷³ Logistics Performance Index, published in World Bank (2016), "Connecting to Compete 2016: Trade Logistics in the Global Economy."

ground transportation and port logistical services,⁷⁴ an obsolete legal framework, and weak institutional capacity. In terms of transportation infrastructure, there has been a deterioration in the secondary road network, which is essential for the pursuit of productive rural activities, while the primary network has limited capacity.⁷⁵

3. *Low capacity to innovate and lack of financial initiatives to foster private investment in innovation, research, and development.* The processes of innovation in the country are for the most part imitative or incremental in nature, and are conducted with little collaboration among entities.⁷⁶ As a result, the country earns a score of 31.2 out of 100 and ranks 79th among the 127 economies assessed in the Global Innovation Index 2017.⁷⁷ In the Global Competitiveness Report 2016-2017, it scores 2.9 under the Innovation Pillar, standing 114th out of 138, ahead of only El Salvador and Nicaragua in Central America. Private investment in R&D is low, earning the country a score of 2.7 and placing it 119th out of 138. There is also little cooperation between universities and industry (score 2.9 out of 7, rank 111). This performance reflects: (i) the weak technical capacity of human capital in the business sector, and (ii) suboptimal supply of resources channeled into innovation activities: 88% of private investment in R&D is funded by companies themselves, and risk capital and angel investors currently play a very small role.⁷⁸ There are also constraints relating to the shortage of long-term financing, which is accentuated by the lack of adequate guarantee mechanisms, and low development of capital markets. This can be seen in the penetration rate of private credit, which stood at 27% of GDP in 2016, compared to a range of 42% to 57% of GDP for the rest of Central America.⁷⁹ The bulk of local financing consists of revolving lines of credit with a term of one year or less, while local currency loans to the productive sector at maturities exceeding five years are very rare.⁸⁰
4. *Weaknesses in public institutions for fostering competitiveness and productive development.* There are duplications and shortcomings in the areas of planning, management, coordination, execution, and monitoring of policies,⁸¹ resulting from the lack of an inclusive, strategic vision for the productive transformation that the country needs. For example, there are various tax incentives and special regimes to promote industry and attract foreign investment, but these are granted without any rigorous cost-benefit analysis,

⁷⁴ Freight trucking rates in the country are higher than in most Central American countries. Productivity, measured in kilometers traveled per truck per year, is lower than that recorded in other Central American countries and is 1/6 the level of productivity in Panama, while the average freight charge, at US\$4.75 per kilometer, is more than three times higher than the mean for Central America and the Dominican Republic.

⁷⁵ Ministry of Economy, Planning, and Development (MEPyD) (2015). "Plan Nacional de Logística y Transporte de Carga – PNlog."

⁷⁶ MEPyD (2015).

⁷⁷ Cornell University, INSEAD, and WIPO. (2015). "The Global Innovation Index 2015: Effective Innovation Policies for Development, Fontainebleau, Ithaca, and Geneva."

⁷⁸ MEPyD (2015).

⁷⁹ The World Bank (2015): "World Development Indicators"; Central Bank.

⁸⁰ IIC (2016). "Retos y Oportunidades de Desarrollo de República Dominicana: Una Perspectiva del Sector Privado."

⁸¹ See paragraph 3.15 of the CDC.

and they lack any system for monitoring their impact.⁸² At the same time, export support programs are applied only in part or selectively, although there is an institutional framework covering them. Institutions responsible for promotion have not been provided with sufficient technical and financial resources, and there is no unified strategy to facilitate access to domestic and international markets.⁸³ The recently approved *Ley de Emprendimiento* (“Entrepreneurship law”) faces challenges for its implementation.

5. *Lack of specific legislation on public-private partnerships and of a specialized unit capable of promoting and coordinating them.* Private investment in infrastructure has reached nearly US\$2 billion in the last five years, targeted primarily at electricity, ports, and telecommunications. Despite this, the country’s capacity to execute infrastructure projects under the PPP modality earns a score of 49 points, 10 points below the average for the Latin American economies examined (Infrascope, 2017).
6. *Human capital shortcomings that result in reduced productive opportunities throughout the life cycle of Dominicans.*⁸⁴ According to the Global Competitiveness Report and the company survey conducted by the World Bank in 2016, the poor quality of the work force constitutes one of the main barriers to doing business and innovating in the country.⁸⁵ This may explain the low level of real wages, low productivity and even the unemployment rate which, at 7%, is high in comparison with Latin America and the Caribbean (5.4%).⁸⁶ The significant dropout rate from the education system, together with scarce employment opportunities for young people due to lack of skills and the low female participation rate, represent additional challenges: 28% of young people are neither studying nor working, compared to 23% for Latin America and the Caribbean, while the female participation rate in the labor market is 48.3%, well short of the 76.4% male participation rate, and the salaries earned by women are only 81% of those received by men.⁸⁷ There are positive linkages between vocational technical education and opportunities for young people to join the labor market in the country.⁸⁸ However, there are persistent shortcomings in the coverage and quality of services,⁸⁹ and this makes it

⁸² Roca, Jerónimo (2016). “Opciones de Reforma Tributaria.” Mimeograph.

⁸³ In August 2015, President Medina officially launched the Initiative for Productivity and National Competitiveness, a program intended to pool public and private efforts to boost the country’s competitiveness and productivity. The initiative originated with a group of 35 business and social leaders who advocated the creation of a space to foster Dominican competitiveness. By Decree 167-17, the President of the Republic appointed a new Executive Director of the National Competitiveness Council.

⁸⁴ Székely (2015). *Diagnóstico Social Integrado para la República Dominicana: El reto de traducir el elevado crecimiento económico en menor pobreza.* IDB.

⁸⁵ According to Enterprise Surveys 2016, inadequate education of the workforce is the sixth most important restriction on the business climate in the Dominican Republic. This becomes the third most important restriction in the case of large enterprises (those with more than 100 employees).

⁸⁶ See Cruces and Viollaz (2016).

⁸⁷ The gap is greater for the Dominican Republic than for other countries in Latin America and the Caribbean, according to IDB (2017).

⁸⁸ According to IDEICE estimates, the unemployment rate among graduates of the technical-vocational stream is 7.6 percentage points lower than that for graduates of the general education stream.

⁸⁹ Across the country there are only 125 public institutions offering exclusively technical-vocational training. This coverage falls far short of accommodating all potential candidates, and consequently few students opt for this modality. In addition to low coverage, the quality of these services varies greatly from one polytechnic institute to the next.

necessary to involve the private sector more closely in the design and implementation of those services.

- 3.20 The effects of **climate change** are increasing the country's vulnerability to extreme weather events, generating significant losses in the productive sector and affecting the poor population most severely. The Dominican Republic is among the 10 countries most affected by extreme climatic events around the world, as measured by the Climate Risk Index.⁹⁰ This vulnerability is projected to rise from high in 2010 to severe in 2030. Extreme climatic events, coastal erosion, and the loss of flora and fauna represent important risks to tourism and agricultural development. In fact, for four events evaluated by ECLAC between 1979 and 2007, economic losses amounted to US\$9.470 billion, and the most affected sectors were agriculture, roads, energy, housing, and sanitation and drainage.⁹¹ The country's groundwater reserves are being affected, a sequence of disasters linked to flooding, landslides, and droughts has been generated over time, and there is a high incidence of deforestation in various parts of the country, particularly in the South, which accounts for an important share of rural poverty. Climate change is also having an impact on the quality and availability of public services.⁹² The fallout from recent natural disasters has been relatively more severe in the countryside than in the cities, especially in the poorest provinces⁹³ and among the poorest population.⁹⁴
- 3.21 **Proposed actions.** Interventions by the IDB Group will contribute to a process of productive transformation that will expand opportunities for productive employment in the context of growing challenges relating to competitiveness, innovation, and climate change. In this context, the IDB Group will support the country in reforming and strengthening the institutional and regulatory framework for boosting competitiveness and productivity, and will encourage public-private partnerships (PPPs). It will promote integration into global value chains, the increase, diversification, and complexity of goods and services exports, and efforts to attract investment. This includes the development of tourism and industrial offerings adapted to climate change, as well as the fostering of productive linkages to achieve greater integration with local production, especially in agroindustry and manufacturing.⁹⁵ The IDB Group will also support the development and implementation of new technical-vocational training models. In addition, it will support productive restructuring at the territorial level, particularly in areas vulnerable

⁹⁰ Kreft et al., 2014.

⁹¹ Further details can be found in UNDP (2011). "Revisión del Estado de la Situación de Riesgo Climático y su Gestión en República Dominicana."

⁹² For example, the water supply; see footnote 59.

⁹³ In the case of tropical storms Noel and Olga, 90% of the 75,000 victims were living below the poverty line in the provinces with the country's lowest Human Development Index. See *Informe de Revisión del Estado de la Situación de Riesgo Climático y su Gestión en República Dominicana*. UNDP (2011).

⁹⁴ According to the UNDP (2016), 30% of households registered in the Single System of Beneficiaries report high vulnerability to climate events, and 48% of households in the system are more likely than the national average to see their assets and livelihoods compromised by an extreme weather event.

⁹⁵ The agriculture sector is the greatest generator of employment in rural areas, while tourism and manufacturing have had the capacity to create higher quality jobs than other sectors (see Cruces et al., 2016), and they have also had a significant impact on the country's exports and employment, with the attendant impact on social inclusion. The portfolio in execution will help promote productive transformation in these sectors through the programs for Productive Development and Competitiveness in the Province of San Juan (DR-L1068), Tourism Development – Colonial City (DR-1053), Comprehensive Tourism and Urban Development Program for the Colonial City of Santo Domingo (DR-L1084), and the Agrifood Health and Safety Program (DR-L1048).

to deforestation and climate change,⁹⁶ and will encourage investment in entrepreneurship and business innovation, especially in those innovative firms headed by women and those that employ female workers. Support will also be provided, through sovereign and non-sovereign guaranteed interventions, for the energy,⁹⁷ transportation,⁹⁸ and logistics sectors, and implementation of the Digital Republic Plan 2016-2020.⁹⁹ Public and private initiatives will be supported for strengthening trade links between the Dominican Republic and Haiti, and for promoting development of the frontier zone between the two countries.

- 3.22 To expand access to financing and the development of capital markets, the IIC will support: (i) the provision of guarantees or financing for investment funds; (ii) the offering of long-term local-currency financing mechanisms for SMEs; (iii) mobilization of new investments, with the IIC participating as anchor investor in investment funds; and (iv) greater access to housing through portfolio guarantee mechanisms and the capital market.¹⁰⁰
- 3.23 IDB Group actions under this pillar are aligned with the challenge of boosting productivity and innovation in the region, as established in the Update to the Institutional Strategy 2010-2020. They are also in line with the strategic objectives of providing inclusive infrastructure services, establishing institutional frameworks conducive to a healthy business climate, offering adequate knowledge and innovation ecosystems, and incorporating firms into value chains. The priorities under this pillar are also aligned with the priority areas of the 2017-2019 IIC Business Plan, in terms of support to key infrastructure segments, particularly renewable energy, strengthening the capacities of the corporate sector, and establishing partnerships with financial intermediaries and value chains for working in the priority areas of action, such as support for SMEs and social mobility for vulnerable groups.

3. Better management of public finances, institutional strengthening, and transparency

- 3.24 The country has been making substantial efforts to consolidate the public accounts, yet the level of debt continues to rise despite the favorable economic situation. Given the challenge of making further progress with fiscal consolidation, the country needs to move forward in three areas: (a) boost the efficiency of the tax system; (b) manage public spending more efficiently and transparently; and (c) enhance the efficiency and financial sustainability of the electricity sector.

⁹⁶ Including access to irrigation for the agricultural sector.

⁹⁷ Including the provision of electricity service and projects to replace fossil fuels with less polluting and costly forms of energy, and investments in energy efficiency. To the extent that implementation of the sector reforms provides an adequate framework, support is also expected for self-generation and renewable generation projects.

⁹⁸ Including support for reforms in the urban transportation system.

⁹⁹ With the Digital Republic Program, the Dominican government hopes to reduce the digital divide and guarantee access to technology for public school students throughout the country. It also plans to train students at public universities in the use of ICTs, to promote small and medium-sized enterprises, and to encourage entrepreneurship, the software industry, and employment development, while improving public online services and strengthening the transparency and efficiency of public administration.

¹⁰⁰ The IIC portfolio includes loans—Banreservas (DR-L18083); Boulevard Turístico (DR-L1030); Banco BHD (DR-L1038); Banco Popular (DR3634A-01); Securepharma expansion (11608-01); Wind Telecom (DR3632A-01)—that support the actions planned in this strategic area.

- 3.25 There is room for improving the effectiveness of the current **tax system** in the Dominican Republic, given the country's low tax ratio and weaknesses in the institutional, legal, and regulatory framework. The country has made an effort to boost tax collection, which rose from 12.2% of GDP in 2011 to 13.7% of GDP in 2016. Nevertheless, it has one of the lowest tax ratios in the region. The equivalent fiscal pressure (EFP)¹⁰¹ of the country in 2015 was 16.7% of GDP, approximately 40% below the average for Latin America and the Caribbean. From 2000 to 2016, tax revenues averaged 13.2% of GDP, compared to 25% for Latin America and the Caribbean. This low level of tax collection reflects a proliferation of special regimes and incentives and institutional weaknesses in the tax administration.
- 3.26 The country grants generous tax incentives in comparison with other countries of the region. Tax expenditure in the Dominican Republic is estimated at 6.5% of GDP for 2016, well above the average of 4.7% for Latin America and the Caribbean.¹⁰² The current system of incentives is (i) fiscally onerous;¹⁰³ (ii) generous, in that the incentives are granted for very long terms and in many cases are extended to project investors; (iii) encumbered with design and administration problems; and (iv) in some cases difficult to justify.¹⁰⁴ It has been found that in some cases, the net social benefit of these incentives is very modest and even negative.¹⁰⁵ Moreover, exemptions under the ITBIS¹⁰⁶ do not necessarily benefit the poorest deciles of the population.¹⁰⁷
- 3.27 There are weaknesses in the institutional and regulatory framework that limit the effectiveness of tax reforms.¹⁰⁸ There are shortcomings in the facilitation processes and instruments¹⁰⁹ and in the enforcement of tax obligations.¹¹⁰ The National Taxpayer Registry is out of date,¹¹¹ and accordingly a low perception of risk remains prevalent.¹¹² In addition, the legal framework is obsolete and uncoordinated, and the

¹⁰¹ EFP is defined as the sum of tax revenues plus social security contributions (which includes obligatory public and private pension and health contributions) plus tax revenues derived from the exploitation of natural resources. IDB-CIAT (2015).

¹⁰² Nearly half of tax expenditure relates to the Tax on Transfers of Industrialized Goods and Services (ITBIS), followed by the assets or wealth tax, the hydrocarbons consumption tax, and the income tax.

¹⁰³ In 2015, the Dominican Republic forgave one out of every four pesos assessed under the income tax. See Roca, J. (2016).

¹⁰⁴ Roca, Jerónimo (2016). "Opciones de reforma tributaria."

¹⁰⁵ Artana, Daniel (2016). "Los incentivos fiscales sectoriales en República Dominicana: Análisis de costo/beneficio."

¹⁰⁶ This refers to the Tax on the Transfer of Industrialized Goods and Services. Since 2016 the ITBIS rate has been set at 18%, and a reduced rate of 16% is applied to goods derived from milk, animal or vegetable fats, sugars, and cocoa and chocolate.

¹⁰⁷ According to the 2007 National Household Income and Expenditure Survey, the poorest 40% receives less than 3% of the ITBIS exemption, while the wealthiest 10% receives nearly 80%. See Roca, J. (2016).

¹⁰⁸ IMF – Fiscal Affairs Department (2016).

¹⁰⁹ It takes 316 hours per year for firms in the Dominican Republic to pay their taxes, compared to an average for Central America of 269 hours and an OECD average of 176 hours. Yubero and Vázquez (2016).

¹¹⁰ Trujillo (2016). "El ciclo de control de cumplimiento del contribuyente está fragmentado entre distintas áreas de la Administración Tributaria".

¹¹¹ In 2015, 28.7% of cases were closed due to faulty information.

¹¹² In terms of potential collections, noncompliance with the income tax rose from 55.2% in 2007 to 61.2% in 2015, while that for the ITBIS varied between 33.3% and 35.6% from 2007 to 2012. Customs Bureau (2016). "Estimación del incumplimiento tributario."

country still does not meet the tax transparency standards of the OECD Global Forum.¹¹³

- 3.28 Historically, **public spending** has shown an upward trend, in a context where its quality and transparency are perceived to be low. During the 2012 fiscal crisis the government made efforts to adjust the level of its public spending, but it failed to return to precrisis levels. At the end of 2016, central government expenditure amounted to 17.6% of GDP, nearly 2% of GDP above the average recorded between 2004 and 2012 (15.8% of GDP). Current expenditure in 2016 was 14.8% of GDP, and nearly 74% was concentrated on inflexible items such as wages, current transfers, and interest on the public debt, equivalent to 94% of total tax revenues. Capital spending declined over this period, as part of the fiscal consolidation process.¹¹⁴ At the same time, there is a perception that public policies are ineffective, related to weaknesses in the national planning and local management system. According to the 2016 Corruption Perceptions Index published by Transparency International, the Dominican Republic ranks 120th out of 171 countries evaluated. In the public policies index of Chuaire and Scartascini (2014), the country is among the 10 countries of Latin America and the Caribbean with the greatest challenges, primarily in terms of policy efficiency (19th of 25) and in the orientation of policies to the common good (19th of 31). Moreover, according to the 2016-2017 Competitiveness Index, inefficient governmental bureaucracy is the third most important factor undermining the country's competitiveness, after corruption and tax rates, while according to the e-Government Readiness Index the country ranks 98 out of 193 in the use of ICTs to improve governmental efficiency. This situation is made worse by the scant oversight by civil society.
- 3.29 Despite the progress made in modernizing expenditure management with Bank support, there are still institutional weaknesses for the adequate control and management of public finances. During recent years resource management has been strengthened through the Single Treasury Account, and there have also been improvements in human resource and expenditure management. However, there are institutional problems that affect the credibility of the budget, the predictability and control of budgetary execution, and the supervision of the aggregate fiscal risk posed by other public sector entities. There is a gap between the regulatory framework and the reality of its application to public institutions, and macrofiscal planning is deficient. For example, the budget is established on an annual basis, without considering macroeconomic scenarios, in the absence of a medium-term fiscal framework, and without analysis of external risks.¹¹⁵ There are also weaknesses in the management and control of public funds, and the Financial Management Information System has limited functionality.
- 3.30 The **electricity sector** poses serious challenges to the consolidation of public finances. Current and capital transfers to the power sector between 2010 and 2016

¹¹³ With IDB support a start has been made at strengthening compliance controls and mechanisms of communication with taxpayers, as well as internal processes of support for tax functions (IDB, 2017).

¹¹⁴ To this situation must be added the deficit of the Central Bank, which averaged 1.3% of GDP.

¹¹⁵ PEFA (2016). Subindicators ID-14.2 and 14.3 Fiscal forecasts and Macrofiscal sensitivity analysis of the Macroeconomic and fiscal forecasting indicator. Score D. World Bank (2013). "Beyond the Annual Budget: Global Experience with Medium-Term Expenditure Frameworks" assessed countries that have implemented a Medium-Term Fiscal Framework (MTFF) and found that the average fiscal deficit declined from 3% of GDP to 0.4% of GDP in the three years following implementation of the MTFF, thanks to improved revenues and/or reduced expenditures.

averaged 1.5% of GDP per year.¹¹⁶ Between 2009 and 2014, 54.6% of transfers went to the Electricity Rate Stabilization Fund, through which the government transferred to the generators the difference between the indexed and the applied rate. Since this difference was positive until 2014, the mechanism involved a generalized subsidy.¹¹⁷ The remaining transfers are intended to cover requirements such as the operating deficit of the distributors, due to: (i) a rate schedule that does not reflect the costs of generation, transmission, and distribution;¹¹⁸ (ii) operating deficits due to energy losses and poor collections management; and (iii) weaknesses in the management of the sector's companies, causing a substantial rise in operating expenses without any increase in the underlying operations.¹¹⁹ Lastly, decisions to make public investments in new generating capacity place an additional demand on the government's funds.¹²⁰

- 3.31 **Proposed actions.** IDB Group interventions will focus on: (i) enhancing the efficiency, transparency, and predictability of public finances, including the Financial Management Information System and the Single Treasury Account and the national public investment system; (ii) supporting consolidation of a more transparent tax system and strengthening the tax administration; (iii) supporting the financial and operating sustainability of the electricity sector, through support for the implementation of reforms planned under the *Pacto Eléctrico* ("Electricity Pact"), such as improved management and governance of electricity distribution companies, rate reform, and the reduction of distribution losses; (iv) fostering development of mechanisms for coordination and transparency, which will allow more informed participation by civil society in the reform and modernization of public management, including local governments; and (v) implementing the government's digital agenda.¹²¹
- 3.32 Support from the IDB Group in this area is aligned with the Update to the Institutional Strategy 2010-2020, and the strategic objectives of strengthening the capacity of the State, creating a more distributive fiscal policy, and establishing effective institutional frameworks for promoting efficient, fruitful, and transparent interactions with governments.
- 3.33 **Crosscutting areas.** A crosscutting approach will be taken on matters of (i) gender, (ii) environment and climate change, (iii) information technologies, and

¹¹⁶ During 2015 and 2016, current transfers declined to an average of 0.7% of GDP, with the reduction of international fuel prices and progress with the program to reduce distribution losses. Capital transfers rose to 0.9% of GDP, reflecting higher government investments in the sector.

¹¹⁷ Ninety percent of households that receive power subsidies are not poor, and half of commercial customers are beneficiaries. The subsidies to residential customers amount to 33% of the cost of providing the service in the case of households consuming up to 300 kW hours, a segment that covers 75% of this category of customers. This extended subsidy is supposed to protect people in less favorable socioeconomic conditions, but these households for the most part consume power through illegal connections and they are not affected by the rate schedule.

¹¹⁸ For the years 2015 and 2016, the rate schedule was not the cause of the deficit, as the rate were higher than the cost of generation, thanks to the low price of oil.

¹¹⁹ The operating expenses of the distribution utilities rose by 30% between 2011 and 2015.

¹²⁰ Construction of the Punta Catalina coal-fired plants (730 MW) will require more than US\$2 billion, most of which has to date been covered by the Dominican public sector.

¹²¹ The operations involving the Program to Enhance the Efficiency of Tax Administration and Public Expenditure Management (DR-L1117) and Support for the Power Distribution Network Modernization and Loss Reduction Program (DR-L1034) are part of the portfolio in execution aimed at strengthening the tax administration and reducing losses in the power sector, respectively.

(iv) strengthening the institutional capacity of local counterparties. The *gender* perspective will be incorporated into interventions relating to the coverage and quality of basic services, and the expansion of productive opportunities. For example, support is expected actions that will foster gender equality in access to financing and in entrepreneurial activities headed by women, which will increase the returns on investment in women's human capital.¹²² The gender equality dimension will also be included in health interventions to foster the prevention of teenage pregnancies, and to improve the quality of services during childbirth. The improved targeting of social programs is expected to help reduce poverty among women and promote their economic empowerment. *Climate change* aspects will also be taken into account under each strategic area, in coordination with the National Climate Change Plan, particularly as it relates to the expansion of productive opportunities, the handling of natural disasters and the management of water resources,¹²³ and strategies that will help reduce natural disaster risks and support the recovery of infrastructure affected by flooding and other natural disasters. Emphasis will be placed on incorporating climate change adaptation and mitigation considerations and actions designed to support productive activities and job creation. In addition, the incorporation of *information technologies and the strengthening of institutional capacities* will be emphasized. Bank support is expected to be expanded for the design and implementation of the Government's Digital Republic Program, which aims to close the digital divide in its economic and social dimensions, as well as to enhance governmental transparency.

- 3.34 **Areas for dialogue.** The Bank will maintain dialogue with the country with respect to the monitoring and evaluation of programs for affordable housing, with basic social and service infrastructure. The strategy will support dialogue and the identification of binational projects in the border area with Haiti, following up on the priorities of both governments, which have committed to strengthening and normalizing bilateral relations. The Bank will continue to provide technical support and promote dialogue on the issue of preventing violence against women and caring for its victims, as well as supporting women's economic empowerment and strengthening their human capital through interventions in the social sector. Dialogue will also be supported on issues related to solid waste management.

IV. ESTIMATED LENDING FRAMEWORK

- 4.1 For the period 2017-2020 the country will continue to make use of various financing sources, including the placement of bonds on international and domestic markets as well as financing from multilateral and bilateral institutions and the domestic commercial banks. According to the government's financing plan, external funding between 2017 and 2019¹²⁴ is estimated to average US\$1.679 billion annually, for a

¹²² Heath, R. and S. Jayachandran (2016) have compiled international evidence on the impact of boosting education levels and labor market participation rates for women, noting that an increase in these two variables has positive effects on women's well-being in developing countries, including on their health and age of marriage. Heath, R. and S. Jayachandran (2016) "The Causes and Consequences of Increased Female Education and Labor Force Participation in Developing Countries," prepared for inclusion in the Oxford Handbook on the Economics of Women, ed. Susan L. Averett, Laura M. Argys, and Saul D. Hoffman. (New York: Oxford University Press. Forthcoming, 2018).

¹²³ The government has given priority to water resource management in its new mandate and has declared the period 2016-2020 as the "Water Quadrennium."

¹²⁴ Information on the Government's Financing Plan is available to 2019.

total of US\$5.035 billion. In this context, and subject to the availability of the Bank's Ordinary Capital resources, annual approvals are expected to average approximately US\$488 million for sovereign guaranteed operations, and annual disbursements will average US\$484 million, including investment and policy-based loans. During the dialogue and programming exercise with the country, the Bank will promote greater use of investment instruments over policy-based loans. Total IDB support for the period 2017-2020 is estimated at US\$1.950 billion in new approvals and US\$1,938 million in disbursements. Under this scenario, the Bank's exposure in the country will remain at around 10.9% of total nonfinancial public sector debt, and will represent 16.5% of the external debt at the end of the strategy period (see Annex II).

V. STRATEGY IMPLEMENTATION

- 5.1 **IDB Group coordination.** Coordination between the IDB, the IIC, and the MIF will be governed by the following parameters: (i) joint implementation of this Strategy; (ii) planning of joint missions to meet with the authorities in areas where policy reforms are needed or there are clear synergies in working in a complementary manner; (iii) joint dissemination activities; and (iv) maximizing operational synergies.
- 5.2 **Coordination with other donors.** The IDB Group will maintain dialogue and operational coordination with the World Bank on fiscal management, energy, and education. In the water and sanitation area, it will coordinate activities with the World Bank, and with the Spanish Agency for International Development Cooperation and the French Development Agency. Activities relating to energy efficiency will be conducted in coordination and cooperation with the Japan International Cooperation Agency. The Bank will continue its effort to coordinate more effectively with other donors, and seeking a more comprehensive approach in its interventions.
- 5.3 **Use of country systems.** According to the 2016 PEFA report, there has been an overall improvement in the Dominican Republic's public financial management system in recent years, and it is partially aligned with the good international practices systematized by the report's methodology.¹²⁵ In terms of the development and use of financial management systems, the country has an intermediate level of development, and with the public procurement system there have been improvements in the regulatory framework to make it more inclusive, as well as in the institutional framework, management capacity, and information systems. Moreover, the assessment of the systems shows a shift of vision with respect to market practices, and major efforts to promote access to information and eliminate entry barriers in the procurement market. As for the Integrity and Transparency Pillar, and in particular the application of resolutions and penalties, and the monitoring of findings and recommendations for the control framework, the report identifies opportunities for future strengthening.
- 5.4 The IDB Group will continue to support the strengthening of country systems for increasing and consolidating the use of Financial Management Systems and implementing the use of country subsystems for minor purchases of goods and services and for shopping for goods, works and services, which were approved by the Bank in 2016. This support will help the government to better align its financial and procurement systems and processes with international best practices. Based

¹²⁵ The country report indicates progress with the pillars of budgetary credibility, transparency and predictability in the public finances, and oversight of budgetary execution. Although these pillars show a reasonable alignment with international standards, the report stresses that there are still weaknesses to be addressed.

on the outcomes of the fiduciary assessments and the action plans, it is expected that, during the new Country Strategy 2017-2020, the Bank will continue working with the authorities in the following areas: (i) technical cooperation to strengthen the Office of the Auditor General (*Cámara de Cuentas*) and enhance its capacities in line with international best practices; (ii) adoption of International Public Sector Accounting Standards (IPSAS); (iii) putting the Single Treasury Account into use for managing external resources; (iv) improving the country's regulatory framework for procurement; and (v) measures to strengthen the Bureau of Procurement in terms of using the procurement subsystems stemming from the diagnostic assessment. The following table summarizes the status of the Dominican Republic's country systems and their use during the period.

Systems	Baseline 2016	Estimated use, 2020	Planned actions
Budget	100%	100%	Continue to support implementation of International Public Sector Accounting Standards (IPSAS) in the central government and decentralized entities.
Accounting and reporting	100%	100%	
Treasury	100%	100%	Support implementation of the plan for incorporating external resources into the Single Treasury Account.
Internal audit	5%	10%	Evaluate the Internal Control Subsystem to validate its use in Bank projects.
External control	5%	10%	Support the Auditor General's Office in implementing the actions identified in the institutional capacity assessment.
Information system	100%	100%	Monitor its use in Bank operations in the country.
Individual consultants	5%	0%	Support the strengthening activities identified in the process of assessing country systems.
Shopping	5%	100%	Encourage adoption of the implementation and monitoring provisions established in the technical aide-mémoire between the DGCP (Public Credit Bureau) and the Bank.
Partial NCB	5%	0%	Support the strengthening activities identified in the process of assessing country systems.
Advanced NCB	5%	0%	Support the strengthening activities identified in the process of assessing country systems.

VI. RISKS

- 6.1 **Macroeconomic risks.** There are risks associated with the worsening external environment. The normalization of U.S. monetary policy could erode the country's growing access to international financial markets. Uncertainties surrounding the

economic outlook and the trade and immigration policies of the United States could exert additional pressure on the performance of the external sector, with the risk of potentially reversing the adjustment that was made in recent years, affecting in particular the flows of remittances and tourism earnings. A potential tightening of external financing conditions could generate pressure on the debt and on the fiscal consolidation process initiated in 2012. It is important to monitor progress with reforms in the electricity sector and the adoption of a medium-term fiscal framework. To minimize these risks, the IDB Group will focus its efforts on enhancing the productive capacity of the economy, strengthening the capacity for public management, generating fiscal resources, and reducing fiscal contingencies. In addition, the risks mentioned above will be tracked using the Bank's monitoring instruments.

- 6.2 **Natural disaster risk.** The Dominican Republic is very vulnerable to extreme weather events. The effects of climate change make it increasingly likely that such events will grow in intensity and frequency. The country is highly vulnerable with fragile coastal ecosystems that affect zones of economic activity, and it lies in the path of Atlantic hurricanes, which constitute the greatest risk of catastrophic disasters. It is estimated that, by 2025, a failure to take measures to adapt to climate change could generate a cost equal to 5.1% of GDP for 2016.¹²⁶ To mitigate these risks, the operations will include environmental sustainability considerations under each main area, and resources are available from the approved contingent loan for natural disaster emergencies.¹²⁷
- 6.3 **Execution risk.** The main risks that could hinder the execution of the existing projects and new operations arise as a result of institutional weaknesses, particularly limited technical capacities of the execution units and potential delays resulting from institutional changes or limited budgetary allocations. To mitigate these risks and to improve the pace of performance and the effectiveness of the portfolio, the following measures will be promoted, in line with OVE's recommendations: (i) the Bank will work with the government to strengthen the execution units, both through technical cooperation and through specific projects; and (ii) it will explore with the government innovative alternative mechanisms for executing projects and programs, including the financing of execution units with the necessary levels of technical and administrative independence. The Bank will monitor these risks through ongoing portfolio reviews.

¹²⁶ Peiró, Mario (2016). "Adaptación al cambio climático: Salvaguarda para el desarrollo sostenible." UNDP. See: http://www.do.undp.org/content/dominican_republic/es/home/ourperspective/ourperspectivearticles/2016/11/28/adaptacion-al-cambio-climatico-salvaguarda-para-el-desarrollo-sostenible.html.

¹²⁷ DR-X1011.

ANNEX I. RESULTS MATRIX

Government priorities	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year of measurement)
Decent living conditions for all	Accessibility and quality of basic services	Stimulate early childhood development	Expanded coverage of early education	Coverage rate of care services for children ages 0 to 5 years	18% (INAIPI, 2016)
		Improve the quality of education	Better performance by students	Average score on PISA tests	Sciences: 332 (72 of 72), Mathematics: 328 (72 of 72) and Reading: 332 (68 of 72), PISA 2015 Report, Volume I.
		Improve the health of the population	Expanded coverage of primary care	% of the population who consulted a health professional for a disease or health problem in the last 30 days, and did so in a primary care center	16.4% (ENDESA, 2013)
			Reduced teenage pregnancies	% of teenage girls (15-19 years) who have children or have been pregnant	20.5% (ENDESA, 2013)
			Reduced maternal mortality	Maternal mortality rate (for every 100,000 live births)	92.0 (World Development Indicators, World Bank, 2015)
			Increased access to improved drinking water sources	% of the population with access to safe drinking water	81.9% rural, 85.4% urban (World Development Indicators, World Bank, 2015)
Inclusive economy and productive development	Expansion of productive opportunities	Promote productive linkages, export diversification, and integration into global value chains	Increased linkage of domestic output with exports ¹²⁸	Goods and services purchased by free trade zone firms from local firms as a % of total purchases	20% (2015) CNZFE
			Improved access to credit in the private sector	Portfolio of commercial loans to the private sector (% GDP)	14.2% of GDP, (Superintendency of Banks, January 2017)
		Adapt agricultural production to climate change	Increased resilience of the agricultural sector to climate change	The ND-GAIN Country Index (Vulnerability Score-Ecosystem Services) ¹²⁹	0.439 (Gain Index, 2015)

¹²⁸ In 2016, exports from free trade zones represented 56% of total exports.

¹²⁹ The ND-GAIN index (University of Notre Dame Global Adaptation Initiative) summarizes a country's vulnerability to climate change and other global challenges, in combination with its readiness to improve resilience. In particular, the Ecosystem Services component captures the climate change vulnerability of natural capital, the ecological resources on which humans depend for their lives and livelihood. This component includes indicators related to the projected change in the biome distribution, projected change in marine biodiversity, natural capital dependency, ecological footprint, protected biome, and engagement in international environmental conventions. For further details on the Dominican Republic and methodologies, see: <http://index.gain.org/country/dominican-republic>.

Government priorities	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year of measurement)
		Improve productive infrastructure	Improved coverage and quality of transportation infrastructure	Trade and transportation infrastructure quality component of the Logistics Development Index	2.29 (Logistics Development Index, World Bank, 2016) ¹³⁰
				% secondary roads in good condition (IRI<=3)	20% (2015), Ministry of Public Works and Communications
			Improved readiness to make adequate use of technological infrastructure and digital contents	Readiness Subindex (Networked Readiness Index) ¹³¹	4.0 out of 7 (Rank 103 out of 139) (World Economic Forum, Global <i>Information Technology Report</i> , 2016)
			Improved quality of electric power supply to businesses	Power outages to firms adjusted by their duration ¹³²	7.4 outages x 4.0 hours (Enterprise Survey 2016 – World Bank) ¹³³
		Increase quality employment	Improved matching of skills with labor market demands	Percentage of firms citing work force inadequacies as a major limitation on their operations ¹³⁴	31.4% (Enterprise Survey 2016 – World Bank)
			Greater women's participation in the labor market	% of women participating in the work force	48.3% (ENCFT, March 2017)
Consolidate a more efficient, transparent, and participatory public institutional framework	Consolidate a more efficient, transparent, and participatory public institutional framework	Improve the operating efficiency and rate structure of the power sector	Reduced fiscal burden associated with the power sector	Losses in power distribution ¹³⁵	31.5% (2016, Performance Report CDEEE)
				Cash recovery Index (CRI)	66.0% (2016, Performance Report CDEEE)
		Increase the efficiency of the tax system.	Increased tax collections	Tax revenues as % of GDP	13.7% (2016, Central Bank)
		Increase the efficiency and transparency of public spending.	Increased transparency of resource management	Percentage of public institutions with online transactional services	15% (2015, OPTIC)
				Percentage of social assistance expenditure allocated using official targeting criteria ¹³⁶	59% (2014, DIGEPRES)

¹³⁰ <http://ipi.worldbank.org/international/scorecard/radar/254/C/DOM/2016?sort=desc&order=Infrastructure#datatable>.

¹³¹ The readiness subindex measures the degree of a society's preparedness to make proper use of ICT infrastructure and accessible digital content, with a total of 11 variables grouped under the following components: (i) infrastructure and digital content; (ii) accessibility; (iii) capacities. <http://reports.weforum.org/global-information-technology-report-2016/technical-notes-and-sources/>.

¹³² Indicator constructed by combining the indicators for the number of outages in a typical month multiplied by the average duration of the outages. <http://www.enterprisesurveys.org/data/exploreeconomies/2016/dominican-republic#infrastructure>.

¹³³ In the Dominican Republic's case, the survey covered 358 firms located throughout the country, 111 manufacturing firms and 127 firms engaged in trade. It was conducted between August 2016 and April 2017. For methodological details on the survey, see <http://www.enterprisesurveys.org/data/exploreeconomies/2016/dominican-republic#workforce>.

¹³⁴ <http://www.enterprisesurveys.org/data/exploreeconomies/2016/dominican-republic#workforce>.

¹³⁵ Considers power purchased in GWh with respect to power billed in GWh. Power purchased and not billed is considered a distribution loss.

¹³⁶ The Single Beneficiary System is the one currently used for targeting expenditure.

COUNTRY SYSTEMS MATRIX

IDB strategic objectives	Expected outcomes during the Strategy	Indicator	Baseline (Dec. 2016)	Indicative targets	Frequency
Strengthen and increase the use of country fiduciary systems	Use of the internal control subsystem in the portfolio of sovereign guaranteed loans (SG)	% of the SG portfolio using the internal control subsystem	0%	10%	Annual
	Use of the external control subsystem in the portfolio of sovereign guaranteed loans (SG)	% of the SG portfolio using the external control subsystem	0%	10%	Annual
	Use of the shopping subsystem in the portfolio of sovereign guaranteed loans (SG)	% of the SG portfolio using the shopping subsystem	5%	100%	Annual

ANNEX II. MAIN ECONOMIC AND SOCIAL INDICATORS

Social indicators	2010	2011	2012	2013	2014	2015	2016
Population (millions)	9.5	9.6	9.7	9.8	9.9	10.0	10.2
Poverty rate (%)	41.6	40.4	41.0	41.2	36.4	32.3	30.5
Extreme poverty rate (%)	11.4	10.2	10.5	10.0	8.4	7.0	6.5
Unemployment rate (%)					7.7	6.4	6.4
Nominal GDP (US\$ millions)	53,856	58,007	60,697	62,023	65,312	68,186	71,654
Nominal GDP per capita (US\$)	5,682	6,055	6,270	6,339	6,608	6,832	7,112
Real sector ($\Delta\%$)							
Nominal GDP	14.2	11.4	8.0	8.7	9.7	8.0	7.5
Real GDP	8.3	3.1	2.8	4.7	7.6	7.0	6.6
Final consumption	6.7	3.7	2.4	1.4	3.9	5.0	4.5
<i>Private</i>	7.0	4.4	1.9	2.3	3.6	4.8	4.8
<i>Public</i>	5.6	(2.7)	6.8	(5.9)	6.8	7.7	3.3
Nominal GDP per capita (US\$)	10.3	6.6	3.5	1.1	4.2	3.4	4.1
Consumer price index	6.2	7.8	3.9	3.9	1.6	2.3	1.7
Public finances (% of GDP)							
Total revenues (Central Govt., CG)	12.9	12.7	13.4	14.3	14.7	14.4	14.8
<i>Tax</i>	12.2	12.3	13.0	13.7	13.8	13.5	13.7
<i>Nontax</i>	0.6	0.3	0.3	0.5	0.7	0.9	1.0
Total spending CG	15.8	15.4	19.9	17.7	17.6	17.4	17.6
<i>Current primary</i>	10.3	9.9	11.2	11.5	12.1	11.4	11.5
<i>Capital</i>	3.6	3.5	6.4	3.9	3.0	3.4	3.2
<i>Interest</i>	1.8	2.0	2.4	2.3	2.5	2.6	2.9
Primary balance NFPS	(1.0)	(1.0)	(4.5)	(1.8)	(0.6)	2.3	0.1
Overall balance NFPS	(2.8)	(3.1)	(6.9)	(4.0)	(3.1)	(0.3)	(2.8)
Consolidated debt	36.6	37.9	41.3	45.6	44.9	44.9	47.6
External sector (% of GDP)							
Current account	(7.5)	(7.5)	(6.4)	(4.1)	(3.3)	(1.9)	(1.4)
Balance on goods and services	(10.3)	(10.2)	(8.9)	(6.0)	(5.0)	(4.5)	(3.7)
Exports	22.8	24.3	24.7	25.5	26.0	24.9	25.4
Imports	33.0	34.5	33.5	31.6	31.0	29.4	29.1
Income from tourism	7.7	7.6	7.7	8.1	8.6	9.0	9.4
Foreign Direct Investment	3.1	3.3	3.2	4.0	4.2	3.4	3.6
Family remittances	6.8	6.9	6.7	6.9	7.0	7.3	7.3
Net international reserves (US\$ millions)	3,343	3,638	3,210	4,386	4,650	5.19	6,047

Source: Central Bank, Public Credit, and MEPyD.

ANNEX III. ESTIMATED LENDING SCENARIO 2017-2020
(US\$ millions and percentages)

	Country Strategy 2013-2016				Total	Country Strategy 2017-2020				Total
	2013	2014	2015	2016	2013-2016	2017	2018	2019	2020	2017-2020
Approvals ^{1/}	661	578	325	290	1,854	450	500	500	500	1,950
Disbursements	576	147	590	401	1,714	355	534	555	493.6	1,938
Repayments	272	446	118	122	957	140	140	145	195	620
Net lending flow	304	-299	473	279	757	215	394	410	298	1,317
Subscriptions	1.2	2.3	2.3	3.3	9	2	3	3	3	11
Net capital flow	303	-301	470	276	748	212	392	408	296	1,307
Interest and fees	68	59	50	70	248	68	74	72	69	283
Net cash flow	235	-361	420	206	500	145	317	336	227	1,025
					Average					Average
Debt to IDB ^{2/}	2,530	2,231	2,703	2,984	2,612	3,199	3,593	4,003	4,301	3,774
IDB debt/GDP (%)	4.1	3.4	4.0	4.2	3.9	4.2	4.4	4.6	4.7	4.5
IDB debt/public external debt (%)	17.0	13.9	16.9	17.1	16.2	16.3	16.5	16.8	16.5	16.5
IDB debt/multilateral external debt (%)	55.5	57.7	64.7	67.3	61.3	64.5	64.6	66.1	64.8	65.0
IDB debt/total public debt (%)	10.9	9.4	11.2	11.2	10.7	10.7	10.9	11.1	10.8	10.9

ANNEX IV. DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p>	
<p>COUNTRY STRATEGY: REPUBLICA DOMINCANA</p>	
<p>STRATEGIC ALIGNMENT Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.</p>	
<p>EFFECTIVENESS This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.</p>	
Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- That provide corresponding policy recommendations	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes
<p>* This analysis includes any potential diagnostic document used elaborated to inform .</p> <p>** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expect results stem from the strategic objectives.</p>	

CS Diagnostic:

As part of the Country Strategy 2017-2020 a country development challenges diagnostic was presented, under the title "Dominican Republic: Country Development Challenges". The CS diagnostic is comprehensive and based on empirical evidence. Based in this diagnostic and the country dialogue process, the country strategy will focus on three development challenges: i) Improving coverage and quality of public services, ii) fostering the productive sector and iii) public sector, institutional strengthening and transparency.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, 100% priority area's specific constraints and challenges.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 100% of the priority areas.

-The diagnostic provides corresponding policy recommendations for Bank actions, which are based on empirical evidence, for 100% of the priority areas.

Results matrix: Results matrix: The section of the Results Matrix corresponding to the new strategic area includes 10 strategic objectives for Bank action, 17 expected results and 19 indicators to measure progress.

- % 100 of the strategic objectives are clearly defined.

- % 100 of the expected outcomes are clearly defined.

- % 100 CS Objectives are directly related to the main constraints identified in the Diagnosis.

- % 95 of the indicators used are SMART.

- % 100 of the indicators have baselines.

Country Systems: During the new CS period, the IDBG will continue the dialogue and technical support to the government, focusing in the following areas i) strengthening audit entities (Camara de Cuentas) with the objective to: achieve international standards; ii) adoption of international accounting standards, iii) implementation of the Treasury's single window for external financing, iv) improve procurement regulations and v) strengthening the Direction General de Compras y Contrataciones focused on the use of the procurement subsystems identified during the diagnostics.

Vertical logic. The CS has vertical logic.

RISKS. This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.

The Strategy identifies three risks : (i) macroeconomic risks; (ii) natural disasters; and (iii) execution risks. Mitigation and monitoring measures have been identified for all the risks.

**ANNEX V. MANAGEMENT’S RESPONSES TO THE COUNTRY PROGRAM EVALUATION:
DOMINICAN REPUBLIC-2013-2016**

OVE’s recommendation	Management’s response
<p>Recommendation 1</p> <p>Give priority in the IDB Group’s policy dialogue and its financial and nonfinancial product offerings to supporting reforms in the electricity and fiscal sectors. A significant part of the reforms supported by the PBPs that were interrupted was left incomplete due to slow progress on the reform process. Accomplishment of a large number of development objectives supported by the Bank’s program depends on the reforms in those sectors being effectively implemented.</p>	<p>Partially agree.</p> <p>Management agrees with the recommendation to give priority in the IDB Group’s policy dialogue and in financial and nonfinancial product offerings to supporting reforms in the electricity sector and the fiscal sectors, as was done during the evaluation period.</p> <p>However, we disagree with the use of the term “interrupted” or “truncated” in the document and disagree that the reforms supported by the PBPs were left incomplete.</p> <p>Country reforms can take more than 24 months to implement, so they are not necessarily fully completed during the strategy period, as Management has indicated previously (document RE-485-7, paragraph 2.11). The Bank has been supporting the country in deep reforms, so saying that the programmatic series was interrupted—as defined by OVE—does not weigh the Bank’s support or the country context.</p> <p>Moreover, approval of these reforms, given their depth, is a sovereign decision involving extensive dialogue work. In the case of the Dominican Republic, in response to the National Development Strategy Law, the Executive Branch has pledged to carry out these reforms in the framework of “pacts” with different sectors of civil society, requiring lengthy discussion and consensus-building processes.</p> <p>Even though the reform process, and with it PBP approval times, extended beyond what was originally planned in the project documents, during execution of the Country Strategy being evaluated, reform processes in both sectors have had repeated support from the IDB Group, through different financial and nonfinancial products. This reinforces the importance that Management has been placing on these reforms in its policy dialogue with the Government of the Dominican Republic and on their content vs. strictly budgetary support.</p>

OVE's recommendation	Management's response
<p>Recommendation 2</p> <p>Tailor the supply of loan modalities (PBP, loans based on results, investment, and NSG) to the country with the aim of achieving the necessary balance between budgetary support and achieving the development objectives of the IDB Group's strategy.</p> <p>Specifically:</p> <p>(a) Given the delays in implementing the reforms stipulated in the PBPs and their interruption, this instrument should be used cautiously, ensuring that the first phase includes high structural depth.</p> <p>(b) The Bank's offerings should also consider the use of instruments such as loans based on results, which other donors use in the Dominican Republic.</p> <p>(c) Given limited fiscal leeway, new investment loans must be carefully dimensioned, prioritizing offerings in areas where the country has a greater commitment to advancing its development strategy as well as those in which the Bank has invested in a medium-to-long-term relationship with the country.</p>	<p>Partially agree.</p> <p>Management agrees that loan modalities should be consistent with the development objectives of the IDB Group's program in the country.</p> <p>The discrepancy in this recommendation lies in that Management considers budget support to also be an essential tool for meeting the country's needs, to achieve its development objectives.</p> <p>Moreover:</p> <p>(a) Management disagrees with saying that PBPs have been interrupted (See recommendation 1).</p> <p>(b) Management agrees with OVE about considering, in the Bank's offerings, the loan based on results (LBR) instrument. It should be noted that the Bank is already executing investment operations based on the attainment of specific targets in the Dominican Republic, such as: (i) operations DR-L1067 and DR-L1069, which support increased coverage of insured persons in the public health system; part of the resources are disbursed based on fulfillment of coverage targets; and (ii) operation DR-L1077, which supports increased coverage of children who will receive quality comprehensive care services for childhood development.</p> <p>(c) Management agrees that it is important to properly dimension operations, which is one of the aspects that Management always carefully evaluates during the dialogue and design stage of its interventions, and to prioritize the areas in which the country has the greatest commitment to moving forward under the National Development Strategy.</p>
<p>Recommendation 3</p> <p>Increase emphasis on components aiming to make public spending more efficient and improve quality in operations to support human capital accumulation and the provision of basic services. The Dominican Republic's public social spending remains relatively low, particularly in the health sector. This makes the need to improve spending efficiency and management more pressing, particularly as regards human resources. Likewise, in social protection there is still a high percentage of social assistance delivered without official targeting</p>	<p>Partially agree.</p> <p>Management agrees with the importance of efficiency and quality to improve human capital accumulation and the provision of basic services, and of placing emphasis on these elements in its dialogue with the country.</p> <p>However, since the country strategy, programming, and design of projects and specific components follow a dialogue and consensus-building process between the IDB Group and government authorities, Management cannot commit unilaterally to designing specific components of an operation, but rather to proposing these perspectives in the technical policy dialogue with the government, as part of preparing the Country Strategy.</p>

OVE's recommendation	Management's response
<p>mechanisms that could be optimized. In education, extending the school day has created an opportunity for the extra hours to help boost educational performance.</p>	
<p>Recommendation 4</p> <p>Step up efforts to promote private sector participation in the provision of basic infrastructure, renewable power generation, and rural electrification. OVE recommends support to strengthen the regulatory framework for public-private partnerships (PPPs) and institutional capacity to implement them, as well as a redoubling of efforts to take advantage of the synergies between the IDB Group's public and private sector windows in developing PPP projects.</p>	<p>Partially agree.</p> <p>Management agrees with the recommendation to promote private sector participation in the provision of basic infrastructure, but not with the focus on renewable power generation and rural electrification. The main challenge in the electricity sector is achieving operational and financial sustainability; one key aspect to that end is reducing losses in the distribution system, which would make it possible to obtain greater profits from a subsequent system expansion and future investments in generation. Although renewable energy and rural electrification are important aspects in all countries, in the Dominican electricity sector, the recommendation should be broader, allowing for strategic intervention by the IDB Group in aspects central to resolving the electricity sector's problems, in particular improving loss reduction, energy efficiency, replacing fossil fuels, such as oil and coal with less expensive, less polluting sources of energy, and incorporating initiatives for binational or regional projects.</p>