DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS PROGRAM

(DR-0159)

EMERGENCY LOAN PROPOSAL

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ANNEXES

BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata

Information Available in the Technical Files

Preparation:

Rodríguez, Jorge C., Análisis del portafolio del Banco en la República Dominicana: Complementariedad entre la cartera en ejecución y el programa DR-0159 [Analysis of the Bank's portfolio in the Dominican Republic: Complementarity between the active portfolio and the DR-0159 program]. Washington, D.C., July 2003.

Silva, J., Consultant's report, Washington, D.C., October 2003.

Hernández, N., Consultant's report, Washington, D.C., October 2003.

González-Rosetti, A., Consultant's report, Washington, D.C., October 2003.

Memorandum on disbursement of the third tranche of the program to support institutional reform of the social sector (DR-0140). Inter-American Development Bank. Washington, D.C., August 2003.

Poverty reduction strategy in the Dominican Republic. Santo Domingo, July 2003.

ABBREVIATIONS

ADP	Asociación Dominicana de Profesores [Dominican Teachers' Association]
BANINTER	Banco Intercontinental, S.A.
BCRD	Banco Central de la República Dominicana [Central Bank of the Dominican Republic]
CNS	Consejo Nacional de Salud [National Health Council]
ENDESA	Encuesta Demográfica y de Salud [demographic and health survey]
ONAPLAN	Oficina Nacional de Planificación [National Planning Office]
ONAPRES	Oficina Nacional de Presupuesto [National Budget Office]
PRS	poverty reduction strategy
PSP	protected social program
SBA	standby arrangement
SEE	Secretaría de Estado de Educación [Department of Education]
SESPAS	Secretaría de Estado de Salud Pública y Asistencia Social [Department of Public Health and Social Welfare]
STP	Secretariado Técnico de la Presidencia [Technical Secretariat of the Office of the President]

DOMINICAN REPUBLIC

IDB LOANS

APPROVED AS OF OCTOBER 31, 2003

	US$Thousand	Percent
TOTAL APPROVED	2,301,513	
DISBURSED	1,767,633	76.80 %
UNDISBURSED BALANCE	533,880	23.19 %
CANCELATIONS	562,322	24.43 %
PRINCIPAL COLLECTED	754,803	32.79 %
APPROVED BY FUND		
ORDINARY CAPITAL	1,504,901	65.38 %
FUND FOR SPECIAL OPERATIONS	710,006	30.84 %
OTHER FUNDS	86,606	3.76 %
OUSTANDING DEBT BALANCE	1,012,830	
ORDINARY CAPITAL	594,276	58.67 %
FUND FOR SPECIAL OPERATIONS	412,011	40.67 %
OTHER FUNDS	6,542	0.64 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	512,890	22.28 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	132,639	5.76 %
ENERGY	343,115	14.90 %
TRANSPORTATION AND COMMUNICATIONS	234,252	10.17 %
EDUCATION	253,482	11.01 %
HEALTH AND SANITATION	185,331	8.05 %
ENVIRONMENT	0	0.00 %
URBAN DEVELOPMENT	33,446	1.45 %
SOCIAL INVESTMENT AND MICROENTERPRISE	330,860	14.37 %
REFORM AND PUBLIC SECTOR MODERNIZATION	200,495	8.71 %
EXPORT FINANCING	20,296	0.88 %
PREINVESTMENT AND OTHER	54,706	2.37 %

* Net of cancellations with monetary adjustments and export financing loan collections.

DOMINICAN REPUBLIC

STATUS OF LOANS IN EXECUTION
AS OF OCTOBER 31, 2003

(Amount in US$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
REGULAR PROGRAM				
Before 1997	1	52,000	29,967	57.63 %
1997 - 1998	6	265,460	169,985	64.03 %
1999 - 2000	5	183,700	19,685	10.72 %
2001 - 2002	2	135,000	200	0.15 %
2003	2	14,400	0	0.00 %
TOTAL	16	$650,560	$219,837	33.79 %

* Net of cancellations. Excludes export financing loans.

Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Dominican Republic

Tentative Lending Program

2003

Project Number	Project Name	IDB US$ Millions	Status
DR0146	Pension Reform Implementation	5.0	APPROVED
DR0152	Competitiveness Promotion Program	9.4	APPROVED
DR0149	Inform. Society's Institutional Develop	5.4	APPROVED
DR1001	Strengthening the Banking Sector, Supervision and Regulation	6.0	APPROVED
DR0148	Sector Facility for Foreign Trade	5.0	
DR0151	Financial Reform Consolidation Sector Program	100.0	
DR0159	Sustainable and Protection of Social Reforms	200.0	
	Total - A : 7 Projects	**330.8**	
	TOTAL 2003 : 7 Projects	**330.8**	

2004

Project Number	Project Name	IDB US$ Millions	Status
DR0076	Social Welfare Sector strengthening	5.0	
DR0150	Social Reform Program	100.0	
	Total - A : 2 Projects	**105.0**	
DR0156	Public Investment Project strengthening Management	5.0	
DR0141	Housing Program	30.0	
DR0154	Enhancement of Superior Education, Science and Technology	34.0	
DR0157	Fiscal Modernization Program	5.0	
DR0143	Rehabilitation Historical Center Sto Domingo	50.0	
	Total - B : 5 Projects	**124.0**	
	TOTAL - 2004 : 7 Projects	**229.0**	
	Total Private Sector 2003 - 2004	**0.0**	
	Total Regular Program 2003 - 2004	**559.8**	

*** Private Sector Project**

PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS

(DR-0159)

EXECUTIVE SUMMARY

Borrower:	The Dominican Republic	
Executing agency:	Secretariado Técnico de la Presidencia (STP) [Technical Secretariat of the Office of the President]	
Amount and source:	IDB (OC):	US$200 million
Financial terms and conditions:	Amortization period:	5 years
	Disbursement period:	1 year
	Grace period:	3 years
	Interest rate:	Six-month Libor rate in US$ plus 400 basis points a year
	Front-end fee:	1%
	Commitment fee:	0.75%
	Currency:	U.S. dollar, Single Currency Facility

Objectives: The objective is to help the government maintain macroeconomic and fiscal stability and mitigate the potential impact of the fiscal adjustment on the population living in extreme poverty. Institutional reforms in the social sector that have been under way with Bank support since 2001 will also continue.

Description: The program has been structured as an emergency loan based on a policy matrix (Annex I), whose disbursements will be conditional on carrying out policy actions in three areas: (i) execution of a macroeconomic program with the IMF; (ii) protection of priority budget programs in the health and education sectors; and (iii) maintenance of reforms currently under way in the management of social spending and in the education, health and social welfare sectors. The total social services budget to be protected will be US$152 million. The total to protect nonwage spending on social services will be US$102 million, or 36% of total central government expenditures on goods and services in 2004. The amount to protect priority social investment is US$49.4 million, or 6% of total investment for 2004. The Bank will disburse the loan proceeds in two

(2) tranches: a first tranche of up to US$150 million, and the second of up to US$50 million.

The Bank's country and sector strategy: The Bank's country strategy was approved in 2000 and updated in 2002. The three main strategy vectors are: (i) to overcome the persistent macroeconomic and financial weaknesses; (ii) to eliminate fiscal weaknesses on the income side and on the spending side and ensure that the resources needed to cover the social debt are available, promote the productive sectors and help to overcome structural poverty; and (iii) to build up the capacity of institutions to respond to social demands and improve governance of the system in a participative and representative manner. To respond to the first vector, the program will help to reestablish macroeconomic stability and reactivate growth in the context of a standby arrangement with the IMF. To respond to the second strategy vector, the program will support the delivery of basic social services to the very poor. Last, maintaining the reforms under way in budget management and in the education, health and social welfare sectors will permit the Government of the Dominican Republic to respond to social demands during and after the crisis.

The program's strategy is based on: (i) the chaining of its policy goals with progress made in the program for institutional reform in the social sector (DR-0140) in the areas of budget management, education, health and social welfare; (ii) the agreement with the World Bank to the effect that the matrix for the proposed program will be complementary to World Bank financing for the country during the current situation; and (iii) cooperation with the IMF to monitor the macroeconomic goals.

Coordination with other official development agencies: The set of measures to support the Dominican Republic has been closely coordinated between the multilateral agencies and the government. The standby arrangement with the IMF establishes the frame of reference for support, which involves a commitment of US$1.318 billion over 24 months: US$400 million from the IDB, US$318 million from the World Bank, and US$600 million from the IMF. The funding under this program is an integral part of the financial assistance package agreed upon by the Government of the Dominican Republic, the IMF, and the IDB.

The financial support is based on the comparative advantages of each institution and the scope and scale of the reforms envisaged. In 2003-2004, and given the priority of restructuring the internal debt, armor-plating the financial system to protect it from future external and internal shocks, protecting the poorest and most vulnerable segments of the population, and modernizing the public administration's fiscal structures, the Bank is supporting reforms in the executive branch and the consolidation of financial and social sector reforms. The World Bank has focused on reforming the energy market and is supporting, in conjunction with the IDB, reforms in the social welfare sector and the build-up of technical capacity for bank supervision.

Environmental and social review: Although the operation will safeguard social spending through protected social programs (PSPs) and will therefore help to cushion the impact of the fiscal adjustment, particularly on the very poor, under the Bank's rules for emergency loans (document GN-2031-10) it does not qualify as a poverty-targeted investment or as a program that enhances social equity. The program focuses on policy actions that do not involve any measures that could have direct environmental impacts.

Benefits: The expected benefits include: (i) mitigation of the impact of the crisis on the very poor; (ii) prevention of drops in the coverage of the health and education programs that benefit this group most; and (iii) maintenance of the reforms under way.

In the short term, these benefits would be measurable in terms of economic and financial stabilization, reactivation of the economy, supporting the supply of priority health and education programs and keeping demand for them up during the acute phase of the economic crisis. In the medium term, program benefits in the areas of education and health would be measured in terms of preventing a decline in basic education and public health coverage from the program's baseline levels.

Sustaining the institutional changes under way in budget management will support compliance with the IMF arrangement and will strengthen the country's fiscal balance. This is expected to lay the groundwork for the passage and implementation of a comprehensive financial administration law that will consolidate the process of institutionalizing budget management. Another important benefit will be greater government efficiency in implementing social policy. Reorganization of the social welfare sector will improve the marginal efficiency of spending in this sector and the quality of spending on the poor, laying the foundations for an effective social safety net.

Risks: The greatest risk of the program is that the pressure generated by the macroeconomic and political context to cut financing for PSPs will outweigh the incentives generated by the project to comply with the agreed physical and financial goals. To contain or mitigate this risk, the standby arrangement with the IMF has explicitly included protection for social programs. Another risk relates to the limited ability of the health and education departments to meet the program targets. This risk will be mitigated through quarterly monitoring by the STP and the Bank, along with technical assistance from

	complementary Bank programs being executed in the Dominican Republic. The main risk in maintaining the reforms under way, in the context of the coming elections, is the possible increase in the negotiating power of patronage networks to reverse the progress achieved in the social welfare sector and in budget reforms, particularly given the real or perceived threat of greater social volatility. To mitigate this risk, the program only includes reforms that are already well advanced and which have been negotiated inside the government.
Special contractual clauses:	Disbursement of the funds for each tranche will be conditional upon complying with the policy actions agreed on for that tranche, as specified in Chapter III and in Annexes I and II of this loan proposal.
Poverty-targeting and social sector classification:	Under the guidelines governing the preparation of special emergency loans, this operation does not qualify as a poverty-targeted investment or as a social equity enhancing project.
Exceptions to Bank policy:	None

I. FRAME OF REFERENCE

A. Macroeconomic and fiscal situation

1.1 After having posted high growth rates during the 1990s, in 2001 the Dominican economy slowed on account of the increase in oil prices and the impact of the events of September 11, 2001, on the world economy.

1.2 Although the pace of growth recovered to 4.1% in 2002, the peso depreciated by 20%, inflation reached the 10% and the public sector deficit grew by half a percentage point to 2.6%, owing to a sharp increase in capital costs. In the second quarter of 2002, the Central Bank of the Dominican Republic (BCRD) began to harden monetary policy through the sale of public debt instruments and the imposition of ceilings on commercial bank loans to the private sector. In an effort to stabilize the exchange rate, the BCRD sold more than US$500 million in foreign currency on the local exchange market during the year, which further restricted the liquidity of the economy. In this monetary context and faced with the growing mistrust of the economic agents, the liquidity position of the commercial banks and the makeup of their assets and liabilities deteriorated.

1.3 When signs of recovery in external demand became apparent in early 2003, it was discovered that the Banco Intercontinental (BANINTER) had committed fraud. The government reacted by taking over the bank and providing it with liquidity to continue honoring its domestic and foreign commitments. When it was taken over, BANINTER was the country's largest bank. Its financial gap is equivalent to 13.2% of GDP or 67% of the central government's budget for 2003. After BANINTER was taken over, it was found that two other medium-sized banks (BANCREDITO and Banco Mercantil) were beginning to have liquidity problems. One of those banks was sold and the other was put on a restructuring plan. The collapse of BANINTER created mistrust among economic agents and placed additional pressure on interest rates, the exchange rate and prices, undermining public finances.

1.4 To support the liquidity of the financial sector, the BCRD issued public debt instruments on the domestic market representing 14% of GDP, as a minimum. This, coupled with the impact of the depreciation of the exchange rate, will push the balance of the public foreign debt to 45% of GDP, which is much higher than the 26.3% that applied at the end of 2002. Debt service will amount to 4.5% of GDP in 2003 and will rise to 6% in 2004. The BCRD's domestic debt papers are very short term and bear high interest rates and have pushed the public sector's internal debt up from 5.3% of GDP at the end of 2002 to 14% in June 2003, for a rise of nearly 9 percentage points, equivalent to US$1.5 billion. Net international reserves fell sharply, from US$376 million at the end of 2002, to US$223 million at the end of July 2003.

1.5 To reestablish macroeconomic stability and cover the short-term obligations generated as a result of the bank crisis, the Dominican government has asked for support from the multilateral lending agencies. The IMF's Executive Board approved a 24-month standby arrangement (SBA) on 29 August. To strengthen the banking system, the SBA commits the government to address the problems of the three banks mentioned earlier in order to minimize the possibilities of systemic risk and limit the potential fiscal and monetary impact. In addition, reforms were agreed on to strengthen corporate management and administrative practices, consolidate the legal framework for resolving bank crises, and strengthen prudential regulations and bank supervision. Also, and to strengthen public finances, the SBA included a tax reform, reform of the civil administration and reform of the government's integrated financial administration. Also, the government has undertaken to introduce a free floating exchange rate and maintain strict monetary discipline.

1.6 To implement the SBA, a package of financial assistance from international lending agencies of US$1.318 billion is envisaged over 24 months, including US$400 million from the IDB,[1] US$318 million from the World Bank,[2] and US$600 million from the IMF. The funds envisaged in the program proposed here form an integral part of the financial assistance package agreed upon by the government, the IMF and the Bank to: (i) back the government's economic program; (ii) support it in covering the heavy short-term obligations it incurred as a result of the public debt instruments issued by the BCRD; (iii) mitigate the negative impact of the adjustment on the very poor; and (iv) avoid slippage in the institutional reforms that were under way in the country.

1.7 The fiscal adjustment will lead to shrinkage in growth of 3% in 2003. After a slight recovery in 2004, the economy will enter into a period of strong growth. Inflation is expected to peak in 2003 at 35%, reflecting the sharp devaluation in the exchange rate, but falling to single digit levels in 2004 in response to the restrictive nature of fiscal and monetary policy. Reflecting the increases in revenue and the cuts in spending envisaged in the SBA, the nonfinancial public sector deficit will shrink from 2.3% of GDP in 2002 to 0.7% in 2003. After that, the nonfinancial public sector accounts are projected to show surpluses of close to 1.2% of GDP.

1.8 The shrinkage in GDP projected for 2003 will have an adverse impact on employment. The increase in the unemployment rate, the drop in real income as a consequence of depreciation of the peso and the rise in prices will have a negative effect on the standard of living, particularly of the very poor. Between April 2002

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[1] Including the present program, a program for financial sector policy reform for US$100 million and a program to reform social policies for US$100 million.

[2] Including a loan to reform social protection policies (US$70 million), a loan to reform power markets with an electric investment component (US$230 million), and two technical-cooperation loans, one in the financial sector and the other in the electric power sector (US$18 million).

and April 2003, real individual income fell by 17% and by more than 20% in the poorest decile.[3] However, it is expected that the SBA will restore the confidence of the economic agents and reestablish stability and growth.

1.9 One of the standby arrangement's central objectives is to ensure debt sustainability in the medium and long term. The program will contribute by generating a primary fiscal surplus equal to 3.5% of GDP over the next five years. That, along with the sale of public assets equal to 6% of GDP over the same period, will decrease the ratio of public debt to GDP to 33% in 2008, after having risen to 26.2% in 2002 and 47.4% between 2003 and 2004. The relative weight of debt in the public sector accounts would also lighten. Total public debt as a percentage of public sector revenues would fall to 164% in 2008,[4] after having risen from 135% in 2002 to 245.4% in 2003.

1.10 In September 2003 the Government of the Dominican Republic acquired Unión FENOSA's equity interest in two electricity companies: EDESUR and EDENORTE. With support from the IDB and World Bank, the IMF convened a panel of international experts to assess the deal's fiscal impact. It also suspended the first SBA review until it had the panel's report, which was submitted to the government and multilateral organizations in early November 2003. Based on the report's findings, the IMF resumed the SBA review.

1.11 Following discussions with the IMF, the August SBA remained in effect, and the government has taken major steps to deal with the crisis in the banking sector. As a result of these steps and fiscal measures being discussed with the government, the SBA is expected to be caught up by the end of the year.

1.12 Meanwhile, during the crisis, the government made a commitment to the IMF and the IDB to protect public spending on social services for the poorest and most vulnerable groups, which is why it asked the IDB to prepare the program proposed here.

B. The social profile and public spending in priority social sectors

1. The social profile

1.13 At the start of this decade, the social profile in the Dominican Republic presented the paradox of economic growth accompanied by poverty rates that were higher than average for the country's level of relative development. Despite annual

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[3] Workforce survey conducted in April 2003 by the Central Bank of the Dominican Republic.

[4] In addition to the targets of generating a primary fiscal surplus and selling assets, these projections are based on the following assumptions: (i) the economy grows at an average annual rate of 4.6% in 2005-2008; (ii) average annual inflation of 3.7% for the same period; and (iii) average annual exchange rate depreciation of 0.7%.

average growth of 6% during the 1990s, between 1986 and 1998, the poverty rate fell from 41.6% to 30.8%. In 2001, an estimated 42.1% of the rural population and 20.5% of the urban population were living below the poverty line.[5]

1.14 Poor Dominicans have larger families, lower levels of education and less access to health care, water and basic sanitation services. The highest levels of extreme poverty are found in rural zones, particularly in the provinces bordering Haiti. More than half of the country's poor families live in rural zones, where the levels and depth of poverty are worse. Furthermore, poor Dominicans tend to be: (i) children—40% of children under 5 are poor; (ii) women—close to 26% of rural households in the poorest decile are headed by women; and (iii) older adults—27.1% of households in the poorest decile are headed by a person over the age of 60.

1.15 Although evidence indicates that economic growth was the main force in reducing poverty in the country between 1986 and 1998, poverty reduction will also require a reduction in income gaps. Although growth helps to reduce poverty, uneven income distribution works in the opposite direction. It is estimated that the wealthiest decile obtained 32% of the country's total income in 1998.[6]

1.16 Certain factors other than economic growth and income distribution also help to explain the paradox of poverty with growth in the Dominican Republic. They are essentially institutional and political factors related to the structure and functioning of the government, which operates on the basis of governance centered in the executive branch and a political tradition in which public spending has been captured by interest groups that are not necessarily the poorest. The institutional pattern of the government's financial administration derived from the authoritarian tradition of the end of the 1960, when more than half of the budget was managed directly by the president and public policy decisions were essentially political. As a result, rules, mechanisms and information systems for formulating, implementing and evaluating policies for the poor were never developed. Furthermore, the executive branch financed its spending through domestic borrowing obtained from the accrual of arrears in payments to suppliers of goods and services. The absence of rules of the game to rein in discretionary spending by the president allowed certain power groups to influence public spending decisions to serve their own interests. The consequences of these practices were historically paid by the least organized sectors of the government and by the social groups that were weakest economically. This was reflected until the end of the 1990s in the absence of incentives to build robust institutions outside the Office of the President and therefore public policies did not focus on human capital formation.

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5 *Poverty Assessment Paper*. The World Bank, Washington, D.C., 2001.

6 Household survey, Central Bank of the Dominican Republic, 1998.

2. Public spending[7]

1.17 In comparison with other Latin American and Caribbean countries with similar levels of relative development, public spending on the central level is among the lowest in the region and is different from spending in other countries on account of: (i) the excessive stress on investments in infrastructure and the production of goods that bring individual rather than collective benefits;[8] (ii) underfunding of social spending; (iii) high concentration of spending authority in just a few government agencies, particularly in the Office of the President; (iv) high spending on personal services; (v) scant spending on the maintenance and repair of infrastructure; and (vi) low municipal transfers and high levels of unfocussed subsidies for public utilities.

1.18 Public spending was 16% of GDP in 1998 (12 points below the regional average). In the 2002 budget, close to 70% of public spending was controlled by five agencies, i.e., the Office of the President (29%), the Departments of Finance (27%), Education and Culture (18%), Health and Social Welfare (14%) and the Interior and Police (12%).

1.19 The low level of recurrent expenditures (personal services, nonpersonal services, materials and supplies and transfers) is striking in comparison with spending on investment. Over the last 30 years, the country's governments have heavily favored investment in infrastructure over recurrent expenses. This partly reflects the greater importance attached by governments to public investment as a public policy instrument, while elsewhere in the region, greater relative weight was given to recurrent and operating costs. This trend was accompanied by low spending on maintenance and repair of the existing infrastructure. Also, only a very small portion of the funds programmed for that item were spent on maintenance and rehabilitation of public health and educational facilities.

1.20 As for central government recurrent expenditures, 33% were assigned to personal services (6.22% of GDP), 11% to nonwage spending on goods and services (less than 2% of GDP), and 5.3% (0.9% of GDP) to transfers and subsidies. Last, spending on fixed investments fell from 59% in the period 1992-2000 to 41% in 2001.

1.21 An analysis of public spending by functional classifiers (Table I-1) indicates that the portion earmarked for social spending has increased significantly since the

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[7] The information on public spending in the country was obtained from a study that is currently being conducted by the World Bank.

[8] Medicines, hospital services and medical consultations are examples of goods that entail private—and essentially urban—benefits financed with public funds. Collective services include goods and services whose production generates benefits for those receiving them and for society in general, such as health promotion and social prevention of infectious diseases and other environmental and behavioral risks.

1990s, particularly in education, health and social welfare. Social spending accounted for close to 8% of GDP in 2002. The three main sectors—education, health and social welfare—accounted for 2.33%, 1.6% and 1.65% of that spending, respectively. The remaining 2.4% went for housing, water and sanitation, municipal services and others. Average social spending in Latin American and the Caribbean is 12% of GDP, in contrast with the low levels in the Dominican Republic.

Table I-1
Central government operating costs, 1970-2002
(% of total spending and % of GDP in 2002)

	1970-79	1980-89	1990-99	2000	2001	2002	Spending 2002 (% of GDP)
Overhead	23.51	19.47	17.72	22.85	20.10	22.51	4.17
Social spending	35.6	36.99	39.10	44.65	45.71	44.08	7.98
Education	13.08	12.87	12.23	16.89	15.57	16.01	2.33
Health	6.68	7.43	8.63	11.58	10.55	10.59	1.60
Social welfare	4.14	5.63	3.50	6.39	9.08	5.10	1.65
Economic costs	35.44	35.95	33.83	23.90	21.19	21.38	3.02
Financial services	5.44	7.59	9.35	8.60	13.00	12.03	0.07

1.22 Despite the increases in social spending in the last decade, there are problems with inefficiency and scant impact on poverty in the way in which that spending is allocated and in the production of services. Table I-2 shows that the spending that would most likely benefit the very poor—on health care and education—is below the levels in comparable countries.

Table I-2
Public spending compared to
Latin America and the Caribbean

Indicator (% of GDP)	DR	LAC	Difference
Total spending, 1998	16.3	28.2	-11.9
Public spending on health 1990-1998	1.6	3.6	-2.0
Public spending on education, 1997	2.3	4.7	-2.4

Source: World Bank, 2003.

1.23 The behavior of social spending in the education, health and social welfare sector is reviewed below.

3. Social spending

1.24 **The education sector**. Public spending on education has received a sharp boost in recent years, for annual average growth of 24.6% in 1996-2000. Salary costs accounted for 75% of total spending in the period 1991-2001. In 2001, 70% of the education budget went for personal services, 8.7% for books, materials and supplies and 4% for construction. Fifty percent of public spending on the sector goes to basic education, whose coverage has improved substantially, although the low coverage of secondary education has not yet been addressed.[9]

1.25 In terms of results, spending on education exhibits systemic shortcomings. The system has low school completion rates and the scarce public funds are used inefficiently. Of all children who enter school, just 10% complete secondary school 12 years later. Also, on average, it takes 14 years of public spending to graduate a student from primary school and 28 years to graduate one from secondary school.

1.26 In the development plan for Dominican education for the period 2003-2013, the Department of Education (SEE) undertook program budgeting for the first time, which was reflected in the structure of the 2003 national budget, that identifies programs, subprograms, objectives and financial goals geared to the supply side and, to a lesser extent, to the demand side, through two priority budget programs called "Satisfaction of the basic learning requirements of boys and girls" and "Additional opportunities for continuing education for youths and adults". The first includes activities to keep children in school.[10] The second finances basic education for youths and adults in marginal rural areas.

1.27 The main challenge faced by the education sector during the crisis will be to protect nonwage spending used to procure teaching materials and inputs, repair and maintain classrooms, provide nutritional support for children and continue the pilot program of cash transfers to the 100,000 poorest households. Preliminary figures indicate that a total of US$82.4 million will be required in 2004 to protect these budget programs.

1.28 **Health sector**. Public spending on health care has averaged 2% of GDP from the mid-1990s to the present. This percentage is low compared to an average of 3.2% for Latin America and the Caribbean and even lower when compared to countries with similar relative development such as Panama (4.9%) and Jamaica (3.2%). Between 1996-1999, average public spending as a percentage of the central government's budget was 12.5%.

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[9] In 2001, there were 1.5 million students in primary school and just 314,000 in secondary school.

[10] It includes a school breakfast for almost 1.5 million children, the provision of textbooks and school supplies and a system of cash transfers (DR$300) for the 100,000 poorest mothers whose children remain in primary school.

1.29 Out of total public spending on health, 65% is concentrated in the Department of Public Health and Social Welfare (SESPAS), 22% in the Dominican Social Insurance Administration (IDSS), 4.3% in the Office of the President and 2.9% in the armed forces. SESPAS has a strong presence as a service provider, since the private sector is still very underdeveloped. The department provides 48% of nonhospital services and 46% of hospital services, followed by the IDSS and the private sector. In programmatic terms, SESPAS spends 75% of its resources on curative services, 14% on inspection, surveillance and risk control and less than 1.1% on health promotion and disease prevention. Seventy percent of SESPAS' total spending goes to pay salaries and personnel costs, 12% for medical and pharmaceutical supplies and 12.4% for equipment and nonmedical supplies.

1.30 Independently of its low levels, spending on health is inefficient. This can be seen in the use of the lion's share to produce of curative services that chiefly benefit the urban population. Collective health services or services with positive externalities such as inspection, surveillance and control of risk factors in consumption and the environment, and programs to promote health and prevent diseases have traditionally been underfunded. As a result, immunization coverage in children under three between 1996 and 2000, while increasing for measles, dropped for poliomyelitis and DTP (diphtheria, tetanus and pertussis) vaccine. For a vaccine such as the measles vaccine to produce immunity in the general population, coverage needs to be higher than 85%; for polio it must be over 90%. The 2002 demographic and health survey indicates that the percentage of fully immunized children (under three who have received all their shots) fell from 39% in 1996 to 35% in 2002 (Table I-3).

Table I-3
Vaccination coverage

Coverage rates	1996	2002
Percentage of children from 12 to 23 months who have received:		
BCG	89.8	93.5
DPT (all three shots)	57.6	56.6
Polio (all three shots)	48.1	44.0
Measles	78.2	88.3
% children with all shots[11]	38.7	34.9

Source: ENDESA, 2002[12]

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11 Includes three doses of polio vaccine, three of DTP, one of measles vaccine and one of BCG.

12 Demographic and health survey 2002. Preliminary report. Santo Domingo, January 2003.

1.31 The Department of Health drew up its first program budget in 2002, which is reflected in the structure of the national budget for that year. It identifies the programs and financial and coverage goals for priority health programs. The PSP "Collective health" includes activities to: provide preventive services and promote the health of women of reproductive age and of preschool children; reduce vaccine-preventable diseases; improve the security of blood banks; control infectious diseases transmitted by vectors, such as tuberculosis, HIV/AIDS, dengue and malaria; and provide inspection, surveillance and control of risk factors in consumption and the environment. Other priority activities during the crisis are programs to protect the elderly, the oral health of 500,000 schoolchildren, the essential medications program, and the program to repair and maintain dispensaries, health centers and outlying clinics.

1.32 During the crisis, the main challenge for public spending in the sector consists, as a minimum, of maintaining the levels of nonwage spending on services for health promotion and disease prevention and on inspection, surveillance and control of collective risks. Preliminary figures suggest that total protection of spending sought for health sector will require US$19.8 million in the 2004 budget.

1.33 **Capital costs**. The SBA stipulates indicatively that investments for 2004 will be capped at 5% of GDP (DR$23 billion). Given their potential impact on poverty, the government faces the challenge of identifying those investments in basic sanitation infrastructure or other social sectors which, owing to their advanced stage of construction and their potential impact on poverty reduction, merit protection during the crisis. Protection of those investments will increase the marginal effect of the protection described above for health services and education since it will help to improve the physical environment for the poorest households.

1.34 The government will face difficulties during the crisis in finding the funds needed to finish some works with a social impact that are more than 70% advanced. The crisis may make it impossible to complete some of those projects, such as rural aqueducts and works in the eastern part of Santo Domingo. Furthermore, the PRS includes minor infrastructure works on housing for poor families, particularly the replacement of dirt floors and minor repairs to roofs, which are also at risk of not being executed. Last, budget protection will be required for the counterparts for investment loans in health and education. US$49.4 million will be required to protect spending on investments and counterparts during 2004.

1.35 **Demand for budget protection**. The 2004 budget will be about US$2,968.69 million, with 40% going for spending on personal services (which is twice as high on average in SESPAS and the SEE than in other ministries), 13% on nonwage recurrent expenditures (US$287.6 million) and 25.5% on investments.

1.36 Experience in other countries has shown that during crises, budget inflexibility caused by spending on personal services forces governments to cut back their nonwage costs. Since the government will not be able to spend less on personal services and owing to the heavy dependency of the health and education sectors on consumable items, the main demand for protection will come, precisely, from nonpersonal services. The total budget to be protected will be US$152 million. Of that amount, US$102 million will go to protect spending on education and health, accounting for 36% of all central government expenditures on goods and services during 2004. Protection for priority social investments will be US$49.4 million, or 6% of capital spending for 2004. Table I-4 summarizes the budget protection required in the indicative budget for that year.

Table I-4
Protected programs in 2004

Cost category	Amounts programmed for 2004 (US$ x 1000)
Total spending	2,968.69
Recurrent expenditures	2,214.60
Personal services	897.22
Other goods and services	287.60
Transfers	419.14
Interest	459.00
Other	151.64
Capital costs	811.20
Total protected budget	**151.57**
Protected social spending	**102.16**
Protected social investment	**49.40**

1.37 A cut in nonwage spending in the social sectors would have a negative impact on the very poor. Prevention of the potential impact of a reduction in nonwage social spending justifies protecting it during the crisis.

C. Institutional reforms under way in the social sectors

1.38 Between 2001 and 2003, with Bank support the government carried out a program of institutional reform in the social sector (DR-0140). The program was designed as the first stage in a process of three types of reforms: (i) structural changes to reduce discretionary spending and improve the management of public spending; (ii) reforms to modernize the institutional framework in education and health and to launch a process of decentralization in the two sectors; and (iii) reforms to build minimum institutional capacity to improve sector coordination and formulate a poverty reduction strategy (PRS).

1.39 **Budget framework**. The main budget reforms carried out between 2001 and 2003 included: (i) implementation of program budgeting in the Departments of Education and Health with the result that the 2003 national budget contains economic and functional classifiers for spending; (ii) the start up of a system of financial programming of execution in the Departments of Education and Health (Decree 614-01); and (iii) introduction of new rules for the use and application of off-budget resources from the President's Special Fund (Decree 646-02).[13] These reform efforts have also been supported by a technical-cooperation loan for integrated financial administration (DR-0094). These policy measures have reduced discretionary authority in public spending, improved its management and protected social spending. Owing to their cross-cutting nature, changes of this kind have a multiplier effect on all public sector institutions and contribute to macroeconomic stability and the execution of public policies to benefit the poor. Until they can be complemented in future with in-depth changes in the country's fiscal structure, these policy measures should be maintained and their reversal should be prevented.

1.40 The 2003 national budget was drawn up and is being executed following the methodology of program budgeting for SESPAS and the SEE. An external auditor's report indicated that the government had also extended this system to all central government departments, except for the Office of the President.

1.41 Decree 614-01, which establishes the system for programming financial execution of the budget, came into force in July 2001. Article 3 stipulates that "Application of the provisions established in this decree on the programming of financial execution of the budget shall come into effect gradually, starting on 1 July 2001, and is mandatory as of that date for the Department of Public Health and Social Welfare (SESPAS), as a pilot unit, and starting in January 2002 for the Department of Education (SEE)." At the end of the second quarter of 2003, the system of programming budget execution was operating in SESPAS and the SEE and in the other 17 central government departments, except for the Office of the President.

1.42 Decree 646-02 regulating the use of budget surpluses was issued on 21 August 2002 by the country's president and published on 31 August 2002 and has been satisfactorily implemented since January 2003. The regulations contained in the decree establish a transparent mechanism for planning budget surpluses through the process of formulating the country's annual budget and greater transparency in the management of public spending by including the report on budget surpluses or deficits in the monthly cash program that the executive branch is required to send to congress. The decree establishes limits on the execution of budget surpluses by expressly prohibiting their use for multi-year works or for

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[13] Both program budgeting and the system of financial programming of execution have been implemented since 2002 in all central government departments, except for the Office of the President.

recognition of recurrent expenditures by the public administration or of the overcosts of other public projects.

1.43 Implementation of the regulations on the use of budget surpluses has allowed for their transparent programming—where they exist—through the creation of a special fund with two budget programs used to prepare, complement or expedite priority preferential investment projects for the social sectors, particularly in education and health, that have a positive short-term impact on poverty. Apart from eliminating the discretionary spending authority that had existed previously, the regulations expressly prohibit financing multi-year projects with resources from the fund and require that the funds be spent through the social departments, which has reduced the distortions in macroeconomic performance and social spending management caused by the old "Fund 14-01"[14].

1.44 The certification by the Director General of the Budget and the external evaluation report[15] state that the government has complied with the provisions of the decree and that it has not stripped budget surpluses or executed off-budget resources.

1.45 **Poverty reduction strategy (PRS)**. The government began to prepare a PRS at the end of 2001. The process was coordinated by the Social Cabinet, an entity in which different central government departments and agencies with responsibilities for social and economic policies participate. The PRS was consulted with civil society, which led to the definition of a framework of social spending priorities. The PRS has a horizon of 15 years to work toward the millennium goals. Its interventions give priority to women and children in rural zones and the poorest urban inhabitants. In terms of strategic guidelines, the PRS proposes to: (i) maintain a stable macroeconomic environment; (ii) improve the quality and efficiency of social spending while increasing that spending by at least 2% of GDP over the next four years; and (iii) implement the social security reform. In today's context of fiscal adjustment, the expectations for growth in social spending contained in the PRS will have to be postponed for at least the next 12 months, which makes it crucial to boost the efficiency of existing spending in the health, education and social welfare sectors.

1.46 **The social policy monitoring system**. During program DR-0140, the government designed the technical foundations for establishing a social policy monitoring and evaluation system, which will be used to track and evaluate implementation of the PRS and support restructuring of the social welfare sector. The system is based on

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[14] "Fund 14-01" was the source of discretionary spending used by the country's president for direct and unplanned financing of public investments. Up to 60% of the central government's budget was executed through that fund at the end of the 1990s.

[15] Silva, J. *Informe de Cumplimiento de Condicionalidad sobre la Reglamentación de los Fondos Extrapresupuestarios.* Santo Domingo, Dominican Republic, 14 April 2003.

the records systems of SESPAS, the SEE, the Central Bank, and the National Statistics Office, as well as on household surveys. The start up of this system will be crucial for monitoring the economic crisis and executing the program proposed here. Accordingly, the government has earmarked up to US$2 million, to put the system into operation.

1.47 **Education**. The main reforms in the sector carried out under program DR-0140 included: (i) the approval and introduction of new sector management processes, particularly for the management of human resources and the teachers' roll; (ii) the approval of the new Statute Governing the Teaching Profession; and (iii) the decentralization of authority to the school boards. The regulations of Statute Governing the Teaching Profession were drawn up through a participative process with the Dominican Teachers' Association (ADP). The statute regulates aspects related to: (i) certification and the disciplinary system; (ii) the system of teacher incentives; (iii) competitions for hiring and promotion; and (iv) establishment of a structure of positions and categories. In addition, decentralized school boards were established, which received transfers from the 2003 budget and used them effectively and transparently.

1.48 Human resource administration has been standardized, systematized and now has instruments for monitoring and controlling the performance and work history of teachers. The SEE had the initial use of its human resource management system examined through an external evaluation of the teachers' roll and the operation of the new management system in seven of the department's regional directorates. The audit of the teachers' roll identified that the following changes are being made: (i) **general and individual debugging**, through crosses of information with other databases such as those operated by the teachers' medical insurance plan, the Higher Education Council, the electoral roll and the teachers' census, plus the correction of teacher information, a high level of reliability was obtained with respect to the information in the teachers' roll; (ii) **unification of salaries**, through consolidation of the many salary categories into just two, to avoid discretionary authority regarding pay; (iii) **replacement of the teacher identification code** which changed the search criteria for teachers in the roll by replacing the use of cards to assign teaching shifts with the voter's number; the card mechanism was highly questioned since it did not allow for verification of duplications or dummy assignments (the decision to restructure the database was the most important in the management reform); and (iv) **reassignments**, with some 20,000 teachers or nearly 30% being reassigned to achieve a teacher/student ratio that allows for greater efficiency in the use of the sector's human resources.

1.49 The evaluation of the new human resources management system found that it is being used effectively in the seven regional directorates that were evaluated. The system has been understood and is being used appropriately on that level of decentralization.

1.50 The Regulations of Statute Governing the Teaching Profession were issued by the country's president on 26 June 2003 in Decree No. 639-03 and amended in Decree 728-03, both published in Official Gazette No. 10224 of 7 August 2003. The regulations and the amendments came into force on 9 August 2003. The statute was drafted through a highly participative process between the SEE and the ADP, using inputs that were made possible thanks to the results of the teachers' census and cleaning up the teachers' roll financed with Bank support.[16] To place other aspects of the statute that require more detailed regulation into effect, departmental orders were issued with regard to: (i) the incentive system for teachers; (ii) competitions for hiring and promotion; and (iii) the establishment of the structure of positions and categories. Departmental orders No. 16-2003, 17-2003, and 18-2003 came into effect on the day they were issued.

1.51 With the onset of the current crisis, there is a risk that the gains in the reforms will be lost and, unless they are maintained, it will be impossible to improve the general efficiency of the system and the levels of coverage already achieved will slip. It is therefore crucial to maintain these reforms as part of the policy goals of the program proposed here.

1.52 **Health**. The main reforms in the health sector carried out under program DR-0140 were: (i) regulation of the most crucial aspects of the General Health Act of 2001; (ii) execution and evaluation of the application of a system of performance agreements in six public hospitals; and (iii) the start-up of new budget management processes. Also, and although it was not a goal of program DR-0140, the legislative assembly approved an ambitious Social Security Act in 2001. As it touches on health, the act is intended to increase health insurance coverage through a plural system of insurance with three legal and financial plans: a subsidized plan for the very poor; a contributing plan for workers in the formal sector of the economy; and a mixed subsidized and contributing system for middle-income families that are not part of the formal sector.

1.53 Implementation of the General Health Act required regulation of: (i) the organization of the national health system; (ii) the separation of the functions of regulation, financing and service delivery; (iii) the establishment and operation of the National Health Council (CNS); (iv) the use of management agreements to allocate funding to public health service providers; and (v) the contracting of nongovernmental and civil society organizations that provide health services.

1.54 The CNS is governed by its international operating regulations promulgated in Executive Decree No. 1130-01 of 20 November 2001 and by a regular CNS resolution of November 2001 establishing "General guidelines for the preparation of proposed regulations to apply the General Health Act".

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[16] Regulations of the Statute Governing the Teaching Profession, Santo Domingo, August 2003.

1.55 Decree 635-03 was promulgated on 20 June 2003 and officially published on 8 August of the same year.[17] The decree establishes rules for oversight and separation of the basic functions of the national health system. These basic functions are: oversight, insurance, service provision and financing. Also, book six of the decree establishes the rules for participation by citizens and health-care personnel in managing the national health system. As for the use of management agreements to allocate funds to the health service providers and the contracting of nongovernmental and civil society organizations to provide health services, Decree 783-03, which establishes the agreements, was promulgated on 7 August 2003, published on 9 August of the same year, and came into force on 11 August.

1.56 The separation of the functions of financing and production of health services envisaged in the General Health Act is based on the development of: (i) a specialized function of SESPAS to procure health services through the establishment and start up of the Services Contracting Unit; and (ii) the allocation of funds to public hospitals through a system of budgeting by results, measured by the management agreements. The Services Contracting Unit was created and has been operating since June 2003. Implementation of the management agreements taught the following lessons: (i) the need to adjust each agreement to the special features of the organizational culture of each hospital to increase the sense of ownership; (ii) the need to have an external system to audit execution of the management agreements; and (iii) the inclusion of clauses to penalize failure to comply with commitments and to promote accountability by the hospital administration. Based on the pilot project and to implement the agreements in all SESPAS hospitals, an extension plan was prepared for 2004-2008. The plan contains medium-term objectives to expand the system of management agreements, the intervention methodologies for the different parts of the country, and stages, activities, responsibilities and budgets.

1.57 With the onset of the crisis, there is a risk that the gains in reforms in the health sector, particularly those included in the General Health Act, will be reversed. Unless they are maintained, it will be impossible to proceed with decentralization in the sector, the separation of functions or the specialization of SESPAS as the lead agency in the sector. Therefore it is fundamental for these reforms to be maintained as part of the policy goals of the program proposed here.

1.58 **Social welfare**. Creation of the Social Cabinet made it possible to achieve results in the social welfare sector, including: (i) the development of instruments to monitor social policy; (ii) an institutional diagnosis of the social welfare sector; and (iii) approval by the country's president of a guideline that establishes the steps to be taken in 2003 and 2004 to restructure the sector, which suffers from a handout and patronage approach and serious institutional duplication. Based on this

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[17] Officially published in the newspaper *El País*, Santo Domingo, Friday, 8 August 2003.

progress, the government has begun to implement reforms in the social welfare sector that complement the recently-approved poverty reduction strategy. The government will reorganize the sector between 2003-2004 in three stages: the first will put the sector's finances in order; the second will reorganize it through the merger, closure and/or decentralization of existing agencies; and the third will create a new regulatory agency for social protection. The rules for the institutional transformation of this sector were included in Presidential Decrees 623-03 on the restructuring of social welfare institutions and 566-03 that places the poverty reduction strategy in effect.

1.59 As part of the priority activities agreed upon by the government, the IDB and World Bank, the National Planning Office (ONAPLAN) will do cost/benefit analyses of priority programs in the social assistance sector using the resources earmarked for execution of the social policy monitoring and evaluation system described in paragraph 1.44. Such analyses will be key inputs for restructuring of the social welfare sector.

1.60 During the crisis, making a start on the first stages of sector reorganization will help to improve the overall efficiency of social welfare, generating savings of close to 1% of GDP in 12 months. To that end, in the short term it is necessary for the sector's 2004 budget to be formulated following the rules for program budgeting and for the Social Welfare Sector Restructuring Committee created by Decree 623-03 to begin functioning. Based on the anticipated benefits of significant savings that will permit execution of the priority actions in the poverty reduction strategy, it is crucial for the reforms in the social welfare sector to be maintained as part of the policy goals of the program proposed here.

D. The Bank's country strategy and lessons learned

1.61 The Bank's country strategy was approved in 2000 and updated in 2002. The three main strategy vectors are: (i) to overcome the persistent macroeconomic and financial weaknesses; (ii) to eliminate fiscal weaknesses on the income side and on the spending side and ensure that the resources needed to cover the social debt are available, promote the productive sectors and help to overcome structural poverty; and (iii) to build up the capacity of institutions to respond to social demands and improve governance of the system in a participative and representative manner. To respond to the first vector, the program will help to reestablish macroeconomic stability and reactivate growth in the context of a standby arrangement with the IMF. To respond to the second strategy vector, the program will support the delivery of basic social services to the very poor. Last, maintaining the reforms under way in budget management and in the education, health and social welfare sectors will permit the government to respond to social demands during and after the crisis.

1.62 The present operation is in accordance with the guidelines for emergency loans approved by the Board of Executive Directors (GN-2031-10) and incorporates the lessons learned during the preparation of similar programs for Argentina (AR-0295), Uruguay (UR-0151) and Colombia (CO-0268), including: (i) conditions that focus on the protection of social spending owing to its cushioning effect during periods of fiscal adjustment; (ii) protection of specific budget programs instead of overall budget protection; and (iii) coordination between the Bank and other official development agencies. Taking that experience into account, in the proposed program the protection of specific budget programs is based on the ex ante identification of the financial and coverage goals of the protected social programs. Also, the PSPs were selected on the basis of their ability to cushion the impact of the fiscal adjustment and the program was prepared in coordination with the World Bank.

E. Program strategy

1.63 The experience of other Latin American countries that have endured severe economic crises indicates that during times of recession, progress in poverty reduction can be reversed. Therefore, the program is designed to maintain the process of implementing institutional reforms in budget management and in the social sector that were begun by the government in 2001. The program will also include policy actions intended to prevent a drop in spending and in the execution of priority social spending in the health and education sectors.

1.64 Given that the challenges described affect different parts of the public administration, the government has designed a multi-sector strategy to respond to the crisis and has included cross-cutting actions in addition to sector actions. The cross-cutting actions are based on maintaining the reforms in financial administration, with special stress on the use of the management tools developed with Bank support. The sector actions include: (i) protection of social spending on education and health; and (ii) maintenance of the institutional reforms under way in the education, health and social welfare sectors.

1.65 The program's strategy is based on: (i) the chaining of its policy goals with progress made in the program for institutional reform in the social sector (DR-0140) in the areas of budget management, education, health and social welfare; (ii) the agreement with the World Bank to the effect that the matrix for the proposed program will be complementary to World Bank financing for the country during the current situation; and (iii) cooperation with the IMF to monitor the macroeconomic goals.

1.66 The Bank has coordinated its actions closely with the World Bank and it has been agreed that the policy matrix for this operation will be used by the World Bank in preparing a fast-disbursing loan of up to US$70 million to support the reforms in the social safety net in 2004-2005.

II. THE PROGRAM

A. Objectives and description

2.1 The objective is to help the government maintain macroeconomic and fiscal stability and mitigate the potential impact of the fiscal adjustment on the population living in extreme poverty. The continuation of institutional reforms in the social sector that have been under way with Bank support since 2001 will also be promoted.

B. Program structure

2.2 The program will be structured as an emergency loan based on a policy matrix, whose disbursement will be conditional on carrying out policy actions in three areas: (i) compliance with the standby arrangement with the IMF; (ii) budget protection and monitoring of the execution of priority budget programs in the health and education sectors and priority social investments; and (iii) maintenance of reforms currently under way in the management of public social spending and in the education, health and social welfare sectors.

1. Component 1. Program with the IMF

2.3 The objective of this component is to ensure that the macroeconomic context is consistent with the program's objectives. For both tranches, it is essential that the Dominican Republic comply with the standby arrangement with the IMF.

2.4 ***Signature of the standby arrangement between the Dominican Republic and the International Monetary Fund is a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors***.

2. Component 2. Protection of spending on priority social programs

2.5 The objective of this component is to ensure that financing will be available for the timely execution of priority social programs (PSPs) intended to cushion the impact of the fiscal adjustment on the population (Annex II).

2.6 Agreement between the government and the Bank on the PSPs in the education and health sectors to be included in the 2004 national budget, including the financial and coverage goals for each, will be a condition precedent to disbursement of the first tranche of the loan. Satisfactory compliance with financial execution and the coverage goals of the protected PSPs and evidence that the PSPs agreed on with the Bank have been included in the nation's budget for 2005, with at least the same financial, physical and coverage goals as in 2004, will be conditions precedent to disbursement of the second tranche.

2.7 Owing to the seasonal nature of spending on education and health, most of the budget is executed in the last quarter of the year. Since the government needs the second disbursement before the end of 2004, a minimum of 70% of the physical and financial execution of the PSPs will have to be complete by the end of the third quarter, or a minimum of 90% by the end of the fiscal year, in order for processing of that disbursement to begin.

a. Conditions precedent to presenting the loan to the Board of Executive Directors

2.8 When the operation was being prepared, the government and the Bank agreed on the amounts to be assigned to the PSPs in the 2004 budget and on the quarterly goals for execution and physical coverage for each PSP. This programming was included in the policy letter (Annex III). ***The agreement between the Bank and the Dominican Republic, as it appears in the program negotiating record dated 16 October 2003 is a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors.***

b. Conditions precedent to disbursement of the second tranche

2.9 The following will be verified prior to disbursing the second tranche of the loan: (i) the 2004 national budget reflects the programming agreed on with the Bank; (ii) the execution and coverage goals for each PSP have been complied with; and (iii) the financial programming and coverage of each PSP in the 2005 budget is at the same level as in 2004.

3. Component 3. Maintenance of the reforms under way

2.10 The objective of this component is to prevent the reversal of the financial management and institutional reforms under way in the education, health and social welfare sectors.

a. Conditions precedent to presenting the loan to the Board of Executive Directors

(i) Budget management

2.11 The government has continued to carry out the reforms in budget management that were designed under program DR-0140. In particular, SESPAS and the SEE are using program budgeting and the financial programming system for budget execution is being used in these two departments. Last, the regulations governing off-budget resources are continuing to be implemented.

2.12 ***Maintenance of the reforms in budget management are a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors***.

(ii) Education sector

2.13 Thus far in 2003, the SEE has continued to implement the reforms in which it had made headway by the end of program DR-0140. In particular, the Bank has verified that the SEE has maintained transfers of financial resources to the 20 decentralized school boards. The personnel registration system in seven regional directorates and the systems for preventing irregularities in contracting identified in Statute Governing the Teaching Profession are being implemented.

2.14 ***Maintenance of the reforms in the SEE is a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors***.

(iii) Health sector

2.15 The Bank has verified that the General Health Act is being implemented satisfactorily through: the decrees that regulate the organization of the national health system; the separation of the regulatory, financial and service delivery functions; the establishment and operation of the National Health Council; the use of management agreements for assigning funds to public health services suppliers; and the contracting of nongovernmental and civil society organizations that provide health care services.

2.16 ***Continuing to implement the regulations of the General Health Act is a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors***.

(iv) Social welfare sector

2.17 The government has continued to implement the system to monitor social policy, created in response to the need for coordination of that policy by the Social Cabinet. Also, the Bank has verified that the government has established the Social Welfare Sector Restructuring Committee and that the committee has a work plan for 2004, in compliance with Decree 623-03 on restructuring the institutions in the sector.[18]

2.18 ***Continuing to implement the reforms in the social welfare sector is a condition precedent to distribution of the loan proposal to the Bank's Board of Executive Directors***.

b. Conditions precedent to disbursement of the second tranche

2.19 The conditions precedent to the second disbursement of the loan are described below.

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[18] Act establishing the Social Welfare Sector Restructuring Committee. Santo Domingo, September 2003.

(i) Budget management

2.20 The conditions are: (i) maintenance of program budgets in the Departments of Health and Education, as a minimum; (ii) maintenance of the system for financial programming of budget execution in the Departments of Health and Education and in the social welfare agencies, as a minimum; and (iii) maintenance of the regulations for the use of off-budget resources.

(ii) Education

2.21 The conditions are: (i) making a start on implementing the regulations of Statute Governing the Teaching Profession with regard to certification and the disciplinary system, the system of teacher incentives, competitions for hiring and promotion and establishment of the structure of positions and categories; (ii) maintaining transfers to a minimum of 20 decentralized school boards; and (iii) appropriation and commitment of up to US$4 million in the 2004 Public Expenditure Law, to support implementation of the reforms described in points (i) and (ii).

(iii) Health

2.22 The condition is to continue, as a minimum, to implement the regulations of the General Health Act with respect to organization of the national health system, the separation of the regulatory, financing and service delivery functions, the establishment and operation of the National Health Council, the use of management agreements for allocating resources to public health service suppliers, and the contracting of nongovernmental and civil society organizations that provide health services.

(iv) Social welfare

2.23 The conditions are: (i) maintaining the system to monitor social policy; (ii) making a start on implementing the work plan for restructuring the social welfare sector; and (iii) appropriation and commitment of up to US$2 million in the 2004 Public Expenditure Law, to support implementation of the reforms described in points (i) and (ii).

C. Cost and financing

2.24 The loan will total US$200 million and will have the normal financial conditions for emergency loans from the Bank's Ordinary Capital.

III. PROGRAM EXECUTION

A. Nature of the operation

3.1 The program is consistent with the guidelines for special emergency loans approved by the Board of Executive Director in June 2002 (document GN-2031-10). The purpose of emergency loans is to provide timely financial support for countries in coping with the effects of financial crises and mitigating their impact on the poorest and most vulnerable groups by protecting financing for programs targeted to the social sectors and preventing the reversal of public social policies.

B. Borrower and executing agency

3.2 The borrower will be the Dominican Republic and the loan proceeds will be paid into the national treasury. The Technical Secretariat of the Office of the President (STP) will be the executing agency, through the Secretary's Office, which will monitor program execution. The STP will chair the coordination committee to be composed of representatives of the Departments of Finance, Education and Health, the Social Cabinet and the Directors of the National Budget and Planning Offices.

3.3 The institutional design of the program reflects the organizational structure of the country's executive branch, within which the STP is responsible for coordinating national planning and budgeting processes and is a key player in the integration of the government's economic and social policies. Given its privileged hierarchical and functional position in the public administration, the STP will have the following functions in the program: (i) to coordinate the activities envisaged in the program; (ii) to supervise compliance with the conditions indicated in the policy matrix; and (iii) to oversee the coordination of the participating entities and the timeliness of the measures necessary to achieve the expected outcomes of the program.

C. Execution and administration

3.4 The Departments of Finance, Education and Health, the agencies in the social welfare sector, the Social Cabinet, the National Planning Office (ONAPLAN) and the National Budgeting Office (ONAPRES) will be responsible for executing the protected social programs (PSPs) and for continuing with the reforms in the program's areas of intervention.

3.5 These entities will sit on a coordination committee to be chaired by the STP, with the following responsibilities: (i) to oversee the timely allocation of resources to the protected programs; (ii) to monitor financial and physical execution of PSPs; and (iii) to prepare and deliver to the Bank quarterly reports evaluating how well policy conditions are being met.

3.6 For the purposes of the present operation, the STP will act as liaison between the government and the Bank, taking responsibility for the compilation, verification, organization and processing of the legal and administrative technical information pertaining to program conditions and presentation of the documentation for processing the disbursement of each tranche, based on the means of verification agreed upon with the Bank (Annex I).

3.7 The STP will inform the Bank during the negotiations of the names of its staff who will execute the above functions. In addition, it is expected that the STP will require a general program coordinator and two full-time professionals to support program monitoring and execution, as a minimum. The Departments of Finance, Health and Education will monitor the reforms under way as part of the integrated financial administration program (DR-0094), the health sector institutional reform program (DR-0078) and the multi-phase program to improve secondary education, respectively. Monitoring and support for the reforms in the social welfare sector will be carried out with resources from the program to reform the executive branch and the program for institutional strengthening of the Social Cabinet (ATN-7981-DR/SF).

3.8 **Disbursements**. The borrower will deposit the loan proceeds in separate, special accounts, and may not use them to purchase items on the negative list or goods from non-IDB-member countries.

3.9 The Bank will disburse the loan proceeds in two (2) tranches: a first tranche of up to US$150 million, and the second of up to US$50 million.

3.10 **Accounting records**. The borrower will be responsible for: (i) maintaining, through the executing agency, accounting and financial records on how the loan proceeds are used, and show that they were used for the purposes of the loan; (ii) maintain supporting documentation on disbursements and documentation that the conditions precedent to disbursement of each tranche have been met as set forth in the loan contract, keeping such information on hand for inspection by the Bank and/or external auditors; (iii) prepare disbursement requests and submit them to the Bank; and (iv) prepare such statements of account as may be required on the use of resources.

D. Execution period and disbursement schedule

3.11 The loan will be for US$200 million and will have the normal financial conditions for emergency loans from the Bank's Ordinary Capital. The terms and conditions are shown in Table III-1.

Table III-1
Terms and conditions

Amount	IDB (OC): US$200 million Program total: US$200 million
Amortization period	5 years
Grace period	3 years
Disbursement period	12 months
Interest rate	Six-month Libor rate in US$ plus 400 basis points
Front-end fee	1%
Credit fee	0.75%

3.12 The loan has been structured in two consecutive tranches, whose disbursement will be conditional on compliance with the conditions established in the policy matrix (Annex I), which will be reflected in the loan contract. The tranches will be disbursed as the government complies with the commitments made in the matrix. Annex I also includes the means of verification by the Bank of the conditions precedent to disbursement of the second tranche of financing. In the specific case of the first disbursement, in addition to the conditions described in the matrix, the conditions precedent set out in the General Conditions of Bank loan contracts must be complied with. The second disbursement will be made in the third quarter of 2004.

E. Program monitoring and evaluation

3.13 The means of verification in Annex I will be used to determine, on a quarterly basis, whether the conditions precedent have been met. The STP will conduct quarterly progress evaluations of program execution and deliver quarterly progress reports to the Bank.

1. Execution and monitoring reports

3.14 To supervise timely compliance with the commitments, and prevent delays in achieving the goals, established in the policy matrix, the STP will present quarterly follow-up reports to the Bank, 30 calendar days after the close of the preceding quarter, at the latest. The Departments of Finance, Health and Education and the Social Cabinet will prepare the sector inputs for those reports. The reports will contain the following, as a minimum: (i) a detailed description of progress in executing policy actions and of activities that are behind schedule; (ii) a summary of progress toward the milestones; (iii) a comparative analysis of the execution indicators of the PSPs; and (iv) a description of the steps taken to correct any delays detected in program execution.

3.15 In the evaluation of PSP execution for disbursement of the second tranche of financing, the minimum overall performance target (physical and financial execution) will be 70% at the end of the third quarter of 2004. Minimum performance for the fourth quarter must be 90% or better.

2. Program effectiveness

3.16 The evaluation of program effectiveness will be based, in the short-term, on measurements to gauge whether the objectives for each component have been met. A set of output indicators has been developed for such purpose. The program will be designed to compare the coverage of protected and unprotected education and health programs.

3.17 Medium-term impacts will emerge once project execution is complete; these relate to purpose outcomes. Near-medium-term impacts are those which can be measured at least three years after program execution ends (2007); far-medium-term impacts are those measurable in 2010. The IMF will assess the macroeconomic framework. Table III-2 presents indicators to measure the effectiveness of the sector reform strategy, and of this program in particular.

Table III-2. Program performance matrix

Program outputs	Program purpose
Objective : The priority social programs protected in the 2004 budget are executed in terms of the agreed financial and physical goals. **Indicator** : Average performance of each PSP is a minimum of 70% of the joint targets for coverage and budget performance at the end of the third quarter of 2004, or a minimum of 90% at the end of the fourth quarter.	**Objective** : Prevent school dropout and premature and preventable mortality. **Indicators**: Coverage of basic education is maintained at the level that existed at the start of 2003 (91.5%), as a minimum; coverage of public health programs is maintained, as a minimum, at 2003 levels; 35% of children receive full immunization.
Objective : Maintenance of the institutional reforms under way in social spending management. **Indicators**: (i) the financial programming system for budget execution is implemented in the Departments of Health and Education and in the social welfare agencies, as a minimum; (ii) the program budgeting system is used in the Departments of Education and Health and in the social welfare agencies, as a minimum; and (iii) the regulations governing off-budget resources are fully implemented by the end of the program.	**Objective** : Consolidate progress in budget institutionalization, sustainably modernizing the country's fiscal structures. **Indicators**: The integrated financial administration act is passed and implemented one year after the end of the program. Its impact would be measurable in terms of the savings obtained from greater fiscal discipline (budget reforms contribute to savings of up to 2% a year of average GDP, starting in the year following implementation).

Program outputs	Program purpose
Objective : Maintenance of institutional reforms under way in the SEE. **Indicators**: By project completion, (i) the system of performance incentives envisaged in Statute Governing the Teaching Profession has been implemented at a minimum of seven regional directorates; and (ii) 20 decentralized school boards receive and efficiently administer transfers from the SEE.	**Objective** : Prevent deterioration in the quality of basic education. **Purpose indicator** : Average graduation rate from basic education. Level in 2003: 48%; Expected level in 2007: 48% or higher. **Impact indicator** : Number of years of public spending required to graduate a student from basic education. Level in 2003: 14 years; level expected in 2010: 9 years or less.
Objective : Maintenance of institutional reforms under way in SESPAS. **Indicator** : Regulation implementing the General Health Act by the end of the program.	**Objective** : Prevent deterioration in the allocational efficiency of public spending on health. **Purpose indicator** : Allocate a greater proportion of public spending on health to illness prevention and health promotion services. Level in 2003: 1.1%; level expected in 2007: 2%. **Impact indicator** : SESPAS spending on noncurative healthcare services increases. Level in 2003: 15.1%; level expected in 2010: 35% or more.
Objective : Social policy monitoring and evaluation system implemented. **Indicators**: By project completion, (i) budget programming for 2005 reflects the new institutional structure of the sector under the rules for budget formulation; (ii) restructuring of the social welfare sector has begun under the legislation in effect; and (iii) cost/benefit analyses have been done for priority programs in the social welfare sector.[19]	**Objective** : Improve the efficiency of public spending on the poor. **Purpose indicator** : Savings of at least 1% of GDP by redistributing spending in the social welfare sector. Spending level in 2003: 1.6% of GDP. **Impact indicator** : Increase health insurance coverage for the poorest segments of the country's population. Coverage level in 2003: 0; level in 2010: 50% of the population in the lowest-income quintile.

3.18 The baselines for evaluating program outcomes will be obtained from surveys of the workforce in April 2003 and the 2002 demographic and health survey (ENDESA). These surveys can be used to measure the impact of the crisis before and after the program on aspects such as income, unemployment, prices, etc. Also, the following sources of information will be used to support program monitoring by the executing agency and the Bank: (i) the social policy monitoring system developed during 2003 by the STP, whose sources are SESPAS and SEE records;[20] (ii) the 2003 and 2004 surveys of the workforce, which will include special

[19] The executing agency and IDB will decide the terms of reference for these analyses by mutual agreement with the World Bank.

[20] Starting in the second half of 2004, surveys on the quality of life will be used as inputs for the system.

modules on health and education; and (iii) the Department of Finance's financial information system.

3.19 The evaluation of program effectiveness will depend partially on the execution of other Bank programs. Therefore, the Bank and the government agreed to conduct an impact assessment of the set of interventions that make up the sector strategy described in this program and the social sector institutional reform program (DR-0140), which is nearing completion. The government has informed the Bank of its willingness to conduct the assessment and cover the cost of the technical assistance necessary to design the methodology, compile the information, and prepare the final report on the evaluation using funds from the Bank-funded program to reform the executive branch. The final report is expected to cover the period from 2002 to 2007.

F. Policy letter

3.20 The Bank and the borrower are agreed on the policies outlined in the attached policy letter (Annex III). The letter presents a summary of the government's economic and social policies. It also describes the specific policy actions intended to protect the budget for priority health and education programs and other measures to maintain institutional reforms that are currently under way. The letter also reports on the timetable for drafting and obtaining congressional approval of the integrated financial administration act in the following components: (i) budget; (ii) treasury; (iii) government control; and (iv) public credit, all of which are designed to improve the efficiency, effectiveness and equity of public spending.

3.21 Considering that the disbursement structure planned for the program will only permit effective protection for the PSPs to be maintained during 2004, the authorities have also undertaken in the policy letter to maintain—in real terms—the budget protection agreed on with the Bank during all of 2005, which is to be reflected in the nation's budget for that year. The protection should cover the same percentage of low-income beneficiaries and other vulnerable groups as in 2004 and follow substantially the same policy line described in the letter.

G. External audits

3.22 The Bank reserves the right to demand statements of account for each tranche within 90 days after disbursement for auditing by independent auditors acceptable to the Bank. Accordingly, the borrower will keep satisfactory separate accounting records and supporting documentation for such external audits, and/or such verifications of the use of funds, as the Bank may require. The borrower will also keep a separate bank account for managing the loan proceeds.

IV. BENEFITS, FEASIBILITY AND RISKS

A. Benefits

4.1 The expected benefits of the project will come from the favorable impact achieved as a result of the anti-cyclical nature of the operation and include: (i) mitigation of the impact of the crisis on the very poor; (ii) prevention of drops in the coverage of the health and education programs that benefit this group most; and (iii) maintenance of the reforms under way. The beneficiaries will be either society as a whole or the very poor.

4.2 The main benefit expected from the program agreed on with the IMF is the economic and financial stabilization of the Dominican Republic and the reactivation of the country's economy. The benefits expected from protecting the social programs included in the policy matrix are assurance of the continuity of supply and maintenance of demand during the acute phase of the economic crisis. In the case of education, coverage of the basic cycle will be maintained at existing levels and school dropouts will be prevented through the programs that help the poorest families to keep their children in school, such as the financial assistance provided for low-income mothers through the school card. In the case of health, current levels of coverage of collective health programs, such as immunization, treatment of tuberculosis and control and prevention of malaria will be maintained.

4.3 The component to maintain the institutional changes under way in budget management will support the government in complying with the IMF's SBA in the short-term, and in the longer term, the country's fiscal balance will be strengthened. It is anticipated that the groundwork will be laid for the passage and implementation of an integrated financial administration act that consolidates the process of institutionalizing budget management in the Dominican Republic. Another major benefit of modernization and transparency in the public administration will be the improvement in the efficiency with which the government implements its social policy.

4.4 As for the support for continuing the education reforms, the benefits will include: (i) prevention of deterioration in the quality of basic education; and (ii) continuity of the reforms to improve the efficiency of education in the Dominican Republic which has actively involved teachers, parents and sector authorities. The benefits of maintaining the reforms in the health sector will be improvements in the quality and coverage of health services and prevention of deterioration in public health as a consequence of an increase in the burden of preventable diseases. As for the social welfare sector, its institutional reform under current laws will improve the marginal performance of spending in this sector in the short and medium terms and, more permanently, it will improve the quality of public spending on the poor, laying the groundwork for an effective social safety net that is more participative. Capacity will be built to monitor interventions, evaluate their impact, and adjust social policies on the basis of the results.

B. Feasibility, assumptions and risks

4.5 When the project was being prepared, an evaluation of the political feasibility of the components was performed by applying a feasibility analysis tool developed during the design and execution of program DR-0140.[21] The tool was used to analyze the political economy in the country at the time the project was designed. It can also be used to monitor the decision-making process needed to implement the project satisfactorily and for political mapping of the main players involved.

4.6 Among other findings, the analysis pointed to the competition among different social groups to protect *themselves* from the impact of the economic crisis and to avoid shouldering the costs of the adjustment that the government is committed to. The high degree of ownership of social sector reform felt by the government was also apparent. Significant progress has been made in this process, which has touched the financial administration and the health and education sectors and extended to the institutional mechanisms for the definition and coordination of social policy. Some of the changes have encountered resistance from patronage networks that have intermediated the allocation of public funds, but the resistance has been placated through a broad process of social participation that has led to the definition of a poverty reduction strategy and guidelines for redefining the nature and functions of the social welfare sector.

4.7 The implications for the design of the loan from the standpoint of political feasibility were: (i) the selection of a small number of conditions that could be feasibly complied with in the current political context; and (ii) their inclusion in a policy matrix that reflects the policy agenda that the government has been implementing until now and which it is clearly interested in continuing. This means that the degree of ownership of the program felt by the agencies responsible for implementing it is very high.

1. Assumptions

4.8 Given the above, there are two main assumptions regarding the institutional context that need to be monitored during the loan. The first is that the fragility of the current macroeconomic situation will be reduced and that the crisis will not worsen, leading to a weak exchange rate, spiraling inflation, the sharpening of the energy crisis or a worsening of income distribution. The second is that the consequences of the crisis will not generate greater social volatility that would force the government into very

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[21] Gonzalez-Rosetti, A., Grindle, M., Munar, W. *The political economy of social sector reforms: Opportunities for improving program design and implementation. Inter-American Development Bank*. Washington, D.C., 2003. (*Draft Non-Financial Product Report* No. RGSO2CSS02-02)

short-term reactive behavior that would reduce the topics on the public agenda to reestablishing and maintaining order.

2. Risks

4.9 The greatest risk of the program is that the pressure generated by the macroeconomic and political context to cut financing for PSPs will outweigh the incentives generated by the project to comply with the agreed physical and financial goals. To mitigate this risk, the standby arrangement with the IMF has explicitly included protection for social programs.

4.10 There is also a risk that line ministries will have insufficient incentives to satisfy the agreed policy conditions, or lack the technical capacity to satisfy them fully. Two measures have been included to mitigate this risk. First, the STP will conduct quarterly compliance evaluations, which will help prevent delays and support the Bank's management missions. Second, it has been agreed that the Bank's programs in the Dominican Republic will complement this program's policy goals[22] and provide technical assistance to the departments of health and education and the social-sector authority known as the Gabinete Social.

4.11 As for the component to maintain the institutional reforms under way in the social sectors, the main risk is that the interest groups affected by the transparent management of public spending that will result from the process could take advantage of the current economic and political context to halt the consolidation of the reforms. One element that mitigates the risk is the clear political will of the country's senior authorities to continue with the changes, whose credibility rests on the success of the social sector institutional reform program (DR-0140). Since the proposed program does not include new reforms or deepening of the reforms currently in progress, there is a considerable reduction in: (i) demands for consensus on new reforms; and (ii) the risks of political and social rejection by interest groups. In the case of the restructuring of the social welfare sector, the extensive social consultations that preceded the preparation of the poverty reduction strategy and the political consultations made by the government itself on the future of the sector improve the prospects for execution and social support for maintaining the reforms in this sector.

C. Social and environmental feasibility

4.12 Although the operation will safeguard social spending through the PSPs and will therefore help to cushion the impact of the fiscal adjustment, particularly on the

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[22] Rodriguez, Jorge C., Análisis del portafolio del Banco en la República Dominicana: Complementariedad entre la cartera en ejecución y el programa DR-0159 [Analysis of the Bank's portfolio in the Dominican Republic: Complementarity between the active portfolio and the DR-0159 program]. Washington, D.C., July 2003.

very poor, under the Bank's rules for emergency loans (document GN-2031-10) it does not qualify as a poverty-targeted investment or as a program that enhances social equity. However, by giving priority to PSPs that protect women and children, the program contains an important social-inclusion component in that it prevents additional deterioration in the human capital of the very poor. The program focuses on policy actions that do not involve any measures that could have direct environmental impacts.

PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS (DR-0159)
POLICY MATRIX

Conditions satisfied[*]	*Second tranche (25%)*
Macroeconomic stability	
Signature and entry into force of a macroeconomic program with the IMF.	Macroeconomic program with the IMF in effect.
Protection of priority programs	
The government agrees with the Bank on priority social programs (PSPs) in the education and health sectors to be included in the 2004 budget, including financial and coverage goals for each (Annex II).	The financial execution and coverage goals of the protected PSPs are met and the government presents evidence that the national budget for 2005 will include the same PSPs agreed on with the Bank, with the same financial, physical and coverage goals as in 2004, as a minimum (Annex II).
The government agrees with the Bank on capital investments to: (i) repair or reconstruct housing that is in extremely poor or unsanitary condition; (ii) completion of basic sanitation works that are already 70% advanced or more; and (iii) allocation of loan and counterpart resources for investments in the health and education sectors.	The 2004 national budget has programmed the priority investments covered in the present program and their financial and physical execution has met the targets agreed with the Bank.
Maintenance of reforms under way	
Budget management in the social sector	
Maintenance of budget execution in 2003 using program budgeting in the Departments of Health and Education, as a minimum.	Maintenance of program budgeting in the Departments of Health and Education, as a minimum.
Continued implementation of the financial programming system for budget execution in the Departments of Health and Education, as a minimum.	Continued implementation of the financial programming system for budget execution in the Departments of Health and Education and social welfare agencies, as a minimum.
Continued implementation of the regulations for the use of off-budget revenue.	Continued implementation of the regulations for the use of off-budget revenue.

[*] Prior to distribution to the IDB Board of Executive Directors.

Conditions satisfied [*]	*Second tranche (25%)*
Education sector	
Maintenance of transfers to 20 decentralized school boards, as a minimum. Continued implementation of the personnel register in at least seven regional directorates of the SEE. Maintenance of the systems for the prevention of irregularities in teacher contacting and practice.	Start on implementing the Statute Governing the Teaching Profession in aspects related to certification and discipline, the teacher incentive system, competitions for hiring and promotion and the establishment of a structure for positions and categories. Maintenance of transfers to 20 decentralized school boards, as a minimum.
Health sector	
Continued implementation of the Regulations of the General Health Act in aspects related to: • Organization of the national health system; • The separation of regulatory, financial and service delivery functions; • The establishment and operation of the National Health Council (CNS); • The use of management agreements to allocate funds to suppliers of public health care services; and • The contracting of nongovernmental and civil society organizations that provide health services.	Continued implementation of the regulations of the General Health Act in aspects related to: • Organization of the national health system; • The separation of regulatory, financial and service delivery functions; • The establishment and operation of the National Health Council (CNS); • The use of management agreements to allocate funds to suppliers of public health care services; and • The contracting of nongovernmental and civil society organizations that provide health services.
Social welfare sector	
Implementation of the social policy monitoring system Start up of the Social Welfare Sector Restructuring Committee and approval of its work plan for 2004.	Continued implementation of the social policy monitoring system. Begun implementation of work plan for restructuring the social welfare sector. Cost/benefit analysis of priority programs in the social welfare sector.

[*] Prior to distribution to the IDB Board of Executive Directors.

Indicative Means of Verification

Means of Verification

Component 1: Standby arrangement with the IMF

IMF reports

Component 2. Protection of spending on priority social programs

(i) Official publication of 2004 budget; (ii) satisfactory execution of PSPs; and (iii) approval of 2005 PSP protection.

Component 3. Maintenance of the reforms under way

A. Budget management: The executing agency will provide the Bank with an evaluation report prepared by the Ministry of Finance and the National Budget Office on: (i) implementation of the program budget and the financial planning system for execution at SESPAS, SEE, and in the social welfare sector; and (ii) enforcement of regulations on the use of extrabudgetary revenues.

B. Education: The executing agency will provide the Bank with an evaluation of the SEE on adoption of the regulations implementing the Statute Governing the Teaching Profession and a report from the Comptroller-General of the Republic on how transfers are used and allocated to school boards.

C. Health: The executing agency will provide the Bank with a joint evaluation of SESPAS and CERSS on adoption of the regulations implementing the General Health Act as they relate to: (i) the structure of the national health system; (ii) separation of the functions of regulation, financing and service delivery; (iii) the establishment and operation of the National Health Council (CNS); (iv) the use of management agreements to allocate funding to public health service providers; and (v) the contracting of nongovernmental and civil society organizations that provide health services.

D. Social welfare: The executing agency will provide the Bank with: (i) a report on social conditions based on information gathered through the social policy monitoring system; (ii) a progress report on restructuring of the social welfare sector; and (iii) the cost/benefit analysis report on priority programs in the social welfare sector.

PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS (DR-0159)
PRIORITY SOCIAL PROGRAMS (PSPS) FOR 2004

Program	Coverage goal	Financial goal (US$ x 1000)
PSP 1: Satisfaction of the basic learning requirements of boys and girls		
School meals	1,500,000 pupils	42,800
School assistance card (TAE)	100,000 poor mothers	10,280
Educational materials	1,500,000 pupils	14,200
PSP 2: Increased opportunities for continuing education for youths and adults		
Literacy for youths and adults in the border region and Samaná.	185,000 users	1,850
Literacy and basic education for adults	350,000 users	1,105
Basic and high school distance education	10,0000 adults	548
PSP 3: Strengthening educational quality and management		
Classroom repair and maintenance	10,000 classrooms	11,600
TOTAL PSPs EDUCATION		**82,383**
PSP 4: Public health		
Mother and infant care		1,257
Expanded immunization program (PAI)	141,000 children under 3	657
Accreditation and quality control of blood banks	Universal	654
Tuberculosis control	Universal	770
Rabies control	Universal	245
Inspection, surveillance and control of consumption and environmental risks	Universal	467
Control of sexually-transmitted diseases and HIV/AIDS	Universal	1,290
Control of vector-transmitted diseases	Universal	642
PSP 5: Individual health		
Essential drugs	Universal	4,286
Medical and surgical inputs	Universal	2,806
Oral health program for schools	500,000 schoolchildren	467
Protection for the elderly	10,000 elderly	243
Repair and maintenance of basic health facilities and equipment.	53 health care facilities	6,000
TOTAL PSPs PUBLIC HEALTH		**19,784**
TOTAL PSPs EDUCATION AND HEALTH		**102,167**
PSP 6: Priority social investments		
Drinking water and basic sanitation	Completion of 116 works	20,000
Housing improvements for poor families	32,000 households	10,400
Replacement of dirt floors with cement floors	33,000 households	7,000
PSP 7: Counterpart for external resources in health and education		
Health sector	N/A	7,000
Education sector	N/A	5,000
TOTAL COUNTERPART		**12,000**
TOTAL PSPs		**151,567**

Technical Secretariat, Office of the President

DOMINICAN REPUBLIC
DRAFT POLICY LETTER ON THE PROGRAM FOR THE PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS

Santo Domingo, 6 October 2003

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

Dear Mr. Iglesias:

The central objectives of the Dominican government's public policy are poverty reduction, better income distribution and a return to the path of sustained growth. In order to accomplish these objectives under the difficult circumstances described in this letter, we are requesting support from the Inter-American Development Bank (IDB) for an emergency program to protect and make sustainable the social reforms we have implemented so diligently since the start of this administration.

This policy letter sets out for you, Mr. Iglesias, the economic and social policy objectives that the Government of the Dominican Republic intends to pursue as part of such an emergency program as we request. This letter also expresses our commitment to support and sustain in the long term the social reforms our administration has been instituting with IDB support since 2001. That support has enabled us to implement major institutional reforms crucially centered on the development and approval of a national poverty reduction strategy providing a framework for the economic and structural measures necessary to regain the path to growth and stability.

Macroeconomic framework

Over the last decade, the Dominican Republic's economic performance was among the best in Latin America. Strong economic growth was accompanied by low inflation, a small fiscal deficit, prudent monetary policy and general macroeconomic stability. This translated into an increase in per capita income, a reduction in unemployment and a reduction in poverty.

The sectors that contributed most to growth in the economy over that period were exports and tourism. Substantial investments were made that led to significant improvements in productivity. A moderate current account deficit in the balance of payments, largely financed through foreign direct investment, contributed to a reduction in the total public foreign debt from 70% of GDP at the end of the 1980s to about 20% in 2000.

Recent situation (2001-2003). Since 2001, the economy has suffered a combination of deterioration in the external context and, more recently, an internal shock caused by the bankruptcy of an important private bank (BANINTER) owing to fraud and the weakness of other banks in the system. These two impacts undermined the confidence of the economic agents and brought pressure to bear on the exchange rate and public finances.

As confidence weakened, macroeconomic conditions became more difficult. By the first half of 2003, annual GDP had fallen by more than 1%, since the drop in domestic value added was not balanced out by the recovery in exports and tourism. The peso depreciated by 42% in the first seven months of the year and annual inflation rose to close to 30% by July. Although the balance of payments current account posted a surplus in the first quarter of 2003 and US$600 million were issued in sovereign bonds, net international reserves fell to just US$230 million in July, reflecting lower foreign investment and a flow of capital out of the country.

To support the liquidity of the financial sector, the Central Bank issued debt papers on the domestic market representing around 14% of GDP. All of this, coupled with the impact of the depreciation in the exchange rate, will push the balance of the public foreign debt up to 45% of GDP, which is much higher than the 26.3% that applied at the end of 2002.

In short, the main factors that caused the crisis were not fiscal in nature, but rather a crisis of confidence caused by external factors, bad corporate practices and fraud.

Economic prospects (2003-2005). Stand-by Arrangement with the IMF. The Dominican government has undertaken to address these problems by carrying out a comprehensive economic program with the IMF, intended to strengthen the banking system and macroeconomic conditions, thereby laying the groundwork for the reactivation of vigorous and sustainable growth.

The program is based on three pillars: (1) measures to boost confidence in the banking system; (2) actions to strengthen public finances and ensure the sustainability of the debt; and (3) a flexible exchange rate coupled with strict monetary discipline. Broad social and political support is being sought for the program as is the assistance needed from the international financial community.

Inflation is expected to peak at 35% in 2003, reflecting the impact of the exchange rate, and to fall to the one digit level in 2004. After shrinking in 2003, real GDP is expected to improve slightly in 2004 and to recover more strongly afterwards. Consistent with these assumptions, the current account balance should post a surplus during most of the program and net international reserves are also expected to recover.

Stabilizing and reducing the public debt over the medium term is a key objective of the program and one basic element in the strategy for ensuring that the debt can be sustained will be to hold the public sector deficit to 3.5% of GDP in 2003, 2.5% in 2004 and about 1% in 2005. The fiscal effort will focus on the nonfinancial public sector, since the Central Bank’s quasi fiscal deficit will remain high during the period. Accordingly, the government will have to restrict total spending, while protecting social spending, particularly on education and health.

To that end, a series of measures were adopted to generate annual revenue equivalent to close to 2% of GDP, including a substantial increase in the departure tax at airports, an adjustment in the fuel tax and temporary tax increases, including a 2% surcharge on imports and a commission of 0.15% on bank checks.

The government will seek congressional approval for a tax reform in 2004, with the goal of establishing a strong revenue base, improving the efficiency and equity of the tax system and ensuring sustainability of the debt in the medium term. The reform will include greater dependence on excise and income taxes and will eliminate distortions and special exemptions.

Monetary policy has been restricted with the primary objective of ensuring price stability. Consistent with the inflation goals outlined above, growth in the monetary base will be limited to not more than 27% in 2003. Monetary policy will be carried out through greater dependence on indirect monetary policy instruments.

For 2003, the change to a surplus in the external current account balance will help to compensate, at least partially, for the adverse behavior of the capital account, particularly private capital outflows. These outflows are expected to slacken in the second half of the year and to slow even more in 2004. We expect that the World Bank and IDB loans, combined with the Stand-by Arrangement, will boost the confidence of the economic agents and the public at large. All of the above should allow for substantial growth in our international reserves.

In addition, a broad strategy has been designed to boost the confidence of depositors in the banking system. The strategy seeks to increase transparency and provide a legal framework to settle banking disputes. Immediate steps have been taken to ensure that there are no accounting irregularities in other banks. All principal shareholders and senior managers of banks have been required to swear on oath to the accuracy and coverage of their financial statements.

Before the end of 2003, a proposal for public sector reform will be sent to congress, which will seek to restructure the public administration, particularly to strengthen its financial management (see the details in the next section).

It should be underlined that one of the governments' main objectives is to mitigate the adverse effects of the crisis on vulnerable social groups. Curbing inflation is an important part of these efforts. Also, the poverty-reduction strategy will help to improve coordination of existing social programs. The strategy is also intended to redirect government spending to the social sector, increasing it by 2% of GDP over the next five years, while improving its quality and effectiveness and sharpening its focus on social programs. This strategy will help to protect priority social programs from the spending cuts in 2003 and 2004, particularly education, health and nutrition programs, social safety nets and basic infrastructure for poor families. To support these efforts, the government has requested additional assistance from the IDB and the World Bank.

Reform of fiscal structures

The Dominican government is committed to the process of reform and modernization of the State and has begun to implement a financial administration reform program whose purpose is to develop and introduce an integrated financial administration system, whose goal is transparency, efficiency and effectiveness in the allocation and use of public funds, to provide timely information for decision making and to address social, political and economic demands made by the community.

The financial administration reform covers the entire nonfinancial public sector, i.e. the central administration, decentralized noncommercial public institutions and nonfinancial public companies, as well as the municipal governments.

Consistent with the goals of this reform, a legal and regulatory framework is being designed for the areas of the budget, treasury, public credit and control of public resources (financial administration bill), whose aim is to rationalize the public sector's financial administration, erect a structure of internal and external controls over management by public institutions, and confer transparency on the mechanisms for obtaining, applying and controlling public spending in function of defined objectives and policies. This legal framework will be presented to the legislative assembly for approval prior to December 2003.

These reform efforts have reduced discretionality in public spending, improved its management and protected social spending. Owing to their cross-cutting nature, changes of this kind have a multiplier effect that extends to all public institutions and contributes to the stability of the macroeconomic context and the execution of public policies.

The institutional measures described below will be adopted to put the process of heightened financial efficiency into practice:

- Prepare a public spending policy document to guide budget formulation for 2004, which establishes general spending and revenue policy for that year and spells out the government's intention to earmark funds for priority social programs in the health and education sectors.

- Place greater stress on the technique of program budgeting to identify priority social programs in the fields of education and health. This will allow the priorities defined for the social welfare areas to be expressed in the budget and monitored during the entire budget process.

- Consolidate the use of budget classifiers in all stages of the budget process and extend their application to the other nonfinancial public sector agencies, since this instrument integrates budget, accounting and financial information.

- Programming of financial execution of the budget will be maintained, ensuring that spending commitments are programmed as true instruments for short-term allocations that match financial requirements to possibilities. Here it should be stressed that spending commitments must be consistent with the programming of the actual flow of revenues, so that funding to implement the priority social programs will be assured.

- Develop and regulate a regime of budget modifications whose main purpose is to streamline budget execution by approving a mechanism for “restrictive” and “indicative” budget items, while ensuring that funds set aside for investment projects and priority social programs cannot be reduced or affected. This mechanism and the regulations will be developed under the framework of existing general legislation.

Mechanisms will be established to streamline the process of tax collection, payment of government obligations and administration of official bank accounts.

These mechanisms are related to the timely posting and control of deposits made to national treasury accounts and to the treasuries of government institutions, the establishment of a process for automatic payments by the national and institutional treasuries to cover the obligations of the priority social programs and the adoption of a process of automatic reconciliation of official bank accounts that establishes a daily balance of funds available so that the treasuries can program coverage of their obligations and provide greater certainty for the programming of allocations.

Social policy

Under the program to support institutional reform of the social sector launched in 2001 by the Dominican government, considerable progress has been made in firming up social policy, institutional development, linkage between economic policy and social policy, and relations between the public and private sectors.

Good headway has also been made in building a shared short- and long-term vision expressed in ever more sharply focused and more closely coordinated immediate social welfare actions and in structural reforms that seek fundamental progress that is sustainable in time, such as the Social Security Law.

The Dominican government approved a poverty reduction strategy (PRS) with a horizon to 2015, which was extensively consulted with civil society, political parties and grass-roots community organizations. Decree 566-03, which implements the PRS, orders the Social Cabinet to present the strategy to congress to raise it to the status of a national State policy. A Dominican education development plan for 2003-2013 has also been approved.

Program budgeting has been introduced and a system for financial programming of budget execution has been established for the entire centralized public sector. The process was initiated by the Departments of Education and Health and social welfare agencies. Regulations for the use of off-budget revenues were established in Decree 646-02. All of this ensures increasingly effective, efficient and transparent use of State resources.

In addition to the improvement in focus and planning of social spending, there has been a marked increase in public spending in this field. The total real increase in the period 2002-2003 was 8.4% for education and 11.1% for health. However, given the historic under-funding in this area, the government is determined to continue its efforts to increase social investment, strengthening the use of social spending as a development tool. It also intends to build up institutional capacity to promote social policy and the poverty reduction strategy, to ensure efficiency and effectiveness in public spending.

Strengthening the Social Cabinet has allowed for: linkage among the public institutions that are directly involved in developing social policy; relations with civil society through the Civil Society Consultative Council and the Network of Community Organizations; coordination between social policy and economic policy; and gradual complementarity with the different externally-financed programs related to sector development, such as the program for reform and modernization of the executive branch.

In this context, the National Planning Office is responsible for implementing Decree 566-03 that puts the poverty reduction strategy into effect. The Executive Unit of the Social Cabinet is promoting the process of restructuring the social sector, based on Decree 623-03, which orders the establishment of the social protection budget program, the introduction of program budgeting in 2004 for all the institutions in the social welfare sector, the merger, closure and/or decentralization of organizations and institutions in the sector, and the establishment of a lead agency in the social area. This process is being carried out under the responsibility of the Special Committee to Restructure the Social Welfare Sector, composed of the chair of the Social Cabinet, the National Planning Office, and the coordinator of the program for reform and modernization of the executive branch.

The social and institutional reforms being carried out in the sector are complemented by the government's economic reforms to promote competitiveness, sustained growth, poverty reduction, social inclusion and more equitable income distribution.

3. Program for the protection and sustainability of social reforms

The government works on the premise that the institutional shortcomings that have led to inefficiency in social spending and neutralized the fight against poverty can be overcome by sustaining and deepening the reforms that the present administration has carried out with support from the Inter-American Development Bank. The program for the protection and sustainability of social reforms (DR-0159) is designed to maintain key policy reforms that have demonstrably had a favorable impact on the institutional performance of social policy in all central government departments and on social and civil society stakeholders that participate today in designing and implementing the social policy contained in the poverty reduction strategy. The three areas of reform that we undertake to sustain under the program contribute to this objective, i.e. (1) the reforms in managing spending and in the formulation, execution and monitoring of the public budget; (2) the reforms to strengthen the institutional framework in the health, education and social welfare sectors; (3) protection of priority social spending on health and education; (4) institutional strengthening of the capacity to monitor social policy and poverty reduction; and (5) the unpostponable restructuring of the social welfare sector.

a. Budget protection for health and education

The government has identified a series of programs that it undertakes to include in the budget and implement during 2004 and to maintain at least the same real spending levels during 2005. The programs have been selected on account of their large impact on the very poor and because they bring broad social benefits. The government has assured itself that the protection is specifically what is necessary for current nonwage costs, or for social investments to benefit the poor, which are already under way or which protect the counterparts for education and health loans.

The government wishes to avoid the experience of other countries where, during periods of economic crisis such as the one afflicting us, rigidities in public spending forced cutbacks in current spending, since the potential impact on the indigent would be very grave. Accordingly, we have selected programs on the following basis: (i) in the education sector, they prevent drops in the coverage of basic schooling; and (ii) in the health sector, they involve public health actions – that benefit the entire population – and welfare services to permit the normal operation of the network of medical services. The selected PSPs will cost US$152 million, equivalent to slightly more than 5% of the tentative budget for 2004 of US$2,968 million. The amounts determined and the physical coverage goals are shown in Table l.

Table 1. Programs protected in the 2004 budget

Cost category	Amounts programmed for 2004 (US$)
Total costs	2,968.69
Recurrent costs	2,214.60
Capital costs	811.20
Total protected budget	151.57
Nonwage PSPs	102.17
Social investment PSPs	37.40
External loan counterpart	12.00

Specifically, we reached agreement during the negotiation of this program on the details of the amounts and physical coverage to be protected in 2004 and 2005. We can commit to programming the following financial goals:

Budget programs	Financial goal (US$ x 1000)
EDUCATION SECTOR	
School meals program	42,800
School attendance card (TAE)	10,280
Educational materials	14,200
Literacy for youths and adults in the border region and Samaná	1,850
Adult literacy and basic education	1,105
Basic and high school distance education	548
Classroom repair and maintenance	11,600
TOTAL FOR EDUCATION	82,383
HEALTH SECTOR	
Mother and infant care	1,257
Expanded immunization program (PAI)	657
Accreditation and quality control of blood banks	654
Tuberculosis control	770
Rabies control	245
Inspection, surveillance and control of consumption and environmental risks	467
Control of sexually-transmitted diseases and HIV/AIDS	1,290
Control of vector-transmitted diseases	642
Essential drugs	4,286
Medical and surgical inputs	2,806
Oral health program for schools	467
Protection for the elderly	243
Repair and maintenance of basic health facilities and equipment	6,000
TOTAL PUBLIC HEALTH	19,784
SOCIAL INVESTMENT	
Drinking water and basic sanitation	20,000
Housing improvements for poor families	10,400
Replacement of dirt floors with cement floors	7,000
Health sector	7,000
Education sector	5,000
TOTAL SOCIAL INVESTMENT	49,400
TOTAL PROTECTED BUDGET	**151,567**

b. Reforms under way in managing social spending and in the health, education and social welfare sectors

With support from the Inter-American Development Bank, we have been carrying out a series of basic reforms that we are committed to maintaining during the crisis. All the reforms aim at greater transparency in public spending and the introduction of significant improvements in budget execution in the health, education and social welfare sectors.

Between 2001 and 2003, the government was very successful in implementing a program to support institutional reforms in the social sector (DR-0140), which was intended to introduce changes in the management of public spending to reduce discretionary authority and improve allocation and execution. We also undertook to carry out reforms to modernize the institutional framework in the education and health sectors and to begin decentralizing them. Last, we took it on ourselves to launch and implement reforms to build new institutional capacity that would allow us to improve social sector coordination and to formulate a poverty reduction strategy (PRS). It is with great satisfaction that we report the success of all these commitments.

The main budget reforms we carried out between 2001-2003 have already been mentioned and included: (1) introduction of the system of program budgeting in the Departments of Education and Health; (2) the start up of a system for financial programming of execution in the Departments of Education and Health (Decree 614-01); and (3) the introduction of new rules for the use and application of off-budget resources from the President's Special Fund (Decree 646-02).

At the end of 2001 we began to prepare a poverty reduction strategy (PRS), under the coordination of the Social Cabinet, a body that was also created by our government, which brings together government departments in the social sector and civil society. The PRS was widely discussed with civil society and allowed us to define a framework of future priorities for the social sector, particularly those that make significant progress toward the millennium goals. The PRS is posited on: (i) maintaining a stable macroeconomic context; (ii) improving the quality and effectiveness of social spending, while increasing that spending by at least 2% of GDP over a four-year period; and (iii) implementing the social security reform. Owing to the current fiscal adjustment, we have had to postpone for the next 12 months the expectations for growth in social spending contained in the PRS, which forces us to be more efficient in our spending on health and education and, particularly, on social welfare.

In the education sector, the reforms we are committed to maintaining include: (i) approval and start-up of new sector management processes, particularly management of human resources and the teachers' roll; (ii) approval of a new statute governing the teaching profession; and (iii) decentralization to the school boards. Once this program is complete, among other accomplishments, we will have instituted a system of performance incentives at seven regional directorates of the Department of Education. In order to put the necessary processes in place for this major step toward modernizing the education sector, we have committed to protect a total of US$4 million in 2004.

In the health sector, our commitment is to maintain the reforms established in the General Health Act, particularly with regard to: implementation of the regulations on the organization of the national health system; separation of the regulatory, financing and service delivery functions; the establishment and operation of the National Health Council; the use of management agreements to allocate resources to public health service suppliers; and the contracting of nongovernmental and civil society organizations that provide health care services.

In the social welfare sector, we undertake to maintain the results achieved so far in terms of the development of instruments to monitor social policy and the introduction of rules to reorganize sector institutions, which were included in Presidential Decrees 623-03 on institutional restructuring of the social welfare sector and 566-03, which puts the PRS into effect. Implementation of the first stages of the reorganization will result in savings of close to 1% of GDP and we commit to ensuring that budget programming for 2004 for the sector will be executed in accordance with the rules for program-based budget formulation and execution. Also, we can confirm that the Social Welfare Sector Restructuring Committee, created by Decree 623-03 has begun to operate and has established its work program for 2004, which we will follow in carrying out stage one of the reform in this important sector.

To support the social welfare sector restructuring process and implement key aspects of our PRS, we have committed to protect US$2 million in the 2004 budget for ONAPLAN and the social-sector authority known as the Gabinete Social to institute the social policy monitoring and evaluation system. A key part of this process is that the system will enable us to utilize both government-generated statistics and the new quality-of-life surveys that measure the effects of the crisis and our efforts on households. In order to make sound decisions about the social welfare sector's future, we will use the social policy monitoring system for cost/benefit analyses of all social assistance programs run by the central government. This should help identify which programs ought to be expanded, and which shut down or completely restructured as inefficient or generally ineffective.

5. Support from the Inter-American Development Bank

The government undertakes to continue executing the programs with external financing in the education and health sectors, which are highly complementary to the program for the protection and sustainability of social reforms (DR-0159). In particular, good complimentarity exists with the multi-stage basic education program (DR-0125); the health sector modernization and restructuring program (DR-0078); the technical-cooperation loan for integrated financial administration (DR-0094); and the program to modernize the executive branch (DR-0073).

The Dominican government's commitment to comprehensively and effectively address the problem of poverty in a period of unprecedented economic crisis is reflected in the foregoing intentions. The support of the Inter-American Development Bank and of other multilateral lending agencies is a very valuable contribution that will reinforce the credibility of its actions in the field of social management.

Sincerely,

Carlos Despradel
Technical Secretary, Office of the President

Anexo IV
(DR-0159)

PROJECT EXECUTION PLAN
PROTECTION AND SUSTAINABILITY OF SOCIAL REFORMS (DR-0159)

Activities	Action by	2004																																													
		January				February				March				April				May				June				July				August				September				October				November				December			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
PSP PROTECTION																																															
1.1 Review the 2004 Public Expenditure Law for consistency with Bank-approved programming																																															
- Prepare report on performance of Bank-approved PSP programming and consistency with the Public Expenditure Law	SF													●	●	●																															
- Present findings	SF																●																														
1.2 Determine whether PSP physical and financial targets have been met in 2004																																															
- Prepare quarterly PSP monitoring reports (Q1)	SPT											●	●	●	●																																
- Prepare quarterly PSP monitoring reports (Q2)	SPT																							●	●	●	●																				
- Prepare quarterly PSP monitoring reports (Q3)	SPT																																			●	●	●	●										
1.3 PSP identification and programming for 2005																																															
- Project design and development, set physical and financial targets	SEE SESPAS																			●	●	●	●																								
- Program budgeting for Department of Education (SEE) PSPs	SEE																							●	●																						
- Program budgeting for Department of Public Health and Social Welfare (SESPAS) PSPs	SESPAS																							●	●																						
- Presentation of preliminary budget for SEE PSPs	SEE																									●																					
- Presentation of preliminary budget for SESPAS PSPs	SESPAS																									●																					
- Coordination committee reviews PSP programming	STP																											●																			
- Incorporate findings into SEE general budget	SEE																																			●	●												
- Incorporate findings into SESPAS general budget	SESPAS																																			●	●												
- Review preliminary budget	ONAPRES																																					●	●										
- Budget integration and consolidation	ONAPRES																																							●	●								
- Coordination committee reviews PSP programming	STP																																								●								
- Send to Development Council	ONAPRES																																									●	●						
- Send to National Congress	PRESIDENT																																											●	●				
PROTECTION OF REFORMS UNDER WAY																																															
2.1 Maintain and execute program budget and financial programming system for budget execution at SESPAS and SEE, and implement rules and regulations on the use of extrabudgetary revenues																																															
- Prepare budget performance reports (Q1)	ONAPRES											●	●																																		
- Prepare budget performance reports (Q2)	ONAPRES																							●	●																						
- Prepare budget performance reports (Q3)	ONAPRES																																			●	●												
2.2 Determine whether conditions have been met for budget execution in 2004																																															
- Consolidate and organize information	STP																																							●	●								
- Prepare report	STP																																									●	●	●	●				
2.3 Determine whether conditions have been met for education in 2004																																															
- Prepare quarterly monitoring report on (i) implementation of the Statute Governing the Teaching Profession, and (ii) performance of transfers to the decentralized school boards (Q1)	SEE											●	●																																		
- Prepare quarterly monitoring report on (i) implementation of the Statute Governing the Teaching Profession, and (ii) performance of transfers to the decentralized school boards (Q2)	SEE																							●	●																						
- Prepare quarterly monitoring report on (i) implementation of the Statute Governing the Teaching Profession, and (ii) performance of transfers to the decentralized school boards (Q3)	SEE																																			●	●												
- Prepare final report on completion of the process of implementing the Statute Governing the Teaching Profession, and transfers to the decentralized school boards	STP																																											●	●				
2.4 Determine whether conditions have been met for health in 2004																																															
- Prepare quarterly monitoring report on implementation of the General Health Act in the areas of national health system structure, separation of functions, use of management agreements with the hospital network, and contracting with NGOs and CSOs to deliver health services (Q1)	SESPAS											●	●																																		
- Prepare quarterly monitoring report on implementation of the General Health Act in the areas of national health system structure, separation of functions, use of management agreements with the hospital network, and contracting with NGOs and CSOs to deliver health services (Q2)	SESPAS																							●	●																						
- Prepare quarterly monitoring report on implementation of the General Health Act in the areas of national health system structure, separation of functions, use of management agreements with the hospital network, and contracting with NGOs and CSOs to deliver health services (Q3)	SESPAS																																			●	●												
- Prepare final report on implementation of the General Health Act	STP																																											●	●				
2.4 Determine whether conditions have been met for social welfare in 2004																																															
- Prepare quarterly monitoring report on implementation of the social policy monitoring system and social welfare sector restructuring plan (Q1)	GS											●	●																																		
- Prepare quarterly monitoring report on implementation of the social policy monitoring system and social welfare sector restructuring plan (Q2)	GS																							●	●																						
- Prepare quarterly monitoring report on implementation of the social policy monitoring system and social welfare sector restructuring plan (Q3)	GS																																			●	●												
- Prepare final report on implementation of the social policy monitoring system and social welfare sector restructuring plan	STP																																											●	●				
DELIVERY OF QUARTERLY MONITORING REPORTS																																															
- Consolidate and deliver quarterly monitoring report (Q1)	STP													●	●																																
- Consolidate and deliver quarterly monitoring report (Q2)	STP																									●	●																				
- Consolidate and deliver quarterly monitoring report (Q3)	STP																																					●	●										