Dominican Republic

FROM THE INTERNATIONAL FINANCIAL CRISIS TOWARDS INCLUSIVE GROWTH IN THE DOMINICAN REPUBLIC

Policy
Notes

World Bank
Dominican Republic

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Dominican Republic - Policy Notes

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ABBREVIATIONS AND ACRONYMS

AHP	*Asociaciones de Ahorro y Préstamo*
AIRAC	*Asociación de Instituciones Rurales de Ahorro y Crédito*
APORDOM	*Autoridad Portuaria Dominicana*
ARS	*Administradoras de Riesgos de Salud*
BAC	*Bancos de Ahorro y Crédito*
BC	*Bancos Comerciales*
BHD	*Banco Hipotecario Dominicano*
BNV	*Banco Nacional de Fomento de la Vivienda y la Producción*
CAC	*Cooperativas de Ahorro y Crédito*
CAF	Common Assessment Framework
CAIT	Climate Analysis Indicators Tool
CBI	Caribbean Basin Inititiative
CC	*Corporaciones de Crédito*
CCPSD	*Cámara de Comercio y Producción de Santo Domingo*
CDD	*Centro Dominicano de Desarrollo*
CDE	*Corporación Dominicana de Electricidad*
CDEEE	*Corporación Dominicana de Empresas Eléctricas Estatales*
CEPAL	*Comisión Económica para América Latina y el Caribe*
CEPP	*Compañía de Electricidad de Puerto Plata*
CFI	*Corporación de Fomento Industrial*
CNE	*Comisión Nacional de Energía*
COFIDE	*Corporación Financiera de Desarrollo*
CORFO	*Corporación de Fomento a la Producción*
CPACC	Caribbean Planning for Adaptation to Climate Change
CRI	Cash Recovery Index

CRI	Climate Decadal Risk Index
DGA	*Dirección General de Aduanas*
DGII	*Dirección General de Impuestos Internos*
DR-CAFTA	Dominican Republic – Central America Free Trade Agreement
DUA	*Declaración Única Aduanera*
ECLOF	Ecumenical Church Loan Fund
EDE	*Empresas Distribuidoras de Electricidad*
EGEHID	*Empresa de Generación Hidroeléctrica Dominicana*
ENDESA	*Encuesta Demográfica y de Salud*
ENHOGAR	*Encuesta Nacional de Hogares de Propósitos Múltiples*
ETED	*Empresa de Transmisión Eléctrica Dominicana*
ETI*	Enabling Trade Index
FDD	*Fundación Dominicana de Desarrollo*
FEDOMU	*Federación Dominicana de Municipios*
FET	*Fondo de Estabilización de la Tarifa*
FONDESA	*Fondo para el Desarrollo*
GEF	Global Environmental Facility
GHG*	*Greenhouse Gas*
I&D	*Investigación y Desarrollo*
ICPARD	*Instituto de Contadores Públicos Autorizados de la República Dominicana*
IDDI	*Instituto Dominicano de Desarrollo Integral*
IDECOOP	*Instituto de Desarrollo y Crédito Cooperativo*
IDSS	*Instituto Dominicano de Seguridad Social*
IFC	International Finance Corporation
IFRS*	International Financial Reporting Standards
IIBI	*Instituto de Innovación en Biotecnología e Industria*
INFOTEP	*Instituto Nacional de Formación Técnico Profesional*
IPCC*	Intergovernmental Panel on Climate Change
IPP	Independent Power Producer
ITBIS	*Impuesto a las Transferencias de Bienes Industrializados y Servicios*
LNG	Liquefied Natural Gas
LPI	Logistics Perception Index
LSCI	Liner Shipping Connectivity Index
MAMS	Maquette for Millennium Development Goals Simulation
MFA	Multifibre Arrangement
MFN	Most Favored Nation
MPMPs	*Marcos Presupuestarios de Mediano Plazo*
MW	Megawatt
ONAPI	*Oficina Nacional de Propiedad Intelectual*
PAEF	*Programa Nacional de Apoyo a la Eliminación del Fraude Eléctrico*
PEA	*Población Económicamente Activa*
PIEGE	*Plan Indicativo de Expansión de Generación Eléctrica*
PLANAN	*Plan Nacional de Alimentación y Nutrición*
PNOT	*Plan Nacional de Ordenación del Territorio de República Dominicana*
PNPSP	*Plan Nacional Plurianual del Sector Público*
PPAs	Power Purchase Agreement
PPP	Public Private Partnership
PRA	*Programa de Reducción de Apagones*
PROEMPRESA	*Programa de Apoyo a las Pequeñas Empresas Privadas Dominicanas*
PROMESE/CAL	*Programa de Medicamentos Esenciales/Central de Apoyo Logístico*
PROMIPYME	*Consejo Nacional de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa*
PROTECOM	*Oficina de Protección al Consumidor*
PSSG	*Programa de Servicios de Salud Gratuitos*
REDP	Renewable Energy Development Project
SEAP	*Secretaría de Estado de Administración Pública*
SEEPyD	*Secretaría de Estado de Economía, Planificación y Desarrollo*
SEH	*Secretaría de Estado de Hacienda*
SEMARENA	*Secretaría de Estado de Medio Ambiente y Recursos Naturales*
SeNaSa	*Seguro Nacional de Salud*
SESPAS	*Secretaría de Estado de Salud Pública y Asistencia Social*
SIAFE	*Sistema Integrado de Administración Financiera del Estado*
SIE	*Superintendencia de Electricidad*
SIGEF	*Sistema Integrado de Gestión Financiera*
SPS	*Seguro Popular de Salud*
SRES	Special Reports on Emission Scenario
SRS	*Servicios Regionales de Salud*
SV	*Sistemas fotovoltaicos*
UERS	*Unidad de Electrificación Rural y Suburbana*
UNCTAD	United Nations Conference on Trade and Development
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WEF	World Economic Forum
ZAL	*Zona de Actividades Logísticas*

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PREFACE

"República Dominicana: de la crisis financiera internacional al crecimiento para todos" is a compilation of nine policy notes requested by the Dominican Government an input into the country's National Development Strategy. The notes included in this volume are the result of an in-depth series of conversations with government counterparts combined with lessons of experience from the Dominican Republic and other countries of the world. I am pleased with the very productive collaboration between government and World Bank technical teams that underpinned the production of these notes.

These notes were drafted during a very special period for the Dominican Republic and other countries around the globe, as the world experienced the worst financial and economic crisis in decades. This crisis provided the opportunity to address creatively long standing development challenges in the Dominican Republic, a country that despite having high levels of economic growth faces multiple challenges to reduce poverty and inequality.

I hope that the readers will find these notes interesting and that through this humble contribution we can contribute to the national public debate among actors in government, civil society, and the private sector. I hope that the innovative ideas included in this volume will help the Dominicans build a better society, continue the fight against poverty and provide opportunities for all."

Yvonne M. Tsikata
World Bank Country Director for the Caribbean Region

INTRODUCTION

From the International Financial Crisis Towards Inclusive Growth in the Dominican Republic

ROBY SENDEROWITSCH[a]
DAVIDE ZUCCHINI[b]

During the second half of the year 2008, the world experienced the worst worldwide economic crisis in over 70 years. The effects deriving from this crisis can still be felt over most of the planet. Low or negative economic growth in developed nations and emerging economies, high levels of unemployment and millions of persons below the poverty line, are some of the most stark examples. In the Dominican Republic, the effects of this international crisis are manifested in the reduction in international trade, the drop in tourism and in remittances, and an economic growth rate lower than expected.

During this same period, the Government of the Dominican Republic undertook the task of preparing a long-term National Development Strategy, with a time horizon of 20 years. As part of this process, Dominican authorities requested the support of several international development agencies via the production of a series of policy notes that could shed light on the main challenges the country faces.

In this regard, the Dominican Republic asked the World Bank to prepare nine policy notes which are presented in this volume. These notes focus on the following topics: (i) long run economic growth in the Dominican Republic; (ii) ease of doing business; (iii) logistics for competitiveness; (iv) access to financial services with emphasis on financing for micro, small and medium enterprises (MSMEs) ; (v) the electricity sector; (vi) climate change and the Dominican Republic, (vii) the health sector, (viii) territorial development, and (ix) accountability and performance system.

In this context, within the framework of a strategic planning exercise at the highest level with the participation of broad sectors of Dominican society – and during one of the worst worldwide economic crises, the World Bank undertook the task of contributing with a set of policy alternatives for the country's development. The papers presented here are backed by an ongoing dialogue with government counterparts and

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with information provided by the private sector and civil society. The ideas shared in this volume must be understood as policy alternatives, based on significant accumulation of international experiences, and not as mere recipes.

Among other things, the international crisis highlighted the need to have more spaces for reflection about different models for economic growth and development – on the global as well as the local level. The crisis, together with the ongoing process of defining the National Development Strategy, set forth the need to promote inclusive growth as a strategy to generate opportunities for all Dominicans, men and women, and to achieve lower poverty levels and higher levels of social justice.

The policy notes presented here argue that an inclusive development is possible in the Dominican Republic. However, great challenges must be faced to meet this goal. From the analysis presented in this volume four challenges emerge which must be faced head-on in order to achieve sustainable and inclusive development.

The first challenge is the need to promote growth with equity to incorporate broad sectors of Dominican society. The second challenge is to raise the country's levels of competitiveness, taking full advantage of its endowment of resources, including its privileged geographic position in the world. The third challenges focuses on facing the institutional hurdles that block the solution of a series of problems in diverse sectors of public policy. Finally, the fourth challenge evidences the need to continue the strengthening of democratic governance by producing concrete tangible results for the citizens.

1. The Dominican Republic can begin the journey of growth with equity

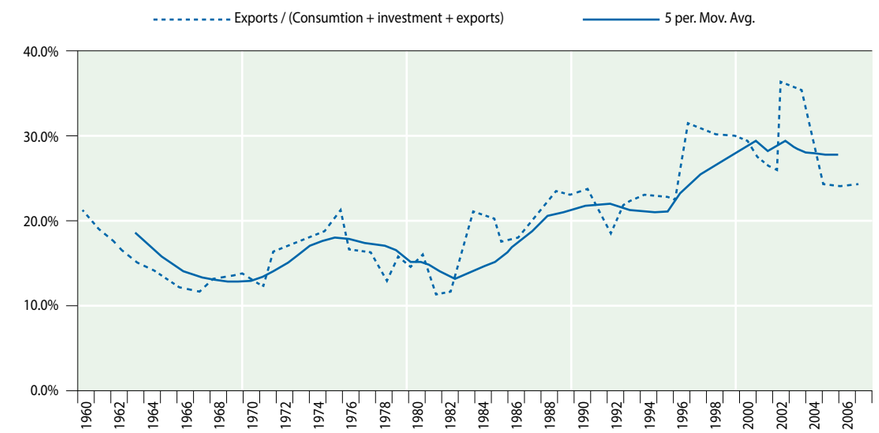
It is well-known that economic growth is a necessary but insufficient condition for the development of a country. Development, understood in its many dimensions, requires inclusive economic growth which allows the involvement of broad sectors of society with the productive system and be able to sustain public investment in human capital.

As presented in Chapter I of this volume, during the last five decades, the Dominican Republic experimented a higher than average economic growth compared with the rest of the Latin American and Caribbean region (5.3% versus 3.8% on average in terms of GDP).

The growing economic integration of the country has been characterized by deep changes in the structure of GDP. While in the 70's and early 80's, the Dominican Republic was primarily an exporter of agricultural and manufactured products, during the mid 80's the country changed its economic structure to become a provider of services and tourism.

As shown in the following graph, these changes in the structure and composition of GDP are associated with an increase in the share of exports in aggregate demand and have resulted in significant consequences for the labor market.

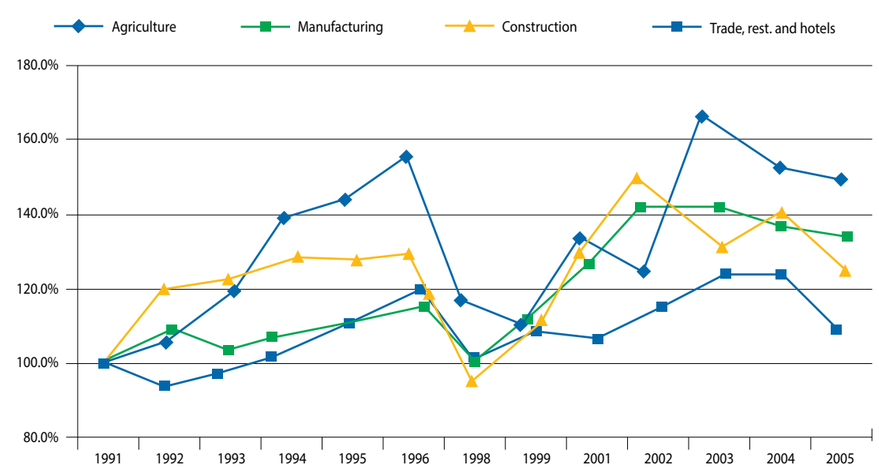
Exports of goods and services as a percentage of aggregate demand



Source: Chapter I, page 19

From the 90's, job creation has been focused in activities related mainly to tourism. Thus, between 1991 and 2005, nearly a million new jobs have been created, 40% of which correspond to services in commerce, restaurants and hotels, 11% to the construction sector, 26% to other services and, finally, 11% to transportation and communications (Page 18). Paradoxically, as presented in the following graph, the sectors that most contribute to GDP and jobs growth are those which have been less characterized by their contributions to productivity.

Labor productivity (GDP per worker) for the highest job creating activities



Source: Chapter I, page 23

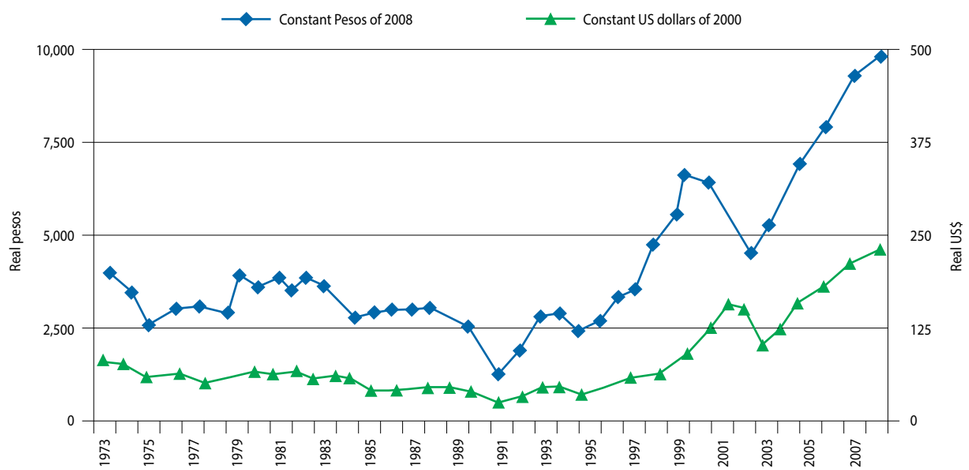
This duality in the Dominican economy explains, at least in part, the reason why economic growth has not translated into a significant reduction in poverty and inequalities.

Product expansion in the past decades was not accompanied by a substantial reduction in poverty and inequality, nor has it produced the expected improvements in other welfare dimensions such as health and education. In the case of the Dominican Republic, the empirical evidence suggests there is an asymmetric relationship between economic growth and poverty. In periods of positive economic growth, poverty reduction is small and slow, but in periods of stagnation or economic crisis the increase in poverty is large and fast. Between 1986 and 1998, poverty dropped by almost 9 percentage points, going from 37.5% to 28.6%. This drop coincides with strong economic growth, from US$ 3,243 to US$ 4,384 GDP per capita, which constitutes an increase of more than 35%.

According to the data presented in Chapter I, during the period 1997-2002, poverty remained around 27 percent despite continued growth (GDP per capita reached US$ 5,100 in 2002). During the 2003 crisis, GDP per capita dropped only 4%, but poverty jumped to 42 percent. After the crisis, GDP per capita re-assumed its vigorous growth (over 7% annually) reducing poverty to 37.8% (according to preliminary data). While this reflects a significant improvement with respect to the levels attained during the crisis, poverty remains at levels similar to those of 1986 and far higher than the levels experienced towards the end of the century.

In addition to income, it is also important to take into consideration the role of public expenditures, particularly social expenditures as an instrument for attaining greater levels of social equity in a society. As shown in the following graph, between 1973 and 1996, the social expenditures of the Dominican Republic have been low, around 3,000 pesos per person per year, increasing to 4,000 pesos in 1999 and reaching nearly 10,000 pesos in 2008.

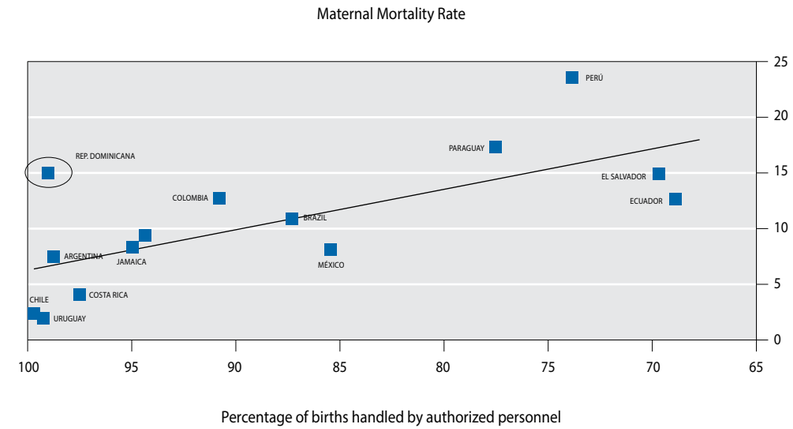
Public expenditure per person



Source: Chapter I, page 24

Although it must be acknowledged that social expenditure has grown significantly, further steps have to be taken to increase the amount as well as the quality of public spending. Any vision of development intended to generate inclusion, social cohesion and a sense of ownership, must be constructed on the Equal Opportunities Principle. In this regard, investment in human capital is a key element, and access to quality health care is a primary factor. Chapter VII of this volume analyzes health expenditures in the Dominican Republic.

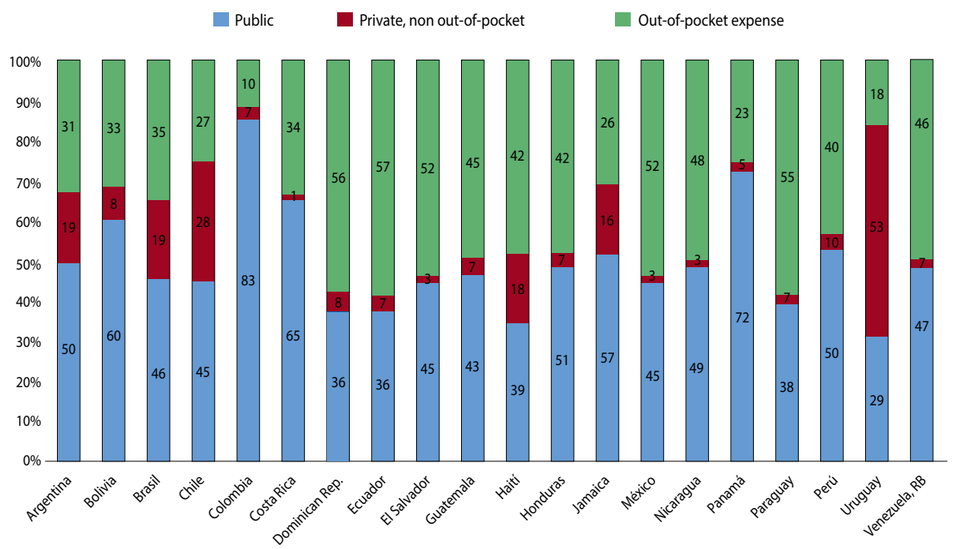
The most recent information on both health care coverage and outcomes suggests that the Dominican Republic has had significant improvements as reflected in the increase in life expectancy and in the decrease of mortality due to infections. Even so, quality in providing services has not grown in proportion to access, which creates new challenges in the health system as data on institutional births and estimates of maternal mortality suggest. As shown in the following graph, despite the fact that over 95% of women give birth in hospitals, maternal mortality presents alarming data – it is ranked far above expectation in countries with this level of coverage.



Source: Chapter VII, page 98

A rigorous analysis of the health sector requires taking into account, in addition to the quantity of public spending, the quality and composition of the expenditure. In the Dominican Republic the percentage of out-of-pocket expenditure is one of the highest in the region. As shown in the following figure, private spending is one of the main sources to finance health services, making up the bulk of out-of-pocket expenditures (58%) for national financing in health, far exceeding the overall public expenditure (36%). It is now well-known that out-of-pocket expenditures are regressive: although lower income householdsspend less in absolute terms, in relative terms this expense turns out to be very costly (Page 93).

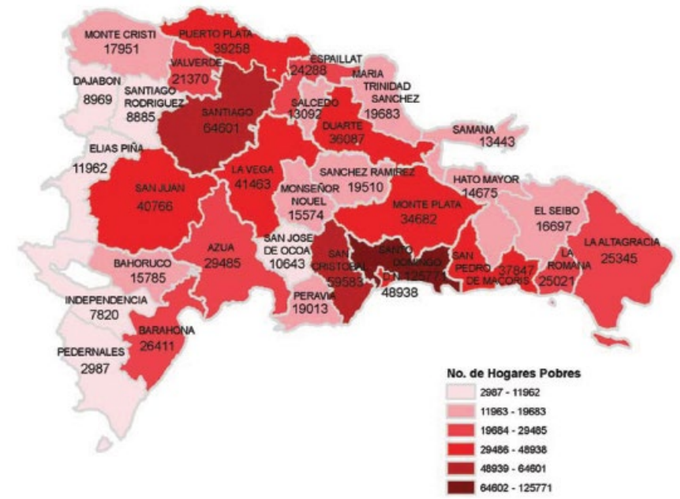
Composition of national health expenditures in several LAC countries by type of expenditure



Source: Chapter VII, page 99

An inclusive growth should also take into account territorial differences and, in particular, the need for having public policies that promote territorial cohesion. As presented in Chapter VIII, the country's communication and physical infrastructure has intensified economic and demographic concentration in the regions of Santo Domingo, the North (Cibao) and the tourism areas in the East, leaving the other regions in a secondary position. The network of secondary roads and, in many cases, main roads, is found to be in precarious conditions, reinforcing the isolation of entire provinces and hinder their dynamic integration into the general economy. As shown in the following figure, there is a link between poverty and this situation (Page 105).

Number of poor households per province



Source: Chapter VIII, page 114

By analyzing the data nationwide, some clear important regional differences come out. The gap among provinces poverty levels increased by 7 percentage points between 1981 and 2002, going from 15% to 22%. Breaking the vicious circle of poverty, geo-economic periphery and low access to services are some of the challenges the Dominican Republic has to face in order to create the conditions to allow growth with more territorial cohesion, i.e., a development model that benefits all.

In order to continue maintaining the current growth rate and attain the sustainable and inclusive development goals which have been set in the National Development Strategy, the Dominican Republic must re-think its current export-driven production model, to increase internal demand for quality goods and services in order to generate productive jobs with a high content of human capital.

One of the pre-conditions to be able to carry out these changes successfully is to expand and improve social expenditures, which means creating the conditions for the citizens to be able to fully participate in economic, social and cultural life, which at the same time, increases the possibilities for a country's development.

Attention to territorial development is a priority when it comes to creating a development model that promotes economic growth with equality.

2. The Dominican Republic has a privileged geographical position which can be enhanced with improved levels of competitiveness

One of the main comparative advantages of the Dominican Republic is its geographical position, since it is at a relatively short distance to the largest market of the world. Taking advantage of this privileged geographical location requires increasing the levels of the country's competitiveness and improving the business climate.

Among other elements, this implies strengthening the levels of coordination among public institutions, raising the quality of investment in human capital, improving the country's logistical services and promoting coordination between the private and public sectors. These elements are taken into account in chapters II, III and VIII.

Just as presented in Chapter I, the Dominican economy possesses a relatively small internal market and its development considerably depends on resources coming from exports of goods and services. In this scenario, poverty reduction and quality job creation are closely related to the development and performance of the export sectors. Services to facilitate exports therefore become an important policy towards development and, via the creation of productive opportunities, to reduce poverty.

In Chapter III, the logistic for competitiveness is examined. Several indicators measuring the logistical performance of the countries show that the Dominican Republic achieves results well below the international average. For example, as evidenced in the following table, the Logistics Perception Index – LPI places the Dominican Republic in the 96th position among 150 countries. This index is based on the perception of international cargo operators over seven key indicators which are combined into a sole indicator. According to the indicators, the most serious problems are related to the organization of services (Page 50).

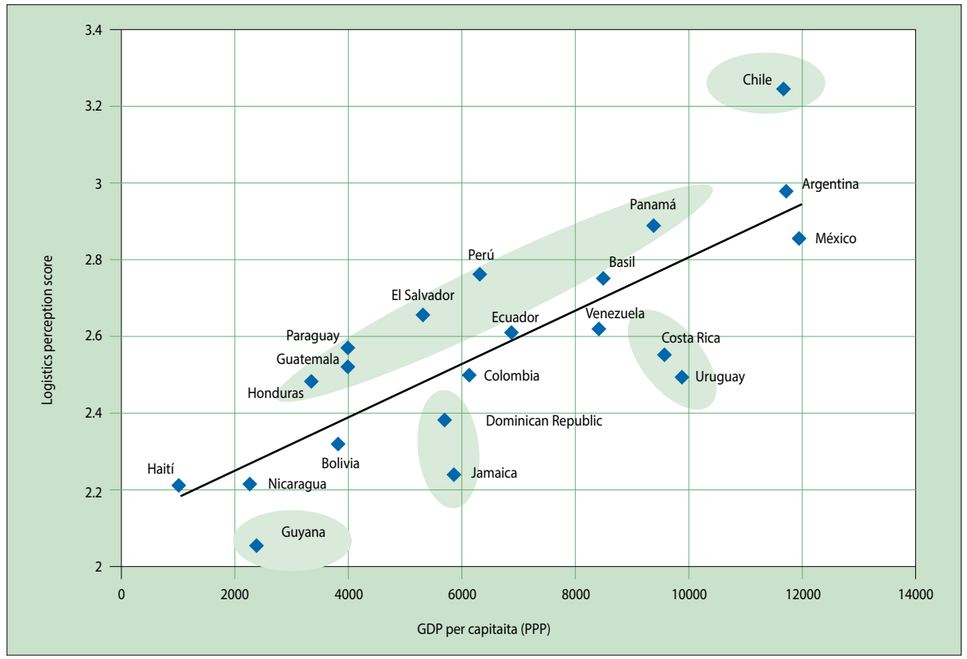
Índice de percepción logística y sus sub-índices

Countries	Ranking -LPI	Customs	Infraestructure	Ease of Dispatch	Logistics Services	Ease of follow-up	Internal logistics costs	Timelines
Argentina	45	51	47	49	44	46	93	46
Panamá	54	48	48	58	61	49	26	49
México	56	60	53	53	57	48	101	51
El Salvador	66	75	68	61	78	61	74	73
Costa Rica	72	64	67	82	89	78	48	90
Honduras	80	65	79	93	91	91	86	93
Guatemala	75	87	104	73	79	90	65	64
Dominican Rep.	96	82	97	107	108	107	54	91

Source: Chapter I, page 19

As reflected in the following graph, the logistic performance of the Dominican Republic is below expected, taking into account GDP per capita.

Relationship between logistic performance and GDP per capita in Latin America



Source: Chapter II, pág. 53

In order to take advantage of the great potentials offered by international trade, Chapter III concludes that the work agenda must be built around modification of the services structures, expansion of the participation of the private sector, strengthening the public agencies related to international trade and improving the ease of doing business.

Improvement in logistical services must take into account integration of the national territory, becoming a true "logistical hub", a "springboard" for exports. This includes elements such as internal connectivity, the existence of efficient ports and strategically located merchandise collection centers and both infrastructure and human capital investments nationwide.

In this regard, the focus must be ideally maintained on the local level while the national level is planned for insertion in international markets. Chapter VIII provides the analytical framework for territorial development. In the case of the Dominican Republic, the main challenge for public policy is to generate convergence in a divergent country. Nowadays, there are enormous differences within regions, provinces and municipalities, with simultaneous processes of concentration and de-population. Territorial development is the result of historical processes that have created an undesirable pattern of concentration of income and wealth, closely linked to geographic location and natural resources.

Internal geography and the location of infrastructures pose significant challenges for the competitiveness of the country. Physical communications in the Dominican Republic all radiate from the hub of the capital city towards the main geographical areas: the North (Cibao), the South and the East. On the other hand, there is little intercommunication between these zones, and it is particularly difficult in the rugged mountainous areas.

As set forth in Chapter VI, converging and improving coordination between public institutions is another key policy aspect for reducing the vulnerabilities and the effects of climate change. The same chapter presents the principal challenges of the Dominican Republic, which is the fourth most affected country by climate change according to the Climate Risk Index (Page 83).

Climate Decadal Risk Index - CRI

CRI 1998-227	Country	CRI Score	Average death toll	Average deaths per 100,000 inhabitants	Average total losses (in million US$ PPP)	Average losses per GDP in %
1	Honduras	6.75	579	8.50	1,166	5.15
2	Bangladesh	10.92	1,093	0.70	4,426	3.02
3	Nicaragua	11.62	308	5.70	528	4.30
4	Dominican Republic	14.83	414	5.00	503	0.98
5	Haití	15.75	402	5.10	232	2.42
6	Vietnam	18.33	406	0.50	2,152	1.47
7	India	18.83	4,532	0.40	12,047	0.62
8	Mozambique	24.75	121	0.60	228	1.98
9	Venezuela	24.75	3.012	11.9	433	0.18
10	Philippines	25.83	472	0.60	698	0.33

Source: Chapter VI, page 90

The impact of climate change on the geography of the Dominican Republic and therefore on its development potential highlights the need to adopt a set of policies to improve water resources management (Page 86), to enhance the quality of infrastructure and services to maintain the tourism supply, to reduce the contamination impact of overpopulation, sedimentation and sewage system as well as in other forms of pollution (Page 87) and to prepare for changes in the patterns of infectious diseases such as dengue and malaria (Page 87).

In conclusion, according to that set forth above, to exploit the comparative advantages offered by its privileged position, the Dominican Republic will need to improve the country's logistics services, increase its level of competitiveness and improve business climate, foster territorial integration and reduce vulnerabilities to climate change.

3. Providing concrete solutions to the challenges of the Dominican Republic must take into account a deep institutional and political analysis

An inclusive growth that generate prosperity for the majority of the citizens, capable of reducing gaps in access to services and between territories needs to be built on effective and transparent public institutions and social actors, and strengthen confidence in the State.

As evidenced in many of the examples contained in these policy notes, the challenges of the Dominican Republic are not based on any lack of technical solutions. There is a great deal of knowledge about what needs to be done and examples of how to do it. However, the lack of attention to the institutional and political dimensions seems to work against the success of technical solutions.

In Chapter II on the ease of doing business, different indicators are presented that reflect the quality of the public institutions in the country, especially those linked to the business climate.

According to the report *Doing Business* 2010, the Dominican Republic ranks 86th among the 183 economies the report covers, which represents an advance of 16 places with respect to the 2009 report. Ranked 17th among 32 countries, the Dominican Republic ranks in "the middle of the table" with respect to the economies of Latin America and the Caribbean. In the past two years, the country experienced significant improvements in five areas of Doing Business: Starting a Business, Registering Property, Protecting Investors, Paying Taxes and Trading Across Border (Page 35).

The advances obtained in the past years show that it is possible to advance rapidly when there is political will and the actions of the actors involved are coordinated.

Chapter IV presents a diagnostic for the access to financial services for Micro, Small and Medium sizes companies (MIPYMES). As for other sectors, there is ample knowledge about the technical problems of access to credit and, in order to address the problem, major efforts have been undertaken, especially to reduce the gap between credit demand and supply. The study reveals that institutional organization of the sector, especially the coordination and collaboration mechanisms among institutions, should be reviewed and improved to achieve more effectiveness.
The MIPYMES in the Dominican Republic represent 23% of the GDP and their contribution to employment is also significant (36.2% of the economically active population). Paradoxically, only one out of ten MIPYMES has access to formal financial services (Page 57). To solve this problem, a set of public institutions have been created to support MIPYMES: National Council for the Promotion and Support of Micro, Small and Medium-Sized Companies (PROMIPYME), the Corporation for the Promotion of Industry (CFI-PROINDUSTRIA), the Center for Export and Investment of the Dominican Republic (CEI-RD), the National Institute of Technical Studies (INFOTEP), the Institute for Innovation in Biotechnology and Industry (IIBI) and PROEMPRESA.

The following table presents the main public programs and institutions as well as the activities carried out.

Instituciones Públicas Vínculadas a las MIPYMES

Entity	Activities
PROMIPYME	Provide both first-tier lending (commercial loans for working capital, acquisition, installation, and modernization of machinery and equipment) and second- tier lending. In addition, provide free technical assistance in coordination with the Taiwan Mission, based on the bilateral agreement of industrial cooperation between the Dominican Republic and Taiwan.
PROINDUSTRIA	Establishment of Industrial Districts in order to promote MSMEs development.
INFOTEP	Development of workers and entrepreneurs-training programs..
IIBI	Develop scientific research, provide technological transfer and foster innovation, and provide technical assistance in key areas for national development in order to improve national competitiveness.
CEI-RD	Export and Investment promotion in order to improve the competitiveness of Dominican enterprises in International markets of goods and services.
Support Program for Private Enterprises (PROEMPRESA)	Using resources from the European Union, this program looks to promote technical assistance, firms clustering and the improvement of the business climate of the Dominican enterprises.

Source: Chapter IV, page 68

Challenges are mostly institutional. In a context of limited resources to promote MIPYMES and in face of the challenges to close the gap in financing these companies, coordination and the jointly-provision of services becomes a fundamental need. As highlighted in several policy notes, it is necessary to establish a transparent institutional framework, with clear rules for participating, and to design a series of incentives to improve articulation among public institutions and between these and the private sector.

The analysis contained in Chapter V on the electricity sector is perhaps the best example of how important is to understand the relation between development and institutions.

The Dominican Republic electricity sector has gone through several legal reforms during the 90's and still continues to be one of the principal challenges the country faces. After the privatization of the generation companies and the creation of three private distribution companies, which took place between 1998 and 1999, an Electricity Law was passed in 2001 inspired by other reforms carried out in several Latin American countries (Page 72).

In 2008, the sector had a strong impact on the fiscal budget. The oil price shock increased generation costs dramatically and the need for transfers to cover the tariff-cost gap. Price volatility resulted in a growing tariff gap and higher costs, causing that treasury resources designated to the electricity sector to reach 3% of the GDP (Page 73).

There seems to be an agreement on the technical solutions necessary to improve the effectiveness and efficiency of the sector. According to the analysis contained in this volume, the institutional dimension is a key issue. In order to consolidate the great advances achieved in the legislative area, it is necessary to strengthen institutions and improve managerial skills. These actions should allow recovering the credibility of investors and encourage consumers to pay for the service.

One of the lessons contained in this volume refers to the importance of understanding the role of institutions and the political nature of the challenges the country is facing in the road towards development. The behavior expected from institutions should be credibility and with that, results.

4. Democratic governance in the Dominican Republic can be strengthened with the production of more concrete tangible results for the citizens

The democratic transition in the Dominican Republic has yielded important fruits in guaranteeing the civic rights and expanding coverage of public services to the population. However, this democratic development added to the considerable sustained level of economic growth has still not finished generating concrete tangible results for broad sectors of the population.

In recent years, and as part of the debate over how to improve public management, more and more emphasis has been made on results as the central goal– beyond the necessary inputs and products. In other words, the focus of policy making is on desired results and only then on processes and necessary inputs.

The focus on the generation of results, in addition to improving the quality of public expenditures, has positive effects on trust in State institutions and therefore, on the strengthening of democratic governance. When citizens perceive that public interventions generate tangible results, they are more inclined to pay taxes, which naturally are reflected in higher tax collections – that is key for the Government to be able to implement quality public policies, greater accountability and a more participatory democracy. This changes the relationship between the State and the citizens into a virtuous circle and is the basis of electoral accountability.

Chapter IX of this volume addresses these issues, presenting the main advances and challenges in accountability and results-based administration in the Dominican Republic. With the reform of the planning, investment and budgeting processes that took place during the 2006, the Dominican Republic has adopted a framework for improving transparency, fiscal discipline and accountability via better controls and institutional balances based on performance by results (Page 115).

The spirit of the reform rests on the need to create a system that allows the public policy articulation in the territory and the coordination and participation of actors at the local level.

As can be observed throughout these policy papers, an important part of the success of public policies is based on having strong institutions and the capability of the public sector to generate processes for coordination, trust and transparency. These processes are what enable public policies to yield results and those results to promote higher levels of social and territorial cohesion and, therefore, opportunities for everyone.

The recent financial crisis has brought to light the vulnerabilities the Dominican Republic faces in social and economic terms, as well as the need to find a development model that can respond to the aspirations of all Dominicans. The country is not starting from zero and it is necessary to create this dialogue starting from successes and errors of the past in the light of international experience. The recent crisis has marked a tipping point on this path and has made evident the need for the Dominican Republic to achieve a significant reduction in poverty levels and an increase in the levels of social justice so that the current and future positive results can sustain a long-term change in the socio-economic structure of the country and create the conditions for sustainable and inclusive growth.

CHAPTER I

Economic Growth and Social Development in the Dominican Republic

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1. INTRODUCTION

The objective of this Policy Note is to evaluate the long-term economic performance of the Dominican Republic and derive, from its past experience, lessons useful to inform the debate on economic policy and to prepare the country for its future challenges. The recent development of the Dominican Republic (DR) can be considered a success in terms of economic growth, especially when compared to other countries in the Latin American and Caribbean region. However, in contrast to the progress registered in this region, in the DR some welfare indicators still lag behind. How and why this happened, and which can be the future development trends in this country are the questions this note addresses.

This Policy Note is organized in four sections. The next section describes the sources of the remarkably strong long-term growth in the Dominican Republic and the puzzle of a high growth associated with low poverty reduction. This description is then followed, in section 3, by a brief exploration of the potential causes of this performance. The descriptive character of the note changes in section 4 where two analytical exercises are done. First, an analysis of forward and backward linkages of economic activities is used to identify some of the most promising, in terms of broad growth potential, sectors of the Dominican economy. Second, a general equilibrium exercise highlights the trade-offs that the country will face in its attempt to pursue an agenda of high growth, equity and social development. Section 5 concludes with a summary of the lessons from the past and the challenges of the future[1].

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1 The tables referred to throughout the text are enclosed at the end of the document.

2. Diagnosis: Origin of the results of economic growth and social development

2.1 Long run growth performance

During the period 1961-2007 the Dominican Republic GDP has expanded at the annual rate of 5.3%, faster than the Latin American and Caribbean region's average of 3.8%. In per capita terms, the expansion in DR has been of 3.0% versus a regional average of 1.7. This very strong performance has allowed the Dominican Republic to move from its 1961 position of third poorest country in the region (in GPD per capita terms) to the current (2007) middle rank position just below Brazil and above Colombia and Peru. If the DR maintains its long term growth rate of about 5% per annum, it will reach the threshold of 11,500 USD, and thus become a high income country, by around the year 2040.

The source of this important turnaround of the Dominican economy was a larger than average factor accumulation in the period 1960-1980, complemented by strong total factor productivity growth during the 1990s. This higher accumulation was associated to political stability and basic structural reforms adopted by the country since the early seventies complemented by those of the eighties and early nineties[2].

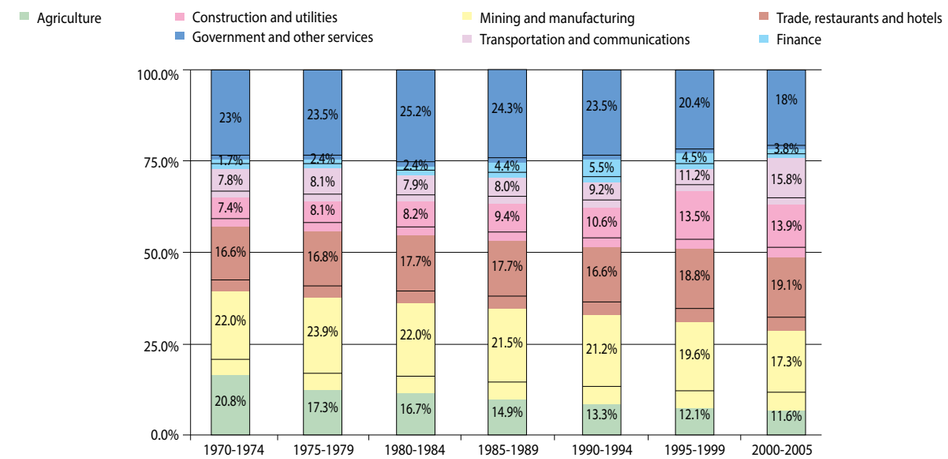
The long term – the last three and a half decades – growth process of the Dominican Republic has been mainly driven and characterized by the country's increasing integration in the global economy and by its changing export specialization. The country has shifted from being an exporter of agricultural and manufacturing products in the seventies and early eighties, to a major provider of tourism and other tradable services since the mid eightiesmid-eighties. This process is reflected in: a) the changing weight of these various production activities in the sectoral composition of GDP, b) these activities' contribution to the growth of the overall economy and c) the shifts in the demand composition of the GDP.

During the last 35 years, agriculture, manufacturing and general services (finance, real estate, health, education, and other services) have reduced their share of total GDP. In the early seventies, agriculture represented 21 percent of total output, while manufacturing and general services accounted for 22 and 24 percent, respectively. Cumulatively, these three sectors represented more than two thirds of total production and, by 2005, they account for less than half of total output. The opposite trend is observed for construction, transport and communications, commerce and hotels-restaurants (see Figure 1). Construction doubled its share of GDP from 7 percent in the early seventies to 14 in the first half of the 2000s. Transport and telecommunications have had a more recent expansion: from the 9 percent of GDP in the early nineties to the actual 15.8%. In the early seventies, manufacturing was the main engine of growth, however, it place as leading sector of growth has been taken by transport, construction and communications. In summary, tradable goods were the main engine of growth in the seventies, but since the early nineties infrastructure has become one of the leading sectors. It can be argued that growth in infrastructure is somehow linked to the 'new' tradables, especially tourism whose growth demands additional infrastructure in both construction and communication[3].

2 See Jaramillo and Sancak (2007) as well as Loayza, N,P. Fajnzylber and C. Calderon (2004).

3 UA further discussion on forward and backward linkages of different sectors of the Dominican economy will be presented in section3.1. The section also discussed whether the current growth pattern will be maintained in the future or other sectors will emerge as new engines of growth.

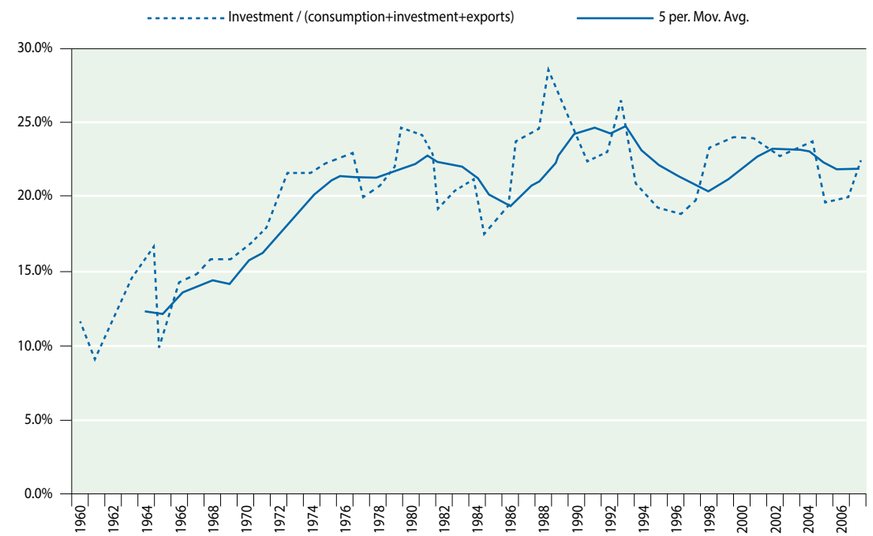
GRAPH 1: DISTRIBUTION OF TOTAL GDP BY ECONOMIC ACTIVITY IN THE DR



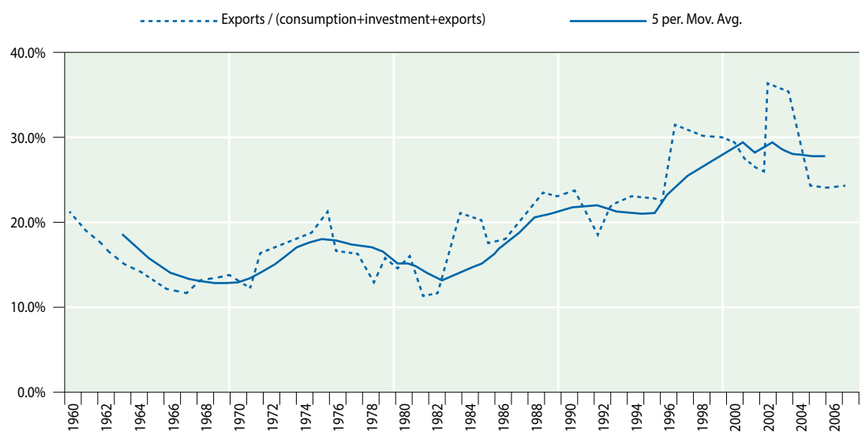
Source: Central Bank of the Dominican Republic.

The relevance of outward-oriented sectors in the Dominican development is confirmed when growth of GDP is observed from the perspective of the growth of its aggregate demand components. In the seventies, consumption represented more than sixty percent of total aggregate demand, but its share declined first due to: a) an expansion of capital formation in the mid seventies and b) the growth of exports in the mid eighties. In fact, in the sixties, due in part to the political instability of those years, capital formation represented less than 15 percent of total aggregate demand. During the seventies, investment expansion made the share of capital formation to grow to more than 20 percent of aggregate demand, and it has remained in the 20-25 percent range since the early eighties (see Figure 2). Exports of goods and services fluctuated around 15 percent of aggregate demand during the six**ties, seventies an**d early eighties. In the early eighties this component started its growth so that, in recent years, it accounts for more than a quarter of total aggregate demand (Graph 3).

GRAPH 2: CAPITAL FORMATION AS SHARE OF AGGREGATE DEMAND IN THE DR



GRAPH 3: EXPORTS OF GOODS AND SERVICES AS SHARE OF AGGREGATE DEMAND IN THE DR



Source: Authors' calculation using World Bank, World Development Indicators, several years.

2.2 Growth, Distribution and Welfare

The large economic expansion over the last three decades has not been accompanied by substantial reductions in poverty and inequality nor has it produced the expected improvements in other welfare dimensions such as health and education. In fact, empirical evidence suggests that there may be an asymmetric relationship between economic growth and poverty reduction. In periods of positive economic growth, poverty reduction is small and slow, but in periods of stagnation or economic crisis the increase in poverty is large and fast. Between 1986 and 1998, poverty declined from 38 percent to around 29 percent and, as shown in Table 1, this poverty reduction took place during a period of strong economic growth[4]. In this period, GDP per head went from US$ 3,200 to 4,400, a more than 35 percent increase in twelve years. For the period 1997-2002, poverty remained around 27 percent despite continued growth (GDP per head reached US$ 5,100 in 2002). Then, during the crisis of 2003 and 2004, GDP per head declined by only 4 percentage points, but poverty jumped to 42 percent. After the crisis, GDP per head growth resumed vigorously at an annual rate above 7 percent, and poverty has declined but has remained at around 36 percent, a level close to that it had achieved in 2003 when the crisis started[5].

Extreme and moderate poverty, as well as their rural and urban components, follow a similar trend. The main insight of this poverty decomposition is that it highlights the 'urbanization' of extreme poverty. The most recent figures for extreme urban poverty display a sharp increase from the incidence levels at the beginning of the decade which, together with the increase in the urban population, implies that extreme urban poverty is becoming a larger share of total poverty[6].

Two simple analyses can provide some additional insight about the asymmetric relationship between growth and poverty reduction: the first consists of estimating the growth elasticity of poverty – i.e. how much poverty is reduced by a one percent increase in the growth rate – and the second is a straightforward decomposition of changes of poverty into a growth component and a distribution component. For the periods 1986-1992 and 1992-1998[7], growth elasticity of poverty is estimated equal to -2.7 and -0.4 respectively. In other words, an increase of one percentage point in GDP growth resulted in a decline of 2.7 points in poverty for the period 1986-1992 and of only 0.4 points in the period 1992-1998. Similar estimates for the period 2002-2004 – a period when the economy was contracting and poverty was increasing – show a much larger elasticity with an approximate value of -8.0. Although not directly comparable, these estimates support the view that the impact of growth on poverty has been much stronger in recessions than in expansions[8].

The second type of analysis highlighting this view is a decomposition of poverty into its growth and distribution components and it is shown in Table 2. The growth component accounts for changes in poverty due to changes in average incomes maintaining the same initial income distribution. The distribution component accounts for the residual change in poverty that is due to distributional shifts. This decomposition shows that periods of fast economic growth reduce poverty a great deal, but periods of recession increase poverty even more. For the period 1986-1992, a reduction of 6.7 percentage points in poverty can be attributed to economic growth; for the period 1992-1998, growth contributes a further reduction of 3.3 percentage points in poverty. There is a residual poverty reduction during these two periods and this residual part is accounted for by the narrowing of income inequality, a positive contribution of the distribution component. Growth benefits everybody but, thanks to the improvements in income distribution, the final outcome is that the poorer experience larger income increases than the rest of the population. However, during the recession period of 2002-2004 the (negative) growth component is responsible for a rise of 13.9 percentage points in poverty, slightly more than the observed total increase in poverty. The bleak statistical result is that more people have been pushed below the poverty line in a short two-year recession than the people who have been able to escape poverty during the earlier decade of economic expansion. The analysis above shows that this asymmetry is due to small changes in the income distribution which, given the initial high levels of inequality , can have large impacts on poverty incidence. Unfortunately, the evolution of inequality, shown in Table 3 for the period under study, does not point towards a clear decreasing trend. From the World Development Indicators dataset the Gini coefficient[9] record a rise from 47.8 to 52.1 between 1986 and 2000, followed by a decline to 49.9 in 2005[10]. Figures from the Ministry of Planning, show a stable inequality between 2000 and 2004 at 54.6 followed by a small decline to 52.1 by 2007. In any case, the Gini coefficient hovers around the mark of 50 for most of the period for every study, which indicates a high level of inequality compared to other countries of the region.

Although income inequality measures are known for changing very slowly, there is some evidence of reductions in inequality during the nineties and early 2000s in Mexico and in Brazil. The source of these reductions in inequality is difficult to ascertain and may be due to a combination of economic growth, better distribution of productive assets (i.e. health, education, land) and to effective social assistance programs. The fact that inequality has remained stable in the Dominican Republic suggests that more needs to be done to increase the access to education, health and other human development services for the poorer and to expand social protection and improve its targeting to the bottom portion of the distribution.

It is now well-known that, for example, increased access to education and health services for the poor, as well as faster attainment of the other Millennium Development Goals (MDGs), leads to a more equal distribution of opportunities and an increased and more inclusive long term growth. When compared to other Latin American countries, the Dominican Republic fares relatively well in some indicators and worse in others (see Table 4). For instance, by year 2005, the Dominican Republic has lower

4 In constant, year 2005, PPP US$, according to World Bank's World Economic Indicators.

5 It should be adviced that poverty figures come from diverse sources and, thus, are subject to different calculations with different methodologies. See "Dominican Republic Poverty Assessment Report" for a discussion on different methodologies, World Bank (2006).

6 It can be proved that a change in poverty headcount can be decomposed into three components: i) change in poverty incidence in rural areas, ii) change in poverty incidence in urban areas and iii) change in relative size of urban and rural areas (which may be due to migration and/or to different demographic growth rates). In the case of the Dominican Republic, 2.4 percentage points out of a total growth of 3.3 percentage points in extreme poverty between 2000 and 2007, are due to higher incidence of extreme poverty in urban areas. Migration and other demographic factors represent only 0.5 percentage points of the total. In other words, migration and other demographic forces are a minor component of the recent increase in extreme poverty in the Dominican Republic.

7 These figures come from World Bank (2001), Dominican Republic Poverty Assessment, Report No.21306.

8 See, for instance, growth-elasticity measures in SEEPYD (2008). In fact, the headcount ratio for moderate poverty increased in nearly 8 percentage points between 2002 and 2003, while GDP fell nearly 1percent. Since no control is done in this calculation for changes in income distribution, this figure is not fully comparable to previous measures of elasticity.

9 Aa usual measure of inequality that ranges from 0, no inequality, to 100, maximum inequality when all income accrues to only one individual.

10 World Development Indicators.

Crecimiento Económico y Desarrollo Social en la República Dominicana / CAPÍTULO I

primary completion rates, both for males and females, than other countries in the region. Expenditure per student is also much slower. With regard to promotion of gender equality – an important source of overall income inequality – the country boasts the highest female/male ratio of secondary enrollment among the countries under comparison. However, in other aspects of gender equality – such as the female/male ratio for primary enrollment, the share of women employed in the non-agricultural sector and maternal mortality rates – the country reports lower levels that the comparison countries.

Gender issues deserve some additional explanation. In the Dominican Republic the probability of school attendance for ages between 3 and 16 is equal for boys and girls. Besides, middle and high school inscription indicators are currently higher for girls than boys. Therefore, educational attainment is slightly higher for girls than for boys: the average school years is 12 for girls and 11 for boys, similar levels for comparable countries among the region. Another perspective of interest with regards to health refers to violence. A usual indicator is homicides rate which are reported between 10 and 12 for the decade of the nineties (which is above the worldwide average of 9.2), and some sources report a significant increase in recent years.

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In terms of MDG's health indicators, infant mortality rates, incidence of tuberculosis and prevalence of HIV are reported above most comparison countries. At 29.2 per 1000, infant mortality is above all comparison countries (but Mexico); tuberculosis incidence at 88.8 per 100,000 is the highest among comparison countries (with the exception of Peru) and HIV at 1.1 is also the highest (with the exception of Jamaica).

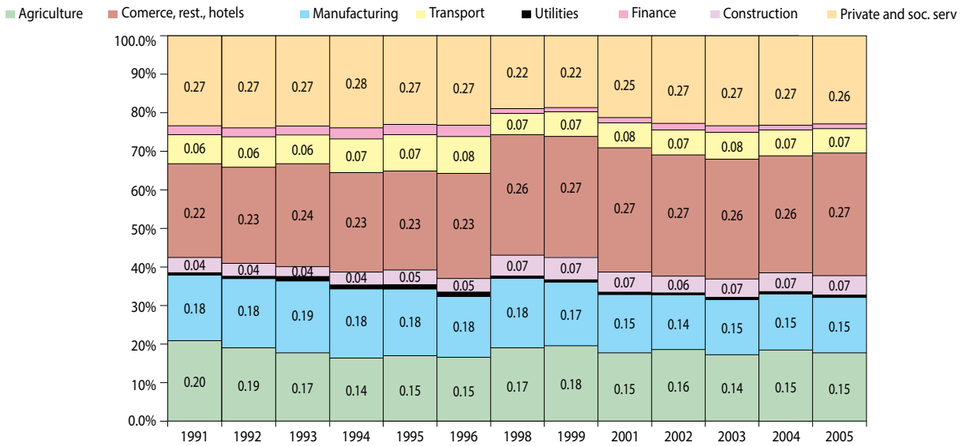
Finally, the two target indicators of environmental sustainability (CO2 emissions and improved water sources) show an intermediate position when compared to other countries. The Dominican Republic reports 2.1 metric tons of CO2 emissions per head, above 1.2 tons in Colombia and Peru but below the 4.0 tons in Jamaica. Improved water sources are available to 95 percent of the Dominicans, well above the 84 percent in Peru and the 93 percent in Colombia but still below the 98 in Costa Rica.

2.3 Growth attributes

Three main reasons can be put forward as explanations of why this strong economic growth has not been able to reduce poverty and inequality, or improve other welfare indicators, in a more substantial way; employment creation, social expenditures and tax and transfers regime

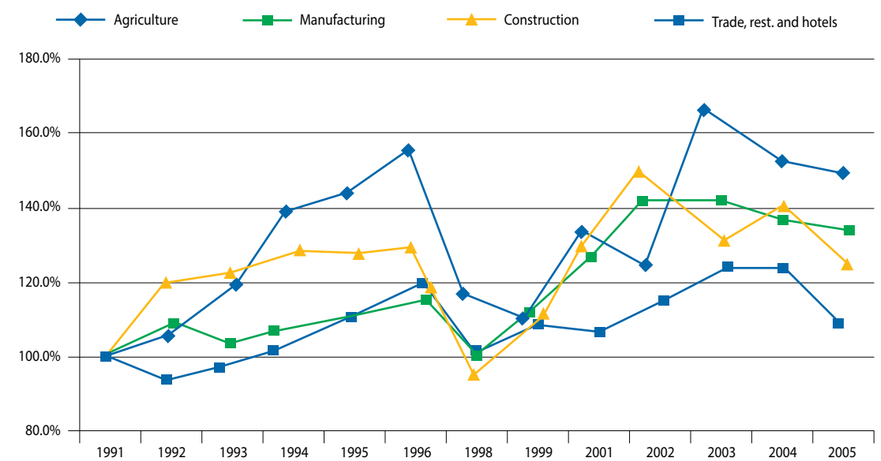
Employment creation. Since the early nineties, has been concentrated in few areas, somehow related to the expansion of the tourism industry in the country. Out of one million new jobs created between 1991 and 2005, 40% are in the commerce-restaurants-hotels services and another 11% in construction; sectors linked to the expansion in tourism activities (see Table 5). Other services represent 26 percent of employment creation and transport and communications (the fastest growing sector of the Dominican economy in recent years) an additional 11 percent. These trends of job creation have altered the composition of employment which has registered an increase in the share of commerce-restaurants-hotels services and of construction of 5 and 3 percentage points, respectively; whereas the share of agriculture and of manufacturing have declined also in 5 and 3 percentage points, respectively (see Figure 4). In contrast with its growing importance in terms of total employment, the sector of commerce-restaurants-hotels services has had the lowest increase in labor productivity (see Figure 5).

GRAPH 4: DISTRIBUTION OF TOTAL EMPLOYMENT BY ECONOMIC ACTIVITY IN THE DR



Source: Central Bank of the Dominican Republic (authors's calculations)

GRAPH 5: LABOR PRODUCTIVITY (GDP / WORKER) IN LARGEST JOB CREATION ACTIVITIES IN THE DR



Source: Central Bank of the Dominican Republic (authors's calculations)

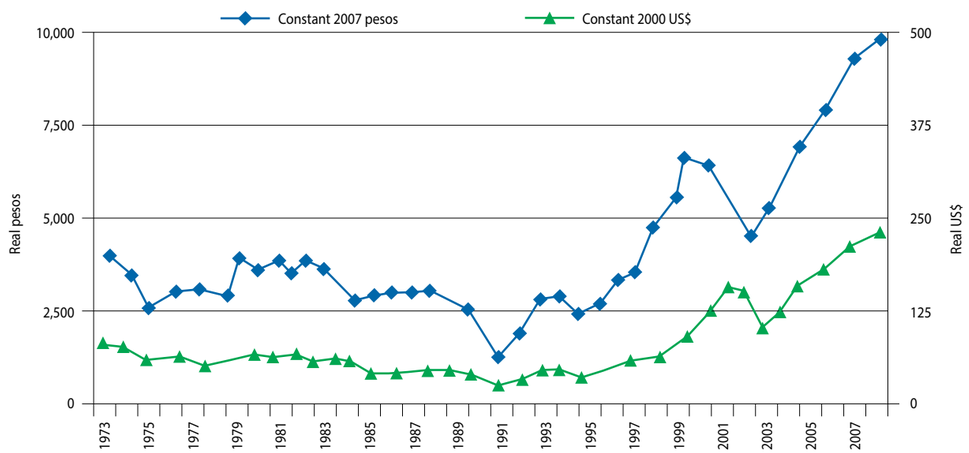
This pattern of employment creation is one reason for the low growth elasticity of poverty reduction in the country. A decomposition exercise shows that the largest share of the change in output per head between 1991 and 2005 is due to increases in productivity per worker (146.6 DR pesos out of an increase of 230.7 DR pesos, at constant prices)[12]. Productivity gains in Transport and communication represent 49 out of the 230.7

12 Changes in output per head can be decomposed into changes in output per worker, changes in worker per working age population and working age population per total population. The former two are related to labor productivity and labor supply while the latter is associated to demographic forces. For an explanation of the formulas and procedures for this decomposition see Gutiérrez, Paci and Ranzani (2008).

pesos per capita growth in the period. (more than 20%). Agriculture and Manufacturing contribute nearly 30 pesos each (a further 25 percent). However, these sectors do not have large increases in employment, in fact some have declines in employment contributions to output growth (agriculture and manufacturing). On the other hand, the sectors that contribute the most through employment growth (construction and trade, restaurants, hotels) do not have sizeable contributions to productivity growth.. In general, to increase the returns to labor (and indirectly augment the growth elasticity of poverty reduction), the country should pursue a development path that boosts productivity in low-productivity sectors and reallocates workers from low-productivity to high-productivity activities.

Social expenditure. Social expenditures remained stable for long time at very low levels and have increased noticeably only in the recent period. Figure 6 shows the evolution of social expenditures per head in the Dominican Republic since 1973. For more than two decades, between 1973 and 1996, social expenditures in real terms have oscillated around 3,000 pesos per person (55 in constant 2000 US$). In 1999, social expenditure passed, for the first time, 4000 pesos, reaching in 2008 nearly 10.000 **pesos per person**[13].

GRAPH 6: SOCIAL PUBLIC EXPENDITURE PER HEAD IN THE DR



Source: authors's calculations using IMF (various years) International Financial Statistics; WB (various years), World Development Indicators.

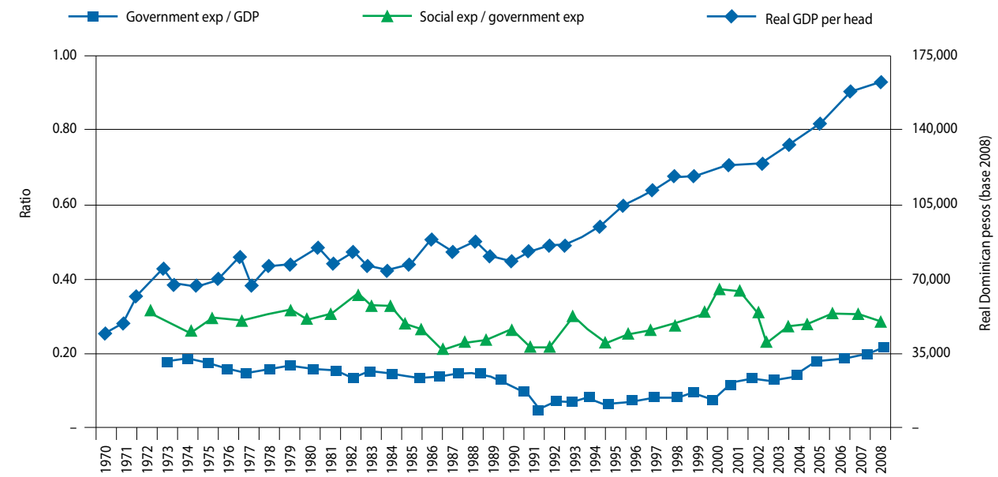
The trend of social expenditures per head can be traced through the evolution of three components: GDP per capita, government outlays as a percentage of GDP (also known as budgetary pressure) and the share of social expenditures within total government expenditures (also known as fiscal priority)[14]**.** Figure 7 shows the evolution of these three components and illustrates the reasons behind the recent increase in social expenditures. In fact, during the seventies, eighties and early nineties, social expenditures per head remained more or less stable because, despite rising standards of living and output, budgetary pressure declined, while fiscal priority fluctuated. Indeed, GDP per head increased from 58,000 to 90,600 real pesos between 1973-1996, but budgetary pressure declined from 17.6 to 11.8% (a 33% decline) while fiscal priority fluctuated between 22.3% and 34.7%. In other words, each component moved in a direction that compensated the others making the social expenditure remain at a low level. Since 1996, however, the pattern has changed. Budgetary pressure has increased by almost 20 percentage points, output per capita has continued to grow and fiscal priority has remained stable. The latter has leveled off at around 29 percent; although it had reached a much higher level just before the crisis of 2003.

13 A narrow definition of social expenditures is adopted here. It includes expenditures in education, health and social security and welfare by the consolidated central government. It does not include, neither other social expenditures such as housing and utilities or cultural and recreational activities, nor social expenditures executed by non-central government agencies.

14 In formal terms, if SX/POP stands for social expenditure per head, GDP/POP stands for GDP per head, SX/TX stands for fiscal priority and TX/GDP stands for budgetary pressure, then an identity relating these terms can be written as follows:

$$\frac{SX}{POP} = \left(\frac{SX}{TX}\right)\left(\frac{TX}{GDP}\right)\left(\frac{GDP}{POP}\right)$$

GRAPH 7: COMPONENTS OF SOCIAL EXPENDITURE PER HEAD IN THE DR



Source: author's calculations using IMF Interntional Financial Statistis. Note: Central Bank of the Dominican Republic for data from 1995.

Consequently, for the 1975-1995 period, the low level of social expenditures per head in the Dominican Republic is due to lower income levels, lower fiscal priority and pressure. By 2003, GDP/head in the Dominican Republic was almost double than that of 1988 and budgetary pressure has increased to the levels of countries at comparable income levels. Fiscal priority, however, continues to be the lowest among comparison countries, as was the case in 1975. These figures indicate that additional social/expenditures per head can be provided by continued growth and by increased fiscal priority[15].

Tax and transfers regimes. In the DR, tax collection amounts to around 17% of GDP in 2007, an increase from the early nineties' level of 13%, but still below the level of other Latin American countries (e.g., Panama 26%, Costa Rica 22%, Uruguay 24%) and well below the OECD average (around 35%). The increasing trend in tax collection has been accompanied by a change in the composition of revenue sources. Around 2000, the tax structure was biased with a large contribution of international trade taxes (nearly 40% of total revenues) and taxes on goods and services (around 30%), and just a smaller share of tax collection coming from income taxes and social security contributions. This pattern contrasted with the tax structure of other Latin American countries (most of which rely more on taxes on goods and services rather than on international trade taxes) and OECD countries (which rely more on income taxes and social security contributions).

However, the structure of tax collection has changed rapidly in recent years. By 2007, the share of international trade taxes has declined to less than 10% of total revenues. At the same time, the share of government revenues derived from goods and services has risen to more than 50%. Taxes on income, profits and capital gains have come to represent another 30% of total revenues. The current tax structure is now more similar to that of the rest of Latin American countries.The evolution of the Dominican tax structure is due to various factors: a) the growth pattern of its economy, where exports have been a main source of growth and b) the characteristics of its labor market, where 40% of informal employment makes collecting income taxes and social security contributions very difficult. Recent administrative measures have increased the collection capacity for some consumption and property taxes, and compensated for the drastic fall in trade taxes. The introduction of DR-CAFTA will further reduce international trade tax collection and the needs for social development will call for more income taxes and social security contributions.

15 A discussion of the tradeoff between increasing fiscal pressure versus fiscal priority as ways of financing larger social expenditures will be presented in the following section. That section will also assess the short term effects on growth – and on poverty reduction – of a more pro active policy of public spending in human development.

Transfer programs have proliferated and have received a growing resource allocation; however, they are still relatively fragmented and poorly targeted. Coverage of the subsidized Family Health Insurance has increased from 37 thousand people in 2002 to more than 700 thousand in 2007. Similarly, the Solidaridad Program (a CCT program) has more 200 thousand beneficiaries. Given a population in extreme poverty of 1.1 million people, these two basic programs still have a large way to go in order to cover all the population in need. Some social programs have limited relative and absolute incidence and others, like the electricity subsidies, lack complete analyses of their distributive impact[16]. All these limitations in the structure of taxes and transfers call for policy changes that enhance poverty and inequality reduction.

GROWTH AND POVERTY IN THE SHORT TERM: ECONOMIC CYCLE, PRO-CYCLICAL POLICIES AND INFLATION

The analysis in the text has focused on the long term trends of low employment creation, low social expenditures, and tax and transfer regime as the main explanations for the puzzle of high growth associated with low poverty reduction. However, complementary explanations for this puzzle may be found by considering short term macro imbalances, such as exchange rate misalignments, fiscal and external accounts imbalances, high inflation. In this short term context, it may be particularly instructive to consider the recent 2002-3 economic crisis in the DR and to compare it, when possible, with the 2008-9 one. As already mentioned, the 2003 crisis had dire costs in terms of poverty pushing more than a million people below the poverty line and thus increasing poverty rate by close to 15 percentage points, as shown in Figure 1. The right panel of this figure also reveals that not only the Dominican Republic expenditures on human development (health, education, water and sanitation and other social expenditures) is about half of the regional average rate, but also that this type of expenditure tends to be pro-cyclical. As shown in the figure, during the 2003 crisis, social expenditures underwent a dramatic cut. For certain specific spending categories, such as health expenditure, the 2003 crisis and subsequent cuts were equivalent to erasing six years of cumulative progress. This reduction in investments in human development may be related to lower poverty reduction once growth pick up again after the crisis.

Another key feature of the 2003 crisis was the high inflation. In the aftermath of the 2003 banking crisis, inflation was driven by excess liquidity following the banking collapse and subsequent bailout, and it was exacerbated by the depreciation of the peso due to currency substitution; in 2004, average annual inflation reached a peak of 52.4 percent. It is well known that inflation tend to act as a regressive tax given that richer people, by being less dependent on cash earnings and by diversifying their portfolios, can protect themselves against inflation more effectively than poor people. However, it is also important to consider that inflation rates for the basket of goods consumed by the poor may be quite different from those for the goods consumed by the rich. In fact accounting for their more 'food-intensive' consumption baskets, the poor faced an average annual inflation of 57.7 in 2004, more than 5 percentage points higher that the CPI inflation. As for social expenditures, inflation seems, at least for the 2003 crisis, to be acting pro-cyclically and thus exacerbating poverty.

Although final figures are not yet available, in terms of the two variables analyzed here, the crisis of 2008-9 presents important differences from the 2003-4 one. Social expenditures have been partially protected and, with the help of IFI funding, the government is attempting a fiscal counter-cyclical maneuver. Secondly, after a rapid increase of international prices of food and other commodities that pushed up inflation in 2008, domestic prices have been on a downward trend during most of 2009. Poverty is expected to increase in 2009, but there are preliminary indications that the increase will not be as severe as before.

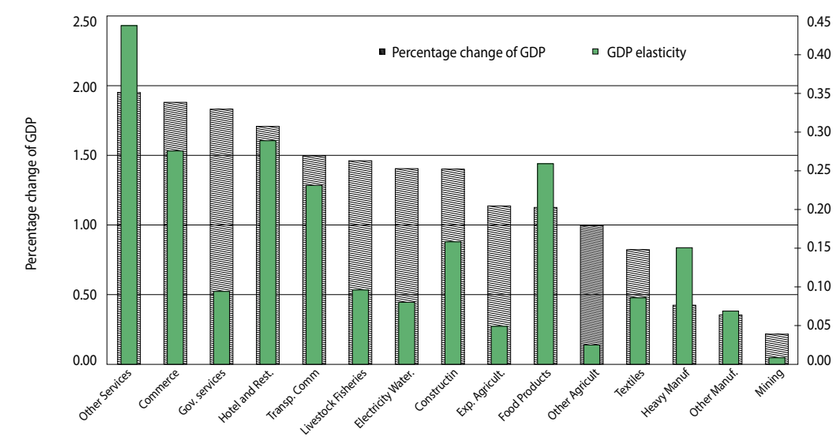
16 For a complete discussion of the distributive impact taxation and of some social programs see World Bank (2006).

3. Prospection: How to combine Economic growth and social development

3.1 Growth prospects

Using recent data and a simple methodology, this subsection assesses the growth potential of these and other sectors[17]. As shown in figure 8, Other Services displays the highest percent change on GDP and highest GDP elasticity. A one percent of aggregate GDP positive shock to Other Services produces, via the multiplier effects due to its inter-sectoral linkages, an increase of aggregate GDP equal to about 2 percent. And for each one percent increase in the sector's own output the effect on aggregate GDP is almost half a percentage point. At the opposite end, upon receiving positive demand shocks the mining sector generates the smallest effects on the economy. This sector clearly leaks most of its exogenous injections by increasing imports rather than by demanding additional inputs from domestic industries. It is interesting to compare two other sectors: Hotels and Restaurants and Food products. In terms of shares of total GDP, the first, accounting for 12.2% of total value added, is slightly larger than the second and that is part of the reason why their percentage effects on GDP is different: Hotels and Restaurants generate an impact of 1.75% of GDP, whereas Food products generate an impact of 1.14% of GDP. However, when the initial shock is proportional to their own sectoral output, their multiplier effects are very close: the GDP elasticity of Hotels and Restaurants is 0.29 and that of Food products is 0.26 (see Figure 9). Note that, although their similar GDP elasticity's, these two sectors influence the Dominican economy through quite different transmission channels. Food products rely more heavily on imports with 10% of their total demand (final and intermediate combined) satisfied by imports and, thus, their backward linkages are less strong[18].

GRAPH 8: SECTORAL GROWTH IMPACT AND GDP ELASTICITY. SHOWCK OF 1% OF AGGREGATE GDP, DR 2005.



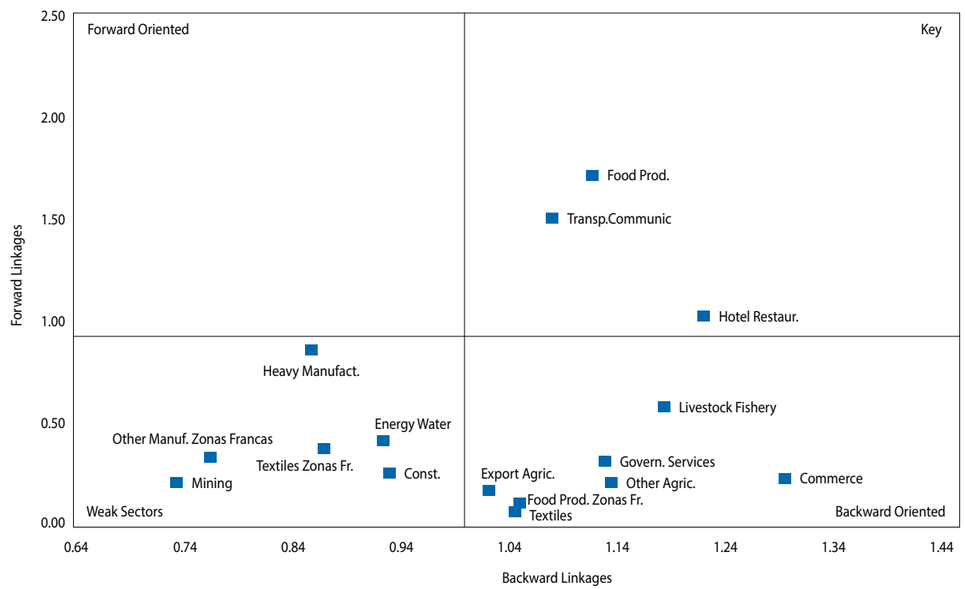
Source: Authors' calculations.

17 The results discussed above should be taken with a grain of salt given the strong assumptions that underpin the SAM model. In particular, no behavioral response is taken into account into this model. In other words, the economy is assumed to be operating below its production possibilities frontier, or equivalently, excess capacity and unused resources are assumed so that any exogenous increase in demand can be satisfied by a corresponding increase in supply. For these reasons exogenous changes in demand do not to influence prices and these models are in fact also called fixed-price models (see Thorbecke 2000).

18 Given that the multiplier model behind these calculations is a linear model, these two measurements have a strict algebraic relationship. As mentioned in the main text, the two shocks differ in their size, but the way in which they exert their effect, through the inter-sectoral linkages, is exactly the same. The first shock, equivalent to 1% of aggregate GDP (of the year 2005), is equal to about 10 billions of current (2005) pesos. The second shock, equivalent to 1% of the Other Services' sectoral value added, is equal to about 3 billions of current pesos.

A graphical summary of the inter-sectoral linkages[19] is offered by Figure 9 . According to this analysis, Other Services, Hotels and Restaurants, Food products and Transport and communication are the four key sectors of the Dominican economy. Note also that, consistently with the above discussion, Food products exhibit stronger forward linkages, whereas Hotels and Restaurants have higher effects on their upstream industries, i.e. stronger backward linkages. Weak sectors, in terms of intersectoral linkages, include the manufacturing of the free trade zone, mining, construction, energy, export agriculture and heavy manufacturing.

GRAPH 9: WEIGHTED BACKWARD AND FORWARD LINKAGES, DOMINICAN REPUBLIC 2005.



Source: Authors' calculations

A final thought experiment can clarify further the stark difference between the four mentioned key sectors and the weak ones. Consider an experiment where a positive shock – equivalent to about 5 per cent of total GDP – is firstly concentrated only on the key sectors, and then, in a second stage, only on the weak sectors. The results are reported in Table 10. The same shock produces an increase in households' incomes of 2.2 percent when key sectors are stimulated, and only of 0.8 percent when weak sectors receive the injection. Weak sectors do not interact much with the rest of the economy, nor produce strong additional demand for labor inputs and thus, once their general equilibrium direct and indirect effects are accounted for, the final boost on incomes is quite low. This has also repercussions for poverty reduction. An injection into key sectors reduces overall poverty headcount by almost 1 percentage point, in contrast with 0.3 percentage points reduction when the injection is directed to weak sectors. Notice also that the growth effects of the first type of shock are more pro-poor than those of the second one. In the first case, incomes for rural households, the group with the highest poverty headcount, experience the same rate of increase as that of households resident in the capital. In the second case, rural incomes expand less than urban incomes.

19 This graph reports on the vertical axis the strength (expressed as elasticity) of a sector's forward linkages and, on the horizontal one, that of its backward linkages. The graph is then divided into four quadrants with the bottom left block grouping sectors whose linkages' strength is below 1, and with the top right corner grouping the key sectors, i.e. those with higher than 1 forward and backward linkages.

3.2 Growth and social indicators convergence

The analysis that evaluates the tradeoff between a more HD-oriented type of development versus a more growth-oriented one uses the MAMS (Maquette for MDG Simulations) modeling framework[20].

Table 7 presents data for the Dominican Republic's key MDG indicators in 1990 and 2007 (the base year for the MAMS simulations), as well as the 2015 target values. As shown, MDG 7b (access to improved sanitation) has already been achieved. None of the remaining MDGs, even with an optimistic growth performance for the DR, is likely to be reached in the baseline, or business as usual, scenario. In this scenario assuming that past trends continue, MDGs 4 (under-five mortality rate) and 5 (maternal mortality rate) show solid progress, with 57 and 64 percent of the distance to the target covered (see the last column of Table 11). Although MDG 7a (access to improved water source) covers a smaller percentage of the distance, it is close in levels to its target. On the other hand, full achievement of the education goal (MDG 2) is the most difficult to accomplish. The education MDG in this case corresponds to a strict definition of the completion rate since full achievement of this MDG would require that all students of the correct age cohort enter first grade in 2008 and successfully complete the 8 year primary cycle through 2015. Progress is more positive when one highlights only the increases in, for example, the graduation rate in primary school (from around 90% in 2007 to 98% in 2015) or the entry rate into first grade (from around 78% in 2007 to 98% in 2015). In terms of moderate poverty, a high and sustained pace of growth is needed to cover 44% of the distance to the target.

Costs of attaining the MDGs depend not only on the specific sector (health, education, etc.) costs, but also on the availability of necessary resources (labor, capital, and intermediate inputs), complementary policies (e.g., provision of public infrastructure), and the overall growth environment of the country. Costs of reaching the MDGs are likely to be lower when demand for services is higher, the contribution of the private sector is larger, and the requisite infrastructure is in place and of sufficient quality. Faster growth in the private sector is likely to drive up wages throughout the economy, therefore raising the costs of providing both HD and other public services for the government. The causality also runs the other way, as good MDG performance has important positive spillover effects on growth. For example, improvements in schooling increase the share of skilled and tertiary-skilled workers in total employment, which in turn leads to higher average labor productivity[21].

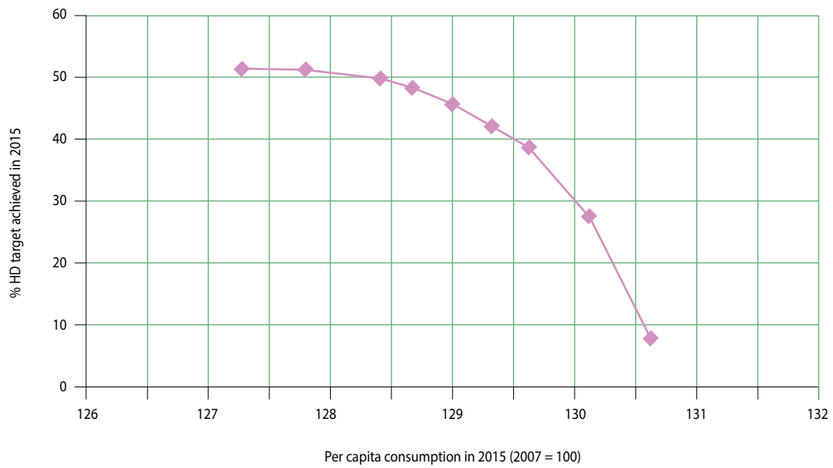
While the previous discussion highlights the many complementarities between MDG achievement strategies and growth, there also exist important trade-offs between HD- and growth-targeted activities. Faced with a fixed budget envelope, the DR government may not be able to raise sufficient resources to finance a full set of MDG activities and maintain adequate investments in infrastructure. In this case, one may broadly distinguish between investing in activities that are beneficial to growth in the short and long term (such as infrastructure) or investing in activities that improve human development but that do not have immediate feedbacks on growth.

In order to quantify this HD-growth trade-off, we undertake a series of simulations where the overall public budget is fixed at baseline levels, but the allocation of government resources varies from infrastructure-intensive to HD-intensive. The results of each simulation in terms of consumption growth and the average level of achievement of the non-poverty MDGs are then represented as points of a trade-off curve in Figure 10.

20 MAMS is used for the empirical assessment of the costs and benefits of various MDG strategies and has been developed at the World Bank. To date, MAMS has been applied in about 35 countries in Latin America and the Caribbean, Middle East, Africa, and Asia. It is a flexible analytical tool that can accommodate a wide variety of datasets and country-specific circumstances. The main advantages of MAMS include: explicit "production" of various MDG indicators, numerous links from HD service provision to the rest of the economy through labor market and government budget constraints, and the recognition of potential positive spillovers when multiple MDGs are targeted at the same time.

21 There exist other potential spillovers, such as higher labor productivity due to improved health of workers and higher survival rates of children who then go on to join the labor force. However, this possibility is not considered in the simulations presented in this paper due to the time scope of the analysis: improvements in child health are likely to translate into larger and healthier workforce with a time lag greater than the endpoint of our simulations (2015).

GRAPH 10: CONSUMPTION GROWTH AND HUMAN DEVELOPMENT TRADE-OFFS (MAMS SIMULATION FOR THE DOMINICAN REPUBLIC, 2005)



Source: Authors's calculations.

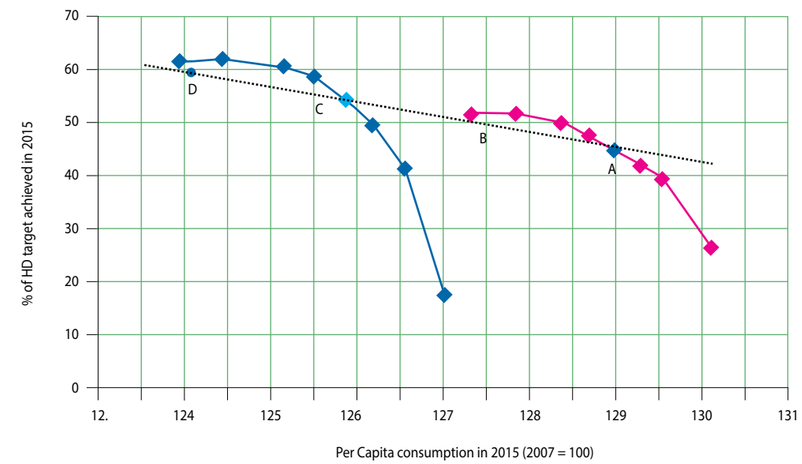
The trade-off curve is concave, implying that additional investment in either HD or infrastructure services results in progressively smaller improvements in the relevant indicators. It has been suggested that this trade-off between human development and growth typically becomes flatter as a country comes closer to achieving its HD targets[22]. In other words, because the unit costs of reaching the most remote parts of the population (both economically and socially) are likely to rise as a country comes closer to the MDG targets, making the final steps towards the MDGs is much more costly in terms of foregone growth than when the MDG strategies were initially implemented.

Removing the constraint of a fixed budget envelope and increasing overall spending is another way to accelerate the achievement of HD targets. As mentioned in section 4.2, one option of financing larger social expenditures may be through increasing budgetary pressure. However, raising taxation (or debt) has general equilibrium effects that influence growth and poverty reduction via lower private consumption (or lower savings). Figure 12 shows the trade-off between HD targets and per capita consumption for different levels of budgetary pressure. With the same initial combination of expenditures on social sectors and infrastructure, point A corresponds to a budget pressure of 10.8%, B to 11.9 percent, C to 13.1 percent, and D to 14.4 percent. The negative slope of a line connecting points A, B, C and D indicates that higher HD attainments can be reached with larger budgets but at the cost of lower per-capita consumption (and, in the short term lower poverty reduction).

Figure 11 also shows two concaves curves representing the HD-growth trade-off for two specific levels of expenditures. Movements between points A and D correspond to shifts of the overall level of total expenditure, whereas movements along the concave curves corresponds to shifts in the composition of a fixed amount of expenditure. The different shape of these two curves suggests that the overall level of the budget influences the HD-growth trade off. More importantly, observing that these two curves intersect, this analysis demonstrates that it is possible to increase HD achievements through a redirection of investments towards human development for a given budget envelope, but this has a limit and further increases in HD require additional budgetary resources.

22 See Bourguignon y Sundberg (2006)

GRAPH 11: HD ACHIEVEMENTS AND CONSUMPTION TRADE-OFFS FOR DIFFERENT BUDGETARY PRESSURE



Source: Authors's calculations.

4. Conclusion

The Dominican Republic has performed very well in terms of aggregate growth in the last three decades. In the most recent years, potential output growth has reached very high rates of around 7 percent per annum. So why worrying about growth in this country? This policy note has shown that at least two issues, if not tackled, may limit future growth. The first is that, due to its small domestic market, the Dominican growth model has essentially been an export-led one. However, repeatedly outward oriented sectors have quickly reached maturity or have found difficulties in expanding their market shares in an increasingly competitive global economy. Besides, most of the new jobs created in the export-oriented sectors (tourism for example) are not paying very high wages, an indication of their lower productivity. The recent expansion of these sectors has generated strong growth and job creation, but is it sustainable in the long run?

The second concerning feature of the growth process in the DR is that it tends to be non-inclusive. Recent sustained growth does not seem to be very progressive and the crises and recessions, inevitable in a very open economy such as the Dominican, seem to be very regressive. Poverty, income distribution, and growth are all endogenous to the process of development: unbalanced growth that does not benefit large sections of a society ends up not being sustainable in the long run. Policy makers in the country are well aware of this social issue but will nevertheless face some tough decisions to address the problem.

In this regard, this policy note conveys three main messages. First, the Dominican Republic has been able to sustain rapid growth in the long term but with relatively slow advances in poverty and inequality reduction. Second, in order to combine accelerated growth with enhanced human welfare the country has to find a pattern of development that encourages growth in areas with large backward and forward linkages so that productive employment creation is more abundant. Third, a renewed system of taxes and transfers has to be designed both for collecting enough funding and for progressive allocation of resources towards economic and social development.

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Crecimiento Económico y Desarrollo Social en la República Dominicana / CAPÍTULO I

CHAPTER II

Ease of Doing Business

JEAN MICHEL LOBET[(a)]

1. INTRODUCTION

Described in this Policy Note[1] are the reforms that the Dominican Republic could implement in order to facilitate the ease of doing business. These important measures will certainly improve the business environment and the *Doing Business*[2] indicators. The obstacles that local entrepreneurs face in their day to day activities have an important impact in investments and therefore, in poverty. Due to the diversity of the issues involved, the following policy suggestions are presented with a brief explanation of each of them.

In the 2010 *Doing Business* Report**, the Dominican Republic ranked 86th out of 183 economies covered in the report, 16 spots higher than in 2009,** and 17th out of the 32 Latin American and Caribbean economies. In the last two years, the country presented significant improvements in five areas of Doing Business: Starting a Business, Registering Property, Protecting Investors, Paying Taxes and Trading Across Borders.

It is important to note that the reform recommendations presented in this note are preliminary and subject to be refined and adjusted following subsequent follow-up visits by the Doing Business Project and Reform Unit teams. Furthermore, the reforms to be undertaken should be adequately advertised and supervised. In particular, the follow-up on changes in the business environment will allow identifying successes

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1 This policy note was prepared by Jean Michel Lobet, under the supervision of Sylvia Solf from the Doing Business Project team, and Marialisa Motta, from the Doing Business/FIAS Reforms Unit. For this work there were also contributions from Alejandro Álvarez de la Campa, Melissa Johns, Andrei Mikhnev, Lars Nikolajs Grava, and Justin Yap, all of them from FIAS; Ernesto Martin Montero, and Alvaro Quijandria from IFC LAC Advisory; Frederic Bustelo, Cesar Chaparro Yedro, Roger Coma-Cunill, Santiago Croci, Allen Dennis, Carolin Otonglo, Yara Salem, Umar Shavurov, Justin Yap and Lior Ziv from the Doing Business Project team; and Adolfo Rouillon, and Rachel (Raha) Shahidsaless from the World Bank Legal Vicepresidency. Additional comments were expressed by Salem Rohana, IFC Representative for the Dominican Republic; and Miguel Eduardo Ceara Asuad, World Bank Dominican Republic.

2 Particularly, the considered areas are Starting a business, Dealing with construction permits, Registering Property, Protecting Investors, Enforcing Contracts, Getting Credit, Trading Across Borders, Paying Taxes and Closing a Business. Doing Business' methodology has its

and needs for greater efforts[3].

In *Doing Business*, high indicators do not necessarily indicate an outstanding performance, but low ones illustrate obstacles that can turn out to be negative for growth; in other words, these last ones involve high transaction costs and probably, lack of legal security.

2. Diagnosis and policy options

2.1 Opportunities for reform

1. Starting a Business

Doing Business measures the procedures, time and costs to start and formally operate a limited liability company. In June 2009, 8 procedures, 19 days and an equivalent of 17.3% of the domestic per capita income were necessary. On February 18, 2008, the National Competitiveness Council (CNC) launched a virtual facility. Anyone who registers on the website can check the availability of a possible company name and register it (in ONAPI), register the company in the Chamber of Commerce (CCPSD) and pay taxes (in DGII). A new Company Law was also adopted with eventual impacts on this indicator (see Annex I). To further improve the process, the government of the Dominican Republic could introduce reforms to cut the number of steps, the time and the cost to start a business in Santo Domingo.

a. Suggestions

For the short-term

Promote and facilitate the use of the virtual application for starting a business. In February 2008 an on-line system was implemented to submit applications. Its use is still relatively low due to users' scarce familiarity with the system. For that reason, it is important to continue promoting the use of the on-line system through means beyond the current media campaigns. For example, computers may be installed for the use of the system when the applicants go to Registry and set up phone lines for solving problems or concerns. These measures would contribute to the familiarization with the system and its use, avoiding the negative responses generated by the encountered difficulties during the first attempts.

For the medium-term

Speed up the registration process for companies through e-signature and allow e-registration of the company. Although it is already possible to submit the documents electronically for its registration, the definite certificate of registration must be signed by the registrar, or its delegate, and stamped. When registering the business, the applicant must also present the original documents to be stamped. The Santo Domingo Registry plans to speed up the process by granting powers to the registrar to implement the e-signature before the end of 2010. The process could be improved even more if the applicants are allowed to use the e-signature, thus subtracting the need to provide the original documents for the definite registration.

Make the use of the company name certificate optional and consider reducing the cost. The Dominican Republic has a requirement that is unique in the world by which entrepreneurs have to obtain a certificate of a commercial or trade name and have to publish it in a monthly publication in case there are objections from third parties. These formalities do not require much time but are expensive, because a publication in a national circulation newspaper demands around ten days, thereby the entrepreneurs can comply with ulterior formalities once the certificate of publication is obtained[4].

limitations. Other important areas for businesses, like the country's closeness to the large markets, the quality of its infrastructure (excluding those of cross-border trading), property security from thefts and looting, the transparency of the State-owned Body, macroeconomic conditions or underlying strength of the institutions, are not object of direct study by the Doing Business Project.

3 Annex II includes comments concerning the referred laws for the ease of business and charts with the Dominican Republic's rank in Doing Business.

Obtaining a certificate for commercial or trade name from the National Office of Industrial Property (ONAPI) demands just a few days. However, this certificate represents 16% of the total cost of starting a business (RD$3,607.00), the publication would add another RD$971.00 to this cost. The point of the formalities is to guarantee that the commercial or trade name is univocal and to avoid conflicts. In most countries the entrepreneur can prove the inexistence of a commercial name same as his/hers before the registration but should not obtain a certificate or publish the name. For example, the Mauritius Islands just eliminated the requirement for a commercial name permit. If the entrepreneurs would prefer the certificate and publication of the company name, the requirement could become optional. In addition, based on the valuation of the current cost of administrative formalities, a fee reduction could be analyzed.

Introduce a flat registration fee for company incorporation at the registry. Instead of charging based on the total authorized capital, the Registry could introduce a fixed fee for registering the business, regardless of the capital. Numerous countries like Egypt, Mozambique or Sri Lanka have introduced this reform. There, due to a rise in the number of registrations resulting from the reforms, the public institution collections increased despite lowering the registration fees. A fixed fee also avoids the risk of a sub-declaration of the authorized capital.

Eliminate the Incorporation Tax. Currently, entrepreneurs when incorporating their company have to pay a 1% tax to the Dirección General de Impuestos. The tax represents about half of the total cost to start a business as measured in Doing Business. In effect, the entrepreneur has to pay a tax for the company without having started to make any profits. This also induces entrepreneurs to under-declare their authorized capital. It is recommended to eliminate such tax to encourage company formation.

For the long-term

Eliminate the need of declaration of subscription of shares before a notary (applicable to *Sociedad Anónima* (S.A.)). When incorporating a SA, the founding partners, or their representatives, must go to a notary to sign and notarize the declaration of subscription of shares indicating that 10% of authorized capital has been subscribed. The notary simply authenticates the declaration. It is important to note that notary professional fees remain one of the most costly procedures of business start-up in the Dominican Republic. It is recommended to eliminate this procedural requirement or replace it with an affidavit form to be deposited at the registry at time of incorporation.

Integrate the process of registration of employees with the Department of Labor and Social Security Office with the online registration system for company incorporation. In order to make the start-up process more expedited, the online portal for company registration could integrate into the same system as the registration of employees with the Department of Labor and the Social Security. This integration requires coordination between the different authorities involved in the process.

Facilitate the registration process with all relevant agencies by assigning unique company identification numbers for company, social security, tax and other registrations. Currently, each time that an entrepreneur registers its company with different agencies like the registry, tax authority, labor department or social security, its company will be assigned a different identification number. This makes the process more complicated for the entrepreneur and the government. The Dominican Republic can consider the harmonization of the company identification number by assigning a unique number to companies at the moment of registration that will be applicable across agencies. This will streamline the registration process, and permits a better coordination among various agencies.

a. Benefits and experiences of other countries

Simple start-up procedures encourage creation of businesses. The government of Senegal reformed the company registry in July of 2007 and by May 2008, 3,060 new businesses have been registered, an 80% increase compared to the previous year. Studies in Mexico, India, Brazil and the Russian Federation found that a simplified access regime is associated to a higher number of registered businesses. The Mexican study analyzed the effect of simplification

4 Kaplan, David, Eduardo Piedra y Enrique Seira. 2008. "Entry Regulation and Business Start-Ups: Evidence from Mexico". Documento de trabajo, Unidad de Análisis Empresarial, Banco Mundial, Washington, DC.

of obtaining municipal licenses concluded that this step increased the number of registered companies nearly 4%.[4]

The establishment of simple start-up procedures is also correlated with a greater productivity in already existing businesses. A recent analysis in 97 countries reveals that cutting the cost of creating companies in an 80% of the per capita income produces an estimated increase of 22% in the total productivity factor. By analyzing 157 countries, the finding is that the same cut in creation costs increases the production of each worker by 29%[5]. A possible reason to explain these important increases can be that the reduction of registration costs encourages the creation of new businesses, which generates greater competition and ends up taking less productive firms out of the market. In fact, a study on creation of businesses in Mexico found that the competition generated by new more efficient firms generated a 1% fall in prices and an income reduction of less productive businesses by 3.5%.[6]

2. Construction permits

Doing Business measures the procedures, time and cost necessary to build a commercial warehouse and connect to utilities[7]. With 17 procedures, 214 days and a cost of 131.6% of the Domestic per capita Income, the Dominican Republic was 92nd out of 183 ranked countries in the indicator. The following suggestions for short, medium and long term improvements may speed up the concession processes for the necessary permits to build, in this example, a warehouse in Santo Domingo.

a. Suggestions

For the short-term

Establish clear guidelines and consistent building norms at the Municipality and at the Ministry of Public Works for project requirements. Most of the times, applicants after presenting their projects, both at the Municipality and at the Ministry of Public Works, have to amend several times their project. The reasons cited by the authorities include technical problems in the construction proposal or incomplete documentation. This has created an important backlog in both agencies. It is recommended to introduce and publish clear guidelines for project and documentation requirements to mitigate this problem. In addition, a first review for completeness of documentation at the reception desk in the Municipality is recommended.

Introduce an electronic applications management system at the Municipal Councils. The Municipal Councils are introducing an automated system for projects authorization that can contribute improving their efficiency in authorizing construction permits. New applications will be distributed to municipal officials in regard to their workload. The system will also help the supervision of areas with longer delays in the approval process, and allow better distribution of human resources at the Municipal Councils. A fast introduction of the system is recommended in order to speed up the authorization process.

Introduce approval processes at the Ministry of Public Works based on the "risk level." On average, project authorizations at this Ministry require many months. The process can be sped up by reducing the administrative load and introducing approval processes based on the projects' risk. Low risk projects would require a simplified and fluent process, with fewer requirements, and for those more complex a greater scrutiny at the moment of assessment.

Streamline and coordinate approval for construction permits at the Municipal Councils and the Ministry of Public Works. The applicants spend several months obtaining the necessary authorizations from the Municipal Councils and the Ministry of Public Works. The application is presented to the Municipal Council and submitted to a first revision by the Municipal Council's Department from City Planning of the corresponding jurisdiction. Subsequently, the application is sent to the Map Processing Department of the Ministry of Public Works. The applicants must go to this Ministry to prove that this application was actually sent by the Councils, the follow-up code assigned to the application by the Councils is different to the one assigned at the Ministry. This prevents the applicants from following up their application with the number assigned at the Councils, having to go to the Ministry to obtain the new assigned code.

As a first step for improving the coordination between the two institutions, it's recommended that each application is assigned with a unique number. Project applications and documentation should be forwarded between the agencies without the need of follow-up by the applicant. A single project file would also reduce duplications in documentation requirements. An automatic notification and tracking service is recommended so that applicants can verify the status of the project approval at any time. Ultimately, applicants should be able to deposit and retrieve the building permit with approvals from all necessary agencies through one authority, such as the Municipality within a predictable time frame.

For the medium-term

Connect the Councils and the Ministry of Public Works with the cadastral registry (Office of Cadastral Measurement). Before issuing the construction permit, the Councils and the Ministry for Public Works and Communications inspect the land separately in order to guarantee compliance with all urban development regulations, obtain a valuation of the project, and/or measure the plot. According to the before mentioned, clarifying the regulations on urban development planning and publishing the plan can eliminate the need of inspections. Also, both institutions should be linked to the Property Registry to avoid duplicity of tasks or what are worse, ambiguous title deeds because of differences in the boundaries established by the different public entities. These steps would eliminate the need of both institutions doing an in situ inspection in order to make decisions on the project. In most countries with efficient systems for construction permits concession, like Singapore, Denmark and Mexico, the construction permit is issued without previous inspection of the site.

Create and publish zoning and planning standards at the Councils. At the moment, one of the first steps for the applicant is to obtain a certificate of land use to ensure that the project complies with zoning regulations. In addition, the municipality sends inspectors to assess the land plot with regard to altitude, proximity to airport, highway, and water supplies, among other elements. Both procedures would be superfluous if clear zoning regulations were in place and published. The lack of it, on the other hand, not only adds formalities but can lead to confusion on part of the applicants and excessive discretion on part of the authorities. With a clear zoning plan, applicants and the municipality would know the parameters of constructions per zone. This would eliminate the need of a separate use of land certificate and the pre-permit inspection and would speed up the construction permit approval process.

Consider transferring the supervision of the projects to qualified professionals during the construction phase. In many countries, the responsibility for the quality of the building is transferred to qualified professionals. Singapore – one of the world's best performers in *Dealing with construction permits* – is one example. All inspections and project supervision are delegated to construction professionals (architects and engineers). Authorities do not inspect at any stage except when issuing the occupancy permit after project completion. This reduces the administrative burden for both the authorities and the builder. At the same time building quality of ensured as the qualified expert has to certify that the building is compliant with all safety standards necessary for use.

For the long-term

Introduce on-line application and electronic processing of documents. Permitting online application and electronic submission of documents saves time for both builders and government officials. In other countries, for example Kuwait, a new automated system was introduced to all government agencies responsible for issuing technical approvals for the installation of utilities. The reform resulted in a total time reduction of almost two weeks. Singaporean construction professionals submit all their applications through CORENET system that saves them both time and money. In 2009, Singaporean Building and Construction Authority is planning to introduce a 3D system of approval. If projects require amendments, applicants do not need to re-submit plans and drawings. It is done on-line and in a synchronized mode. Portugal and Costa Rica are working on implementing their on-line application systems. This reform is undoubtedly a long-term commitment and requires considerable resources.

5 Barseghyan, Levon. 2008. *"Entry Costs and Cross-Country Differences in Productivity and Output"*. Journal of Economic Growth 13 (2): 145–67.
6 Bruhn, Miriam. 2008. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico". Policy Research Working Paper 4538, World Bank, Washington, DC.
7 Besides the process for obtaining construction permits, the procedures for obtaining other types of operation licenses from the local councils can be expensive and not very clear.

b. Benefits and experiences of other countries

Top performing economies in the Dealing with construction permits indicator tend to have rigorous concession processes, but, at the same time, clear and transparent. The speed is important: a recent study in the United States shows that, in a 22 month project, speeding up the concession of permits in three months increases the property tax collection by 16.15%; and the expense in construction from local governments by 5.7%.[8]

3. Registering Property

This indicator measures the procedures, time and cost of transferring a property from a domestic company to another in Santo Domingo. The Dominican Republic has introduced positive reforms in this field. In 2007, due to the coming in force of Law 108-5 for modernization of the Registry, the time to register a property was reduced from 107 to 60 days. This reform has also facilitated the automation of the Registry. In 2008, due to Law 173-07 "Ley de Eficiencia Recaudatoria", the transfer tax was reduced to 3%. Currently, 7 procedures, 60 days and a cost of 3.7% of the property value are necessary to transfer real state. The Registry modernization program has entered its second phase that, along with concluding the digitizing process of all the title deeds, has the objective of creating a database that will simplify the Registry queries. The following reforms may improve the property registration process.

a. Suggestions

For the medium-term

Shorten time to register a property at the Registry. It takes approximately 30 days to register a property at the Registry in Santo Domingo. Several measures could be taken to expedite the process based on an analysis of the internal processes at the registry. For example, currently, the registrar of Santo Domingo has to sign several hundreds of documents per day manually (including title transfers, non encumbrance certificates or modifications). Other registries on the island already have experience in expediting the process by allowing the use of electronic signatures. The necessary Law on Electronic Signature has been in place since 2002. Since the registrar and the sub-registrar are the only authorities allowed to sign the above-mentioned documents, the process can also be expedited by authorizing more staff of the registry to sign the documents. Furthermore, it will be important for the time limits to register a property to be enforced. The correct implementation of these recommendations will reduce the time to transfer a property in the Dominican Republic.

For the long-term

Create a database and on-line system to allow customers to search property titles and encumbrances electronically. According to the authorities, the registry of Santo Domingo has completed the digitalization of property titles. An online database with all relevant information on property ownership and encumbrances should now be implemented to facilitate searches and verification of non-encumbrances[9].

Make notarization of the sale-purchase contract optional. The parties to a property transaction must present the sale-purchase contract to a notary public for notarization, according to the law. The parties then submit the contract for registration at the registry. Dominican Republic is one of only 40 countries (out of 181) which require this double verification — one by a legal professional, and another by land registry officials. Other countries successfully made notary involvement optional for companies wishing to transfer property; parties only need to sign the agreement in person at the registry. Some larger companies may still resort to professional consultation, but that would be by their own choice. Such reform would eliminate one step, 1 day and a cost of about 1,000 USD from the property registration process.

Complete electronic property mapping and update the cadastre. Currently, a reform is ongoing to electronically map all properties on the island. With an updated cadastre and property registry, the cadastre will not need to send surveyors each time that a transfer of property takes place and the tax administration will not need to inspect the land in order to evaluate the property. This will also allow the tax administration to calculate the taxes in a much more efficient manner.

8 PricewaterhouseCoopers. 2005. *"The Economic Impact of Accelerating Permit Processes on Local Development and Government Revenues"*. Brief prepared for the American Institute of Architects, Washington, DC.

9 Miceli, Thomas, y Joseph Kieyah. 2003. *"The Economics of Land Title Reform"*. *Journal of Comparative Economics* 31 (2): 246–56.

b. Benefits and experiences of other countries

Eliminate the existing hurdles to register and transfer properties. Formal title deeds encourage land transfers, stimulate investment and provide entrepreneurs access to the formal credit markets[9]. However, and enormous fraction of the properties in developing countries are not formally registered. Informal title deeds cannot be used as collateral to obtain loans, limiting opportunities of financing for businesses. Many governments have acknowledged the problem and have started intensive programs for the regularization of title deeds. All in all, attracting real state to the formal sector is just a part of the structure. The more complicated and expensive the formal transfer of a property becomes, the more possible it will be for formalized title deeds to return to informality.

4. Getting credit

The Dominican Republic is among the first third of countries in this indicator that measures the strength of legal rights of borrowers and lenders, and the availability of credit information. This indicator has two main components: the first one is availability, depth and quality of the credit information, aspects evaluated by the depth of credit information index, the public registry coverage (or private bureau coverage) and the protection of the legal rights of borrowers and lenders; while the second component is the easiness to use movable property as collateral in accordance to collateral and bankruptcy laws, realms gathered in the strength of legal rights index (ranked 68th in the world, 16th in the region, primarily due to a low strength of legal rights index (3 of 10)). As far as credit information, the Dominican Republic shows very good results, with a depth of credit information index of 6 out of 6.

The country has a public credit registry and numerous private credit bureaus. The credit bureau law, no. 288-05, which regulates the Credit Information and Information Holder Protection Companies, came into force in 2005. The private bureau distributes historical credit information on individuals and businesses. The information it provides includes positive information (for example, loan installments and punctuality of payments) as well as negative information (delays in payments and non-payments). Also, the credit bureaus gather information not only from financial institutions, but also from services, like mobile phone companies and retail sales, which allows for a broad spectrum of information. The public register coverage is 33.9% of the adult population, and the credit bureau coverage is 35.0%.

a. Suggestions

For the short-term

Increase the coverage. The private credit bureau has data of 2.2 million individuals from an adult population of 6.5 million, and a total population of 9.7 million for a relatively low coverage of 35%. The bureau should keep on incorporating additional information providers to increase that coverage. These measures should be sustained and also guarantee the incorporation of more retail companies, public service providers, micro-financing institutions or credit card providers that can provide information, allowing more people and medium sized businesses to build their credit history and have easier access to credit in the future. As far as the legal rights index, the legal provisions that encourage loan and credit are due for a greater reinforcement on the part of borrowers and lenders.

For the long-term

Making changes in such provisions would require legislative reforms. Some changes that would improve the rights of borrowers and lenders, within the broad context of the law for guaranteed transactions would be the following:

Eliminate restrictions on the types of assets eligible to be used as collateral. Currently, there is no legal mechanism that would allow a business to grant a non-possessory security right in all, or substantially all, of the assets and future and after-acquired assets of the business. These restrictions make it more difficult to give a range of assets as collateral. China released an estimated US$2 trillion in "dead capital" by expanding the range of permissible collateral—assets that could not be used previously because of such restrictions.

Allow general description of collateral and debt in collateral agreements. Currently, parties to a collateral agreement need to provide a full detailed description of the assets used as collateral both in the agreement and at the registry. The reviewed law should allow more flexibility regarding these types of agreements and in the registration process. For example, parties to a security agreement granting a security interest in the debtor's inventory could be allowed to describe the collateral using the term: "all inventories". The reviewed legislation should allow gene-

ral descriptions of debt and obligations, for example, such parties can use a particular asset to secure "all debts and obligations" between them.

Give secured creditors priority in receiving proceeds from their collateral. Secured creditors should have priority when the debtor is the subject of a collective procedure or bankruptcy. Currently, in the Dominican Republic fiscal administration and labor claims have priority over secured creditors in case of bankruptcy.

If the secured creditors could foresee their relative priority to other creditors (including State Institutions) with certain reliability, they would make the credits available with more ease and a lesser cost. The priority of the secured creditors should not be extended to the judicial costs, the attorney fees or the liquidation expenses. Also, claims from buyers that had acquired secured assets in good faith (*bona fide* buyers) and claims for loans granted to the company to acquire the ownership of the secured asset (like the real rights of guarantee of payment of the sales price) should have a priority over the secured creditor.

Allow the parties to agree on the methods for enforcement of the collateral agreement. Giving such flexibility paves the way for out-of-court enforcement of debts. When creditors know that they will not have to bear the cost and delays related to court procedures in case of default, they may be more likely to lend. France adopted a similar reform in 2006. India, Peru and Serbia have also recently made out-of-court enforcement of collateral agreements possible.

Establish a unified movable collateral registry. Currently, the president of the first instance tribunal acts as registrar. The registry is neither linked across the country nor electronic. As a result, should a business use its movable assets as collateral in Santiago and should the security interest over these assets be registered in Santiago, since the registries are not linked across the country, the same business will be able to use the same movable assets as collateral in Santo Domingo and have the security interest over those assets registered there. The creditor in Santo Domingo will not know that the business has used the assets as collateral in Santiago unless he/she travels to the registry in Santiago and conducts a search there. With a registry that is linked and electronic, the creditor in Santo Domingo will be able to search the registry in Santiago and find out whether there are security interests registered over the assets of the business. Many countries have undertaken these kinds of reforms, including France, India and Micronesia.

b. Benefits and experiences of other countries

Both the protection for the lender through the legal system and for the credit registers are associated to greater credit percentages to the private sector over the GDP. For example, an increase of 1 point in the creditor rights index is associated to a growth of 6.5% of the annual rate of average growth of the private credit to GDP ratio during the three years after the reform, in comparison to the three previous years[10]. The studies show that implementing a credit registry produces a rise of 4.2 percentage points in the use of credit by the businesses[11]. This is partly due to the fact that the creation of credits drives the increase of the repayment rate: the borrowers are more reluctant to leave debts unpaid because that may hinder them from getting new credits in the future. In developing economies the repayment rate can be increased up to 80% when a credit registry becomes operational. Small businesses are the ones that obtain greater benefits: in transitional economies that established new credit registries, their credit access grew twice as fast with respect to large businesses[12].

5. Protecting investors

In late 2008, the National Congress of the Dominican Republic adopted the new Commercial Companies Law. Thanks to this reform, the Dominican Republic obtained a score of 5.7 in the strength of minority investor protection index, ranking 57th in the world in this indicator. *Doing Business* measures the strength of minority shareholder protection against director's misuse of corporate assets for personal benefit. In a range from 0 to 10, the score obtained by the Dominican Republic in this indicator was 5 in the extent of disclosure index, 4 in the extent of director liability index and 8 in the ease of shareholder suits index.

To increase minority investor protections, the Dominican Republic could amend the Commercial Companies Law, as well as Law 19-00 on Stock Markets. In order to improve the protection of Dominican Republic investors, the following reforms are relevant.

a. Suggestions

For the short-term

State clearly in the law the directors' duties to act appropriately when operating the company. Currently, the Commercial Companies Law does not contain any provisions regarding the duties of the companies' directors. The law should require that directors exercise appropriate diligence and make decisions that are informed when running the company. They should also avoid conflicts of interest, and should always put the interest of the corporation before those of the individual directors or others. In case of prejudicial related-party transactions, directors should pay the damages caused to the company and disgorge the profit made in violation of their duties to the corporation.

Increase immediate disclosure requirements of large related-party transactions to the public and market regulators. The securities law does not require immediate disclosure of large related-party transactions. Therefore, the reviewed law should require detailed disclosure of the nature and the extent of the conflict of interest, the key terms and conditions of the transaction and all the relevant information regarding the transaction. This information can ideally be posted on the website of the company (if one exists) and also on the website of the Dominican Republic Stock Exchange[13]. It is also important that the code or the draft law require recording the same information in the annual report of companies.

Require an external auditor's report before the approval of transactions between interested parties. The Commercial Companies Law does not require the review of the terms of a related-party transaction by an auditor before the authorization of the transaction by the board of directors. The auditor's report should evaluate the main terms of the transaction and present an opinion on whether the transaction is being concluded at market terms. To increase disclosure, such review should be mandatory.

Allow the courts to void abusive related-party transactions. The law does not allow the rescission of related-party transactions. In case that a related-party transaction was harmful to the company (meaning, without limiting to fraud or bad faith cases), the law should offer the possibility of voiding the transaction to help undo the harm caused to the company.

For the long-term

Require categories of documents from the defendant, without identifying specific ones. Currently, the Civil Procedure Code requires specific identification of the evidence during the trial (i.e. identify date, title, file number of the document, etc). For an easier access to corporate documentation during the trial, the civil procedure rules could allow parties to request categories of documents without identifying specific ones.

b. Benefits and experiences of other countries

Strong minority shareholder protections are associated to larger and more active stock markets. Companies grow by raising capital, either through a bank loan or by attracting equity investors. Selling shares allows companies to expand without the need to provide collateral and repay bank loans. However, investors worry about their money, and look for laws that protect them. A recent study finds that the presence of legal and regulatory protections for investors explains up to 73% of the decision to invest. In contrast, company characteristics explain only between 4% and 22% of those decisions[14]. Thus both governments and businesses have interest in reforms strengthening investor protection. Without this safeguard for investors, the stock markets would not develop and banks become the only source of financing. Subsequently, businesses cannot reach an efficient volume for lack of financing, and the economic growth weakens. A study in

10 Djankov, Simeon, Caralee McLiesh y Andrei Shleifer. 2007. *"Private Credit in 129 Countries". Journal of Financial Economics* 84 (2): 299–329.
11 Brown, Martin, Tullio Jappelli y Marco Pagano. 2008. *"Information Sharing and Credit: Firm-Level Evidence from Transition Countries"*. Documento Económico de Trabajo 201, Instituto Europeo de Gobernanza Corporativa, Bruselas.
12 Brown, Martin, y Christian Zehnder. 2007. *"Credit Registries, Relationship Banking, and Loan Repayment". Journal of Money, Credit and Banking* 39 (8): 1883–918.

13 The modification of the securities law will have an impact on the protecting investors indicator only if the stock exchange were to have more than 10 listed companies. Currently, there are no listed companies in the Dominican Republic's Stock Exchange.
14 Doidge, Craig, Andrew Karolyi y René M. Stulz. 2007. *"Why Do Countries Matter So Much for Corporate Governance?". Journal of Financial Economics* 86 (1): 1–39..
15 Dahya, Jay, Orlin Dimitrov y John McConnell. 2008. *"Dominant Shareholders, Corporate Boards, and Corporate Value: A Cross- Country Analysis". Journal of Financial Economics* 87 (1): 73–100.

22 economies of emerging markets found that when investors have little resources against activities that are harmful to the company, they invest in the few companies in which they can have majority shares[15].

6. Paying taxes

a. Suggestions

On average, in the Dominican Republic, 9 payments and 324 hours are needed annually to comply with tax regulations. *Doing Business* records the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes and contributions. The total tax rate is 35.7% of the commercial profit. This ranks the Dominican Republic 72nd on the Doing Business in the paying taxes index.

It is suggested that the authorities continue implementing the new legislation and also continue public information campaigns to increase the use of online filing and payment of taxes. Reforms referring to the paying taxes indicator have been adopted. An online system for income tax declaration and tax payment, which started as a pilot project in 2006, is now fully operational. Also, the corporate income tax rate was reduced from 29% to 25%. In this report, no other reforms are suggested on the tax system because the law is in implementation phase.

b. Benefits and experiences of other countries

Businesses prefer reduced tax rates that are applied in a clear and direct manner; or, if the rates are elevated, then have good public services. In countries where taxes are high and on the other hand, profits are limited, many businesses choose to operate informally. A recent study finds that elevated tax rates are associated to a smaller private investing, to a lower number of formal businesses per capita and to inferior business opening rates. For example, the study suggests that a 10% increase in the effective tax rate for corporate tax reduces the private investment/GDP ratio by two percentage points.[16]

7. Trading across borders

The trading across borders index measures the necessary time, cost and documents to import and export a standardized cargo by ocean transport. On average, nine days are necessary for exporting and ten days to import, with an associated cost of US$916.00 to export and US$1150.00 to import. Currently, six documents are required to export, and seven to import. The Dominican Republic reformed this area by introducing the Single Customs Declaration Form. The online submitting of documents and online payments are fully introduced. However, there are aspects within this area where reforming efforts can continue.

a. Suggestions

For the long-term

Reduce the number of necessary documents for cross-border trade. For cross-border trade six documents are needed to export and seven to import goods. Reducing the number of necessary documents to complete customs declaration transactions will contribute in speeding up international goods traffic. In France, only two documents are necessary for declaring goods in customs. The creation of the Single Customs Declaration Form (DUA) has already expedited the documents preparation time. The efforts to improve the electronic data interface system and enable the admission of all customs documents would contribute in facilitating the customs declaration process in international trade.

Create a "single virtual window" for cross-border trade. The current system allows electronic submission of the DUA between the traders and customs services. The online portal can automatically detect if the form is incomplete and notifies the traders instantly, speeding up the customs process. Another improvement has been to allow payments to be made through the online system. This channel was approved by the General Directorate of Government Accounting with No. 003-07, increasing efficiency in customs.

The electronic data exchange can also be improved in the future connecting public institutions like customs (DGA), security agents, port authorities in Santo Domingo and Caucedo, sanitary, technical control and bank authorities in a common electronic platform. Given that most of these institutions need similar information on the goods that they wish to pass through customs as a requirement prior to clearance, creating a platform to improve information transmission between these institutions would be a great help in facilitating the customs declaration. Singapore, through its TradeNet system, processes between 20 and 30,000 customs declarations daily and connects 35 government control units.

Implement risk based inspections. Customs is at its early stages of implementing risk based inspections, and this process should be accelerated. Clearance for imports and exports currently takes 2 days on average. Inspections should be limited to only the most risky cargo. And customs should aim to have a 5 to 10 % inspection rate as is the case in Denmark. This will allow the majority of harmless cargo to be cleared more speedily.

Proceed to integrate the prior actions to those suggested for border and port matters in the respective Policies Note.

b. Benefits and experiences of other countries

A recent study of 126 economies has calculated that each day of delay on the exports is equivalent to a 1% of the cost. For perishable agricultural products the cost is nearly 3% of the volume of trade for each day's delay[17]. Some non-agricultural products can also be affected by delays, like fashion clothing and electronic items. Another study shows that for each new authorization that a company needs to obtain, international trade experiences a reduction of 4.2%.

Economies that shorten delays can be integrated more rapidly into global trade. For differentiated products the reduction is close to 5%[18]. Elevated costs in cross-border trade restrict the participation of many countries in the global market, especially Africa. A study has found that established preferences in a duty-free treatment for trade with the United States (under the African Law and Opportunity Act) and the European Union (according to the Cotonou Agreement) are being significantly wasted[19]. Delays and excessively expensive import procedures also harm economies in general. Many exports are part of the global supply chains. To participate in these chains, manufacturers depend on punctual supply of import products. For example, imported materials make up one third of China's export value in electronic products. Likewise, they represent up to 55% of Ireland's and 65% of Thailand's export value[20].

8. Enforcing contracts

In Doing Business 2010, the Dominican Republic was ranked 86th in efficiency of enforcing contracts. 460 days are necessary from the moment the plaintiff files a lawsuit until the debtor makes the payment, and the cost rises to 40.9% of the claim's value. Even though the courts are relatively fast (460 days) in solving cases compared to the average in the Latin American and Caribbean regions (710 days), they still present a delay of 300 days in respect to the indicator's ten most efficient countries. It is also very expensive to solve commercial disputes through the courts: costs 40.9% of the claimed amount in attorney and court fees. This is higher than the regional average of 31% and the top ten average of 11.7%. Dominican Republic has great potential to make the process of contract enforcement swifter and less burdensome.

a. Suggestions

For the short-term

Evaluate map processes at the courts and track case load to identify points of delay and formulate solutions. Frequently, the source of bottlenecks is not found in the courtrooms, in the clerk's office. A mapping exercise could be useful to pinpoint specific causes of delay. When mapping, a team follows the steps necessary to take a commercial case through the courts and records the time associated with each step. This type of study is used to identify the points of the process where obstacles

16 Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho y Andrei Shleifer. 2008. *The Effect of Corporate Taxes on Investment and Entrepreneurship*. Documento de trabajo 13756 de la NBER. Cambridge, MA: Oficina Nacional de Investigación Económica (NBER).

17 Djankov, Simeon, Caroline Freund y Cong Pham. Próxima edición. *"Trading on Time". Review of Economics and Statistics*.

18 Sadikov, Azim. 2007. *"Border and Behindthe- Border Trade Barriers and Country Exports"*. Documento de trabajo 7/292 del FMI, Fondo Monetario Internacional, Washington, DC.

19 Bureau, Jean-Christophe, Raja Chakir y Jacques Gallezot. 2007. *"The Utilization of EU and US Trade Preferences for Developing Countries in the Agri-Food Sector"*. Documento de trabajo, Trinity College, Dublín.

20 Nordas, Hildegunn, Enrico Pinali and Massimo Geloso-Grosso. 2006. "Logistics and Time as a Trade Barrier". OECD Trade Policy Working Paper No. 35, Organization for Economic Co-operation and Economic Development (OECD), Paris.

to commercial cases are produced, and think of strategies to eliminate them. At the request of the Government, it would be possible to do a study of the judicial process in the Dominican Republic.

Introduce simplified rules for small claims. Currently, the *"Juzgado de Paz"* has jurisdiction over small claims and provides for simplified procedures. However, the threshold of the monetary value of the claim in order to present a case before the *"Juzgado de Paz"* is very low. The threshold can be increased to claims of a monetary value representing 200% of the GNI per capita (approximately USD 6,000.00). Introducing a "fast track" for cases with low financial value or uncontested cases would enhance the efficiency of the Dominican courts. First, it would decongest the normal track, speeding up the time to enforce both smaller and greater claims. Second, it would provide simpler rules for small claims such as a standard form for the complaint and simpler evidence rules. Also, this could lower the average attorney fees.

For the medium term

Develop performance measurements for judges. The case management system could be used to collect and process data on judges' individual performance. This would allow better distribution of the caseload and increased productivity. A performance management system could help to identify and reduce bottlenecks within the court system. Dominican Republic has started working on the development of the system. We encourage the government to pursue this reform effort.

For the long term

Establish e-court systems. Technology is used by a number of top performing courts (examples include Hong Kong, Austria and Singapore). Computerized systems simplify, amongst other things: procedural steps such as filing of complaints by allowing for e-filing, case management by for example allowing on-line access to files, communication channels between parties, attorneys and the court. This reform does demand appropriate investment in equipment as well as training of staff and consequently takes time to implement.

Establish a specialized commercial court/division. Standard commercial disputes are usually handled by the *Cámara Civil y Comercial del Juzgado de Primera Instancia del Distrito Nacional*. However, this Court/Chamber also deals with other civil disputes, there being no specialized judicial staff and track for commercial disputes. A specialized commercial division demands an adequate number of judges specifically trained and dealing only with commercial matters, adequate auxiliary staff and adjusted rules so that commercial matters are disposed of swiftly. Instituting a specialized commercial court or chamber would allow judges from those courts to acquire more knowledge on specific commercial issues, thereby increasing the quality and the quantity of their output. As a result, the time to dispose of simple commercial cases could be reduced.

b. Benefits and experiences of other countries

Inefficient courts can carry considerable costs. A recent study in Eastern Europe finds that inefficient courts produce a smaller bank financing for corporate investments. Reforms in other areas like creditor rights only contribute to an increase in bank loans if they can guarantee the existence of efficient procedures to enforce contracts before the courts[21]. A second study in 41 developing countries establishes that an improvement of 10% in the efficiency to solve commercial disputes reduces the informal sector's participation in 2.3% of the overall economic activity[22]. The courts ease the business climate if they are efficient, accessible and fair. In the world, only 35% of the businesses analyzed by the World Bank Business Surveys believe that their countries' courts are fair, unbiased and transparent[23].

9. Closing a business

This process requires 3.5 years, costs 38% of the estate property and debtors recover 8.9 cents for each dollar, all this through bankruptcy or insolvency procedures. The indicator measures the time, cost and recovery rate of a bankruptcy process related to domestic businesses. In this indicator, the Dominican Republic is ranked 146th out of 183 analyzed economies. The most common procedure for the Closing a Business standardized case study is foreclosure. The process takes longer than in the OECD region (1.3 years) and the amount on the dollar recovered by the creditors is lower than in the OECD (74.1 cents). Creditors need to get their money back and it is better if the process is swift and inexpensive.

Since *"Ley de Reestructuración Mercantil"* is under discussion at the Parliament, we recommend the insolvency legislation be amended to allow the efficient liquidation of non-viable businesses and the recovery of viable ones for the maximization of the value for creditors. Also, reforms similar to the ones related to the contract enforcement process could also address the current bottlenecks of the bankruptcy process in the Dominican Republic, since insolvency cases are seen by the same court - *Juzgado Civil y Comercial de Primera Instancia*.

a. Long-term improvement suggestions

Improve the efficiency of the judicial system by shortening the time to complete insolvency procedures. In the section on "Enforcing Contracts" and in Principle A5 of the Principles for Effective Insolvency and Creditor Rights Systems[24] recommendations are found on how to improve the efficiency of the courts. The benefits of an efficient regulation of the insolvency processes are particularly expressed while observing the richest economies. A series of recent studies in Europe argue that the effective return rates for creditors rise to 92% of the loan amount in the UK, 80% in Holland, 67% in Germany and 56% in France[25]. An effectively functional reorganization or bankruptcy process facilitates credit access. In those economies where the insolvency laws are more effective, the creditors trust that they can recover their credits and are more prone to granting loans[26].

21 Safavian, Mehnaz, y Siddharth Sharma. 2007. *"When Do Creditor Rights Work?"* Journal of Comparative Economics 35 (3): 484–508.
22 Dabla-Norris, Era, Mark Gradstein y Gabriela Inchauste. 2008. *"What Causes Firms to Hide Output? The Determinants of Informality"*. Journal of Development Economics 85 (1): 1–27.
23 Enterprise Surveys, World Bank Group (http://www.enterprisesurveys.org).

24 A functional credit system should be supported by mechanisms and procedures that provide efficient, transparent, and reliable methods of satisfying creditors' rights by means of court proceedings or non-judicial dispute resolution procedures. To the extent possible, a country's legal system should provide executive or abbreviated procedures for debt collection. Enforcement systems should provide efficient, cost-effective, transparent, and reliable methods (both non-judicial and judicial) for enforcing a security interest over assets. Enforcement proceedings should provide for prompt realization of the rights obtained in secured assets, designed to enable maximum recovery according to market-based asset values.
25 Davydenko, Sergei, y Julian Franks. 2008. *"Do Bankruptcy Codes Matter? A Study of Defaults in France, Germany and the UK"*. Journal of Finance 63 (2): 565–608..
26 Djankov, Simeon, Oliver Hart, Caralee McLiesh y Andrei Shleifer. 2006. Debt Enforcement around the World. Document 12807 de la NBER. Cambridge, MA: National Bureau of Economic Research (NBER).

3. Conclusions

A fundamental element for success in this task is to have a centralized coordination with the support from different institutions involved in the different processes (National Competitiveness Council and Center for Export and Investment of the Dominican Republic). As it can be seen in this document, there are multiple considerations that a country must take into consideration in order to facilitate the flow of investment. This multiplicity of problems increases the complexity of how to attack difficulties and improve them. These tasks need the systematic support on behalf of all the service providing institutions. The challenge when looking at the future of trade and caring for its investment environment consists on doing a follow-up and a systematic assessment of these identified processes, introducing the necessary measures to comply with international best practices.

CHAPTER III

Logistics for Competitiveness

JOSÉ LUIS GUASCH[(a)]

1. INTRODUCTION

On a large scale, economic growth, the poverty reduction and employment in the Dominican Republic depend on the development and performance of its export sectors and services, such as tourism. At the same time, the performance of these sectors is influenced by quality and nature of capacities and logistics facilities in the country. In this Policy Note, the relevance and attributes of the theme are analyzed taking into account the comparative advantages derived from the geographic location of the Dominican Republic in the center of a transactions market with enormous potential, suggesting a framework and effective performance that reproduces and adapts best practices.

Logistics is a central factor to determine economic competitiveness. Its importance is growing given that the globalization of commerce has opened up new opportunities for the countries that can be inserted into regional and global supply[1]. In this document, logistics is defined as "*... part of the supply chain process that plans, implements and controls efficiency and the effective flow and storage of goods, services and information from their point of origin until consumption, in a way that satisfies clients' requirements*"[2].

The country is currently facing important challenges regarding the sustainability of its exportation model. Out of the total number of resources obtained from external transactions, 70% come from Free Trade Zones[3], 20% from tourism and 10% from other goods, with major risks for exports from free trade areas. There are a series of problems that generate loss of productivity, high costs and excessive inventories, goods that do not arrive to the market and little integration of PYMES in the value and

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1 Studies recently carried out by the World Bank conclude that "*empirical analysis suggests that means assigned to improving logistical performance and to improve logistical performance and to facilitate commerce are probably those who have a greater positive effect on the expansion of commerce in developing countries, increasing the impact of the reduction of the remaining barriers to commerce by a factor of two or more.*"

2 Adopted by Simchi-Levi et al., 2008

3 Free Trade Zones are exempt from Income Tax from 1.5% of gross income and 30% of net utilities and 16% of value added tax. 4

export chain. These problems also create an obstacle for the development of new projects.

There were many ups and downs in the incentives scheme; the elimination of subsidies in Free Trade Zones alters incentives that have been established and creates greater uncertainty and insecurity. At the same time, within the framework of DR-CAFTA relations, the fading of the *Multi-Fiber Arrangement* – MFA and the disappearance of the *Caribbean Basin Initiative* **(CBI) have the same effect.**

Logistics is in the government's agenda and it is taking measures to improve performance, some examples are: the Customs Initiative (electronic processes and risk profiles) and Law No. 392-07 on Competitiveness and Industrial Innovation from April 2007, Title III, Chapter I (from Commercial Facilitation and Logistics). It is however a great challenge to achieve improved practices that are anywhere close to international standards.

2. Diagnosis

2.1 Logistics Performance

2.1.1 Logistics Performance Indicators

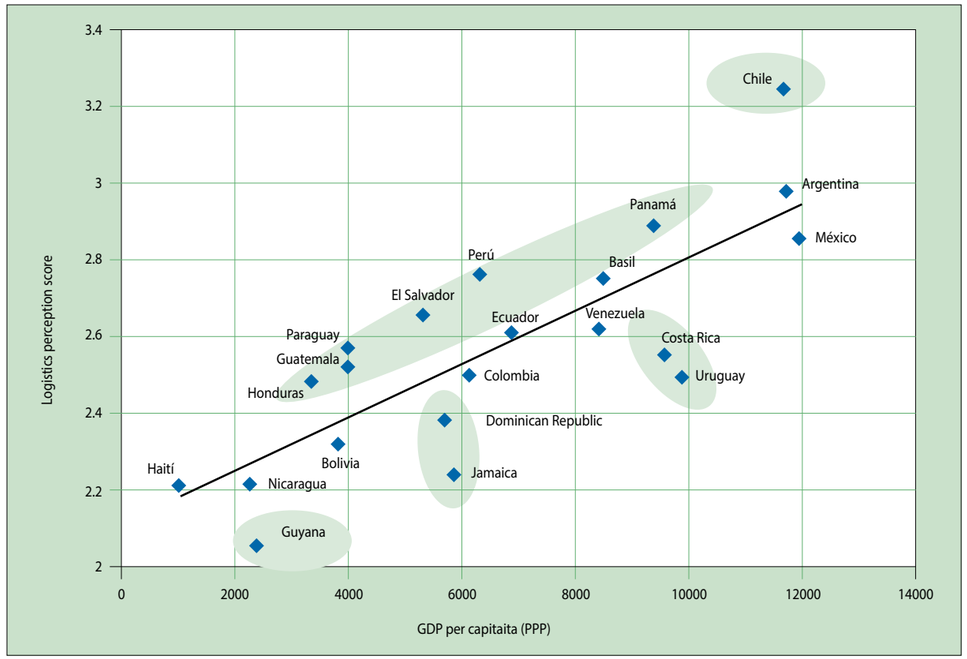
The diverse indicators used to measure logistics performance show results that are way below the international average. The Logistics Perception Index (LPI) places the Dominican Republic in the 96th place out of 150 countries. This index is estimated based on the opinions of international freight operators on seven key aspects (sub-indexes) that are combined in one indicator (Table 1). In accordance with the sub-indexes, the most serious problems are linked to the organization of services. The position of the Dominican Republic is far below than other countries in Central and South America and according to income per capita the regression of the Index indicates that its performance should be considerably higher (a score 15% higher, inferior to that of Colombia's).

TABLE 1: LOGISTICS PERCEPTION INDEX AND ITS SUB-INDEXES

Countries	Ranking -LPI	Customs	Infraestructure	Ease of Dispatch	Logistics Services	Ease of follow-up	Internal logistics costs	Timelines
Argentina	45	51	47	49	44	46	93	46
Panamá	54	48	48	58	61	49	26	49
México	56	60	53	53	57	48	101	51
El Salvador	66	75	68	61	78	61	74	73
Costa Rica	72	64	67	82	89	78	48	90
Honduras	80	65	79	93	91	91	86	93
Guatemala	75	87	104	73	79	90	65	64
Dominican Rep.	96	82	97	107	108	107	54	91

Source: Connecting to Compete – The World Bank.

GRAPH 1: RELATIONSHIP BETWEEN LOGISTICS PERFORMANCE AND GDP PER CAPITA IN LATIN AMERICA



Source: World Bank 2008

Another indicator, the Global Enabling Trade Report (Table 2), with dimensions referred to transport services and commercial provision, places the Dominican Republic 63rd out of 118 countries. The *Doing Business* Report calculated in 2008 for 181 countries, places the DR 94th in the index known as "Foreign Business" made up of relevant indicators for exterior business logistics [4].

4 The *Global Enabling Trade* Report, from the World Economic Forum (WEF), took into account 10 pillars that allowed for four sub-indexes to be created. This was finally summed up in one indicator known as the *Enabling Trade Index* 2008 (ETI 08). The base information combines interview (perception) and some available data. The sub-indexes that show major weaknesses are the transport services (109), transport infrastructure (73) and customs transparency and efficiency (78). *Doing Business*, carried out by the World Bank Group, is based on periodic surveys to companies with the objective of analyzing regulations and investment climate.

TABLE 2: GLOBAL ENABLING TRADE REPORT

Country	ETI-08	Customs Efficiency	Efficiency	Customs Transparency	Transport Infrastructure	Transport Services
CHILE	27	17	30	18	45	38
COSTA RICA	44	65	53	42	68	88
PANAMÁ	46	41	20	67	26	57
GUATEMALA	54	19	81	63	84	84
EL SALVADOR	55	72	64	49	94	68
DOMINICAN REP.	63	50	47	78	73	109
HONDURAS	64	77	77	74	70	105
MEXICO	65	63	76	57	87	55
NICARAGUA	67	85	65	73	96	107

NOTE: The World Economic Forum considered ten pillars that allowed four sub-indexes to be elaborated which were finally resumed in one indicator, the Enabling Trade Index 2008 (ETI 08). This covered 118 countries. The base information combines interviews (perception) and some available data.

The *Liner Shipping Connectivity Index* (LSCI) (Table 3) is another of the international measuring indicators that reflects the amount and dimension of shipping lines that access a country, shows that the Dominican Republic was in 47th place in 2007 out of 163 countries, having improved slightly in relation to its position in 2004.[5].

TABLE 3: SHIPPING ROUTE CONNECTIVITY INDEX (LCSI)

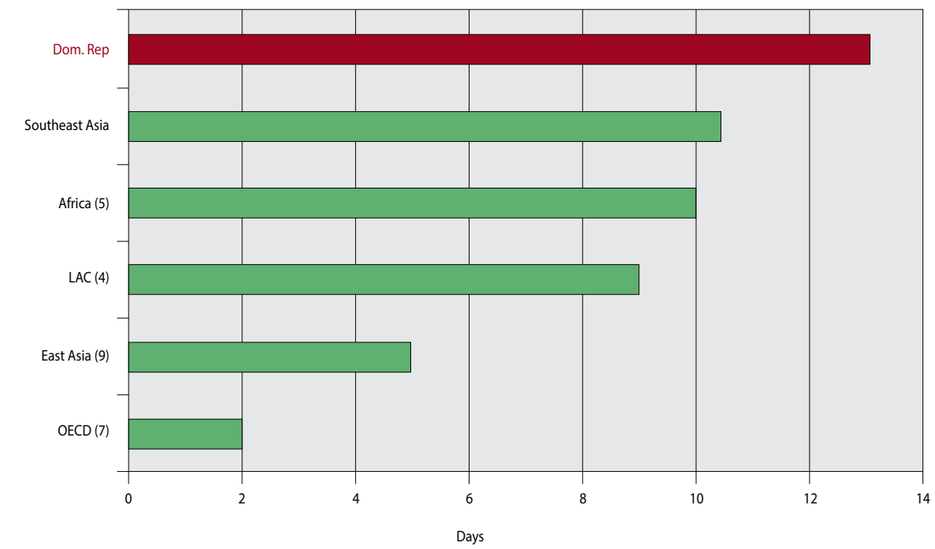
Country	Position 2004	Position 2007
Brasil	28	24
México	30	25
Panamá	22	27
Colombia	39	30
Jamaica	33	37
Dominican Republic	59	47
Guatemala	60	59
Costa Rica	57	60
Honduras	80	84
El Salvador	101	91

Source: UNCTAD. It is important to consider the amount of ships, container freight capacity, the amount of shipping companies, the number of shipping routes and the dimension of the largest tanker that reaches the country's ports.

In terms of time management indicators (Graph 2), the Dominican Republic also shows evidence of a backlog: the average time for container dispatch is 13 days, while the average in Latin America is 9 days and 5 in Eastern Asia.

5 The *Liner Shipping Connectivity Index* was carried out by the *United Nations Conference on Trade and Development (UNCTAD)*, and its value comes from considering the amount of ship liners that arrive at the port of a country, their container freight capacity, the amount of shipping companies, the number of shipping routes and the dimension of larger vessels so that they can access the country's ports.

GRAPH 2: TIME (COST) AVERAGE DISPATCH OF CONTAINERS (SAMPLE SIZE IN BRACKETS)



Source: International Exhibitions Logistics Associates website, World Bank (2004). Investment Climate Survey 2005.

Finally, the World Bank Doing Business facilitation indicators in the Dominican Republic are fairly worrying (see Table 4).

TABLE 4: BUSINESS FACILITATION INDICATORS

Total Ranking	32
Documents to export	6
Time to export	9 days
Cost to export	US$916
Documents to import	7
Time to import	10 días
Cost of importing	US$1150

Source: Doing Business 2009.

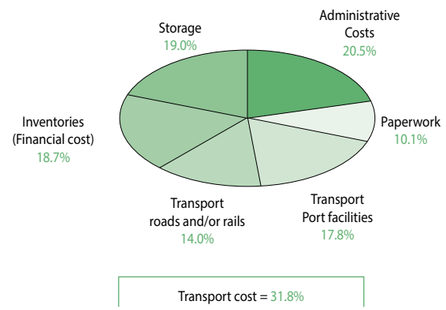
2.1.2 Impact of Logistics Costs

Logistics costs are equivalent to duties that have an impact on final prices. On average, the cost of transport is greater than 31.8% of the logistics costs, while the administrative costs of logistics operation and the cost of storage are next in importance. Timing has also consequences on the investment recuperation period, for example, a cutback in shipping by one day is equivalent to 0.8 of the value of the valorem tariff (Hummels, 2001), or to 1% of business or a reduction in distance of 70km (Djankov, Freund and Pham, 2006). It is estimated that by eliminating the market power of shipping, commerce could increase between 5 and 15% (Hummels, Lugovskyy and Skiba, 2009).

GRAPH 3: AVERAGE STRUCTURE OF LOGISTICAL COSTS

Legend

- Paperwork
  - Customs, phytosanitaries apply, among others
- Administrative Costs
  - Overhead of the logistical area
  - Insurance
  - Safety
- Storage
  - Used storage costs
  - Cost of reductions, deteriorations and/or losses generated for warehouses used
- Inventories
  - Financial cost



International experience yields important learning. Singapore, Korea, Taiwan, Chile, South Africa, Slovenia, Latvia, Croatia, Malaysia can all be pinpointed as cases of interest. Some recommendations demonstrate: the need to rely on a state policy to promote competitiveness, with a National Council that may either be for Competitiveness and/or Logistics, to develop a strategic infrastructure plan, to select and analyze performance and bottlenecks in a series of chain value criteria for the country, to modernize the port services model and to attract the private sector through concessions and/or Public-Private Associations (*Public Private Partnership* – PPP), to separate functions from the Porting Authority for planning, regulation and the operation of services, to create a supervisory body, to eliminate unnecessary procedures and paperwork, to cut processing times and introduce single windows; to introduce reforms to the transport carts; to elaborate multimodal laws and a framework for the performance of multimodal operators and to establish logistical and information platforms.

3. Policy Alternatives

3.1 Agenda to improve logistical performance and competitiveness

The new world economic scene will generate greater competition in foreign business, highlighting the need for logistical performance. The economy in the Dominican Republic is strongly linked to North America, Europe and East Asia, which is why is to expect that the strong rates of growth in foreign business will be replaced by stability or an eventual reduction in volumes.

With a reduction in maritime fleets, internal logistics will have greater relevance. This scenario will probably bring out the sensitive issue regarding the importance of logistical costs as a factor of competitiveness. Fleets and "*charter*" prices of fleets have had massive reductions between June and December 2008, reflecting immediately the world financial crisis. The transport container fleets have decreased by a quarter on main routes and the *charter* of fleets carrying containers is estimated at less than half and bulk fleets by a fifth. Fleets between China and North America and between China and Europe have also decreased which has reduced the geographical/location advantage the Dominican Republic held in both markets.

In light of this, an agenda is suggested to improve logistical performance incorporating the causes of the main problems and pointing to modify structures of services to increase private participation in order to strengthen public bodies and to improve business.

NSTITUTIONAL REFORMS

- **The creation of a Commercial and Logistics Assistance Board:** this would involve an environment that demands leadership and encourages and monitors the agenda. Its tasks could be: a) the elaboration of a National Master and Associated Logistics Plan, b) the development of a logistics costs observatory with monitoring of the commercial sector's most important value chains, c) active participation in decisions to do with ports, due to its impact on the entire logistics chain, d) monitoring to check that benefits of the measures are transmitted to every level of the value chain and that they contribute to improve competitiveness.

- **Institutional Port Reform: this would consist in designing and promoting an organizational port efficiency model that is competition-based in a way to reduce costs for users.** Port development should not be solely seen as a physical and financial planning problem but as a lever to modify the organization of the logistics services market, promoting competitiveness at all levels.

- **The new organization should overcome current fragmentation and achieve economies of scale.** Financial solvency should be re-established in the Port Authority by rationalization and by carrying out capital investments and infrastructure maintenance including port accesses and a general restructuration. A reform could comprise the separation of regulatory function of port operations. This could clarify and establish clear jurisdictions and incentives associated with port services (cold chain, storage, inspections and certifications), equipment, consolidation, tracking, an information system and coordination with customs.

- **The strengthening of public bodies and the improvement of their coordination.** There is no proportion between the importance of logistics problems and the assignation of resources for its management. This is particularly evident in what is referred to performance in terms of port policy functions.

THE PORT COMPONENT

- Implementation of the "Single Window" initiative.
- Reform/strengthen the Dominican Port Authority - APORDOM.
- Improve port safety and surrounding areas.
- Reduce/eliminate dependence on port beaches.
- Develop an effective information system based on the Port Community.
- The modernization of customs processes, including the introduction of an electronic data exchange system and also the implementation of "risk-based inspections" or inspections based on profiles and reputation.
- Redesign the structure and location of port processes and movements.
- Expand and improve port logistics services.
- Consider the use of dedicated lines for example for perishable goods.
- Improve port access and the offer of port services such as the cold treatment and storage.
- Establish a logistics platform/terminal at the port.

THE BUSINESS FACILITATION COMPONENT BEYOND THE PORT

- Improve activities needed for DR-CAFTA's effectiveness, in particular customs procedures, certification and control of rules of origin, offer, use and certification of quality standards and procurement policies.
- Implement an effective duty drawback system for both types of companies: those who make part of the Free Trade Zones and those that do not.

- Improve business facilitation costs by; a) reducing the percentage of inspected containers (there have already been improvements); b) improving port services, separating Port Authority regulatory functions from the operation of the port; c) strengthening customs procedures through integrated and automated information systems (there have been advances in this area); and d) improving safety to meet norms and requirements demanded by the US.

- Eliminate discrepancies in administrative procedures and access to infrastructure between companies that are part of Free Trade Zones and those that are not.

- Facilitate backward linkages via: a) the introduction of a low and uniform import tax based on the Most Favored Nation (MFN) scheme and applicable to all companies in the Dominican Republic without the minimum export requirement; b) gradually increase to corporative tax rate to Free Trade Companies and extend the Tax on the Transfer of Industrialized Goods and Services (ITIBIS) to Free Trade companies to ensure homogenous treatment in accordance with the World Trade Organization's regulations (WTO).

- Establish a profile risks database.

- Establish a framework or logistics corridors.

- Develop an export services market, particularly in the area of commercial logistics, distribution and merchandise and packaging.

- Improve the cold chain offer.

THE COMPLEMENTARY COMPONENT

- Support for PYMES in organizing supply chains: support program for the reengineering of flow materials, reducing logistics costs, adopting the model implemented in Mexico, accompanied by a training program. An evaluation for the introduction of a Logistics Activities Zone (LAZ) is therefore proposed for the port area which attends to the overall impact not only on general competitiveness but also for PYMES exporters and the development of local market of logistics operators.

- Put urban logistics in order in the Metropolitan Area of Santo Domingo. We propose that a heavy vehicle circulation network be defined and that logistics parks are created as a way of organizing heavy vehicle circulation and to reduce travel times and improve pre-visibility. We also propose the analysis for the development of a freight terminal at the airport that could act as a concession.

- Support the professionalization of highway freight transport: we propose human resources training courses (drivers, auxiliaries, business professionals) and on fleet management. There are models that can be adopted with the support of the business sector. Training to the business sector can be extensive as part of the PYMES development program.

- Improve the efficiency and processes on the border with Haiti.

- Facilitate coproduction in areas that have fallen behind economically on the border with Haiti.

- Improve and approve the new draft of a concessions law and PPP and its regulation.

- Facilitate innovative productive activities to improve competitiveness, to achieve niches in the market and stimulate investment in Investigation and Development (I&D).

4. Conclusions

As we have seen in this section, the challenges that the Dominican Republic is facing in terms of logistics are very important. Opportunities for success are present in this field. The Dominican Republic has been lucky to be "floating" in the center of one of the world's largest markets, a distinct advantage within the ensemble of tools needed in order to be competitive in this environment. Nonetheless, the remaining tools must to be perfected such as port components as well as commercial facilitators and complementary aspects that act as support for matters involving ports and logistics in general. These are fundamental in order to establish an efficient logistics system so that a business professional, both national and international, can be assured that his/her products will reach their final destination in the time required, under the conditions required, with the necessary level of quality and at a competitive cost.

CHAPTER IV

Access to Financial Services: Financing for Micro, Small and Medium Enterprises (MSMEs)

MARCO ARENA[a] WITH THE COLLABORATION OF DENIKA TORRES

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have a significant impact on GDP and employment. They provide approximately 23% of the GDP and employ over 36.2% of the economically active population. Nonetheless, only one out of every ten MSMEs has access to formal financial services. Therefore, this *Policy Note* aims to identify restrictions that can arise from the offer (provision) of financing services and the demand for such services, as well as the institutional regulatory environment or framework of support related to MSMEs. A comprehensive approach is used for this task, which takes into account the offer and demand for financing to analyze and offer policy suggestions.

The Note has four additional sections. The second one, presents an analysis of the offer and demand for financing services and the institutional framework of support for MSMEs. The third section presents policy issues and the fourth discusses policy alternatives.

(a) Financial Sector Economist.

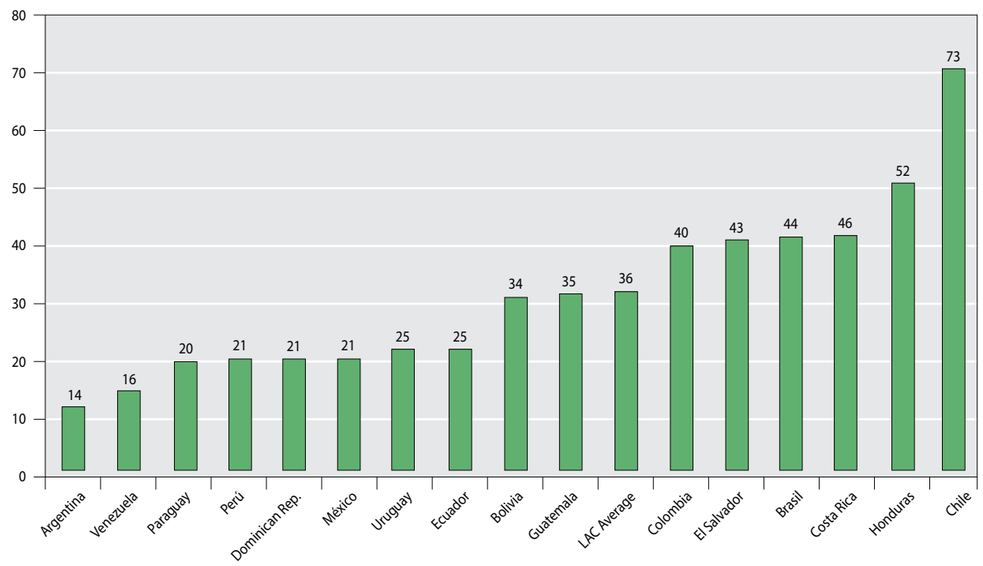
2. Diagnosis

2.1 Offer of Financial Services

2.1.1. The Financial System

The Dominican financial system is one of the smallest in the region with one of the lowest levels of intermediation. The banking sector assets to GDP ratio is around 38%. The financial intermediation, measured by the private sector credit to GDP ratio, is at around 21%, a level similar to that of Peru and Mexico, but one of the lowest in the region (Graph 1).

GRAPH 1: FINANCIAL INTERMEDIATION (CREDIT TO THE PRIVATE SECTOR/GDP)



Source: International Financial Statistics, IMF

This system is highly concentrated and dominated by the commercial banking sector. Commercial banks represent 83% of total assets (the three largest commercial banks represent 62% of total assets) of financial intermediaries regulated by the Monetary and Financial Law (*Ley Monetaria y Financiera – LMF*). The financial intermediaries regulated by this law include twelve commercial banks and twenty-six savings and credit banks, sixteen savings and loans associations and fifteen credit corporations. It also includes two public financial intermediaries (The BNV and the Agricultural Bank) (See Table 1). The "Reserve Bank" Banreservas is the only public commercial or state-owenedbank, which represents 24% of the total assets of the financial system. There are only two foreign-owned banks (Scotiabank and Citibank) which represent less than 10% of assets in the financial system and a local bank (BHD) with foreign involvement.

TABLE 1: STRUCTURE OF THE FINANCIAL SYSTEM - DECEMBER 2008

	Activos				
	Number of institutions	Billions RD$	Billions US$	% GDP	% Total Shares [1]
Institutions Under the Monetary and Financial Law					
Commercial Banks	12	486.7	13.9	30.3	78.6
Local	10	447.7	12.8	27.9	72.3
Public	1	138.0	3.9	8.5	22.3
Private	9	309.7	8.8	19.2	50.0
Foreign Property (wholesale)	2	39.0	1.1	2.4	6.3
Savings and Credit Associations	16	77.9	2.2	4.8	12.6
Savings and Credit Banks	26	18.1	0.5	1.1	2.9
Credit Corporations	15	1.9	0.1	0.1	0.3
Public Financial Intermediaries (BNV, Banco Agrícola)	2	22.5	0.6	1.4	3.5
Institutions not Regulated by the Monetary and Financial Law					
Savings and Credit Cooperatives (SCCs)	151/1	11.0	0.3	0.7	1.8
NGOs	9/2	1.04/4	0.0	0.1	0.2
Fondesa		0.5			0.1
Remaining NGOs/3		0.5			0.1

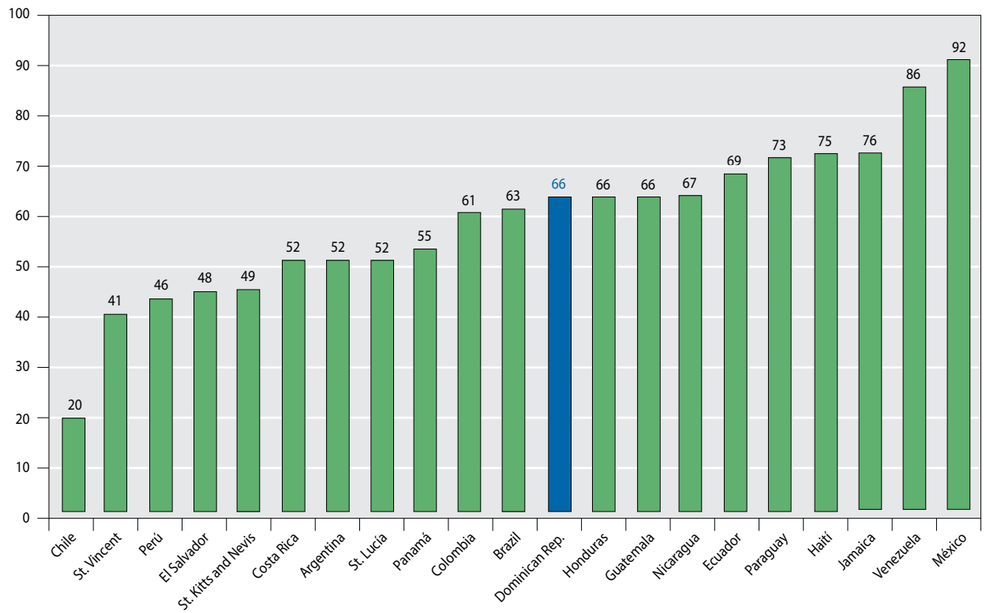
Source: Superintendence of Banks, Dominican Republic Microfinance Network.

1/ Includes 14 institutions under the Rural Savings and Credit Institutions (AIRAC) and the ADEPE cooperative.
2/ Members of the Dominican Republic Microfinance Network.
3/ Remaining NGOs include: ADOPEM, ASPIRE, FDD, ADEPE, MUDE, CDD, ECLOF, e IDDI.
4/ Information as of Dec. 2007.

65% of deposits in the banking sector are made up of demand deposits and short-term savings[2]. This is not a specific characteristic of the Dominican Republic as several countries in the region share this feature, including at higher levels (Figure 2). According to financial information for the largest banks in the country, 1/3 of loans are short-term (less than one year), 1/3 mature within one to three years and the remaining third are for longer than three years. Given the structure of the deposits base, a significant proportion of loans are for a short term period. Hence, a smaller proportion of long-term loans would not only pose a potential problem to the MSMEs, but would also represent a transversal problem for business as a whole in the country.

1 These numbers include non-regulated savings and loans from Cooperatives and Non-Governmental Organizations.
2 According to data from the Superintendence, 65 per cent of deposits are checking and saving deposits. This calculation does not consider values in circulation for the total of deposits. Nonetheless, taking into account data from the Central Bank, the proportion of checking and savings is fifty per cent

GRAPH 2: PROPORTION OF DEMAND AND SAVINGS DEPOSITS AS THE TOTAL OF DEPOSITS (%)



Source: Central Banks and Superintendence of Banks. The data for the Dominican Republic comes from the Superintendence of Banks. The total of deposits does not take into account values in circulation. This takes into account values in circulation as part of the total deposits; the ratio of demand deposits and savings would be 50%.

2.1.2 MSMEs Financing

The Savings and Credit Banks (BAC in Spanish) and to a lesser extent Commercial Banks are the main funders to MSMEs. This type of financing is growing rapidly. Until December 2008, its available lending portfolio reached DR$ 13.6 billons (0.85 % of the GDP). The lending portfolio for the banks ADEMI, ADOPEM and SMES B.H.D., which belong to the micro financing network and represent 44% of the banks' total shares and reaches the amount of DR$ 6.4 billion (0.4 % of the GDP) (Table 2).

The lending portfolio growth rate for these organizations for 2006, 2007 and 2008 has been at 24%, 30% and 21% respectively, with 115,000 clients (2.7% of the EAP; economically active population) and a growth rate of 68% compared to 2004. Regarding to commercial banks and according to interviews, the banks Banreservas, Popular and Scotiabank[3] (69% of commercial bank assets) could have, on average, 4% of their credit portfolio in the SME sector (approximately DR$ 7 billons, 0.4% of the GDP). Nonetheless, private commercial banks would attend to the higher segment of SMEs in terms of assets and sales.

3 El Banco BHD separó la atención al segmento PYME a través de la compra del Banco de la Pequeña Empresa para constituir PYME BHD. El Banco BHD es el tercer banco comercial en términos de activos (14 por ciento del total de activos de bancos comerciales).

TABLE 2: EVOLUTION OF LOANS PORTFOLIO OF SAVINGS AND CREDIT BANKS

Saving and credit banks	Year operation commenced	Existing loan portfolio 2005 (RD$ millon)	Existing loan portfolio 2008 (RD$ millon)	Variation of existing loan portfolio 2008/2007 %	Variation of existing loan portfolio 2007/2006 %	Number of current clients 2007	Number of current clients 2005	Variation of number of current clients 2007/2005 %
ADEMI	1998	2,676	4,881	20	32	33,145	47,598	44
Pyme BHD	2004	238	261	6	-9	5,000	5,333	7
ADOPEM	2004	382	1,303	48	35	30,374	61,897	104
Sub-Total		3,296	6,445	24	30	68,519	114,828	68
Total of Savings and Loan Banks		7,977	13,607	33	25	n.d.	n.d.	

Source: Banks Superintendence, Micro Finance Network

Public finance intermediaries also provide financing services directed at MSMEs. The *Banco Nacional de la Vivienda (BNV)* offers second-tier lending aimed at the MSMEs sector. Until December 2008, approximately 4% of the existing loans portfolio (DR$155 million) was second-tier lending for micro finances. The main receptors of the financing are Savings and Credit Cooperatives and NGOs that specialize in microfinancing. As regards to the Agricultural Bank, 50% of its loans portfolio (approximately DR$ 3000 million) could represent credit to small producers.

Outside the statutory framework of the Financial and Monetary Law, Credit and Savings Cooperatives (CAC, in Spanish) provide financial services to MSMEs in rural zones, in particular to micro and small companies. 15 cooperatives (14 belong to the Association of Rural Institutions of Savings and Credit – AIRAC) offer services (deposits and loans) to MSMEs in rural zones. In December 2007, the lending portfolio of these cooperatives was over DR$ 11,000 million, almost the same as the amount of loans from the Savings and Credit Banks. These cooperatives have over 81 offices and more than 290,000 members (7% of the EAP). The financing given for these cooperatives is growing rapidly and in 2008 was 15% higher than the previous year.

There are non-governmental organizations that also offer financing to MSMEs, in particular to micro and small companies. Until December 2007, the existing loan portfolio from NGOs rose to DR$ 1,012 million and had more than 54,000 clients. NGOs receive funds through commercial bank loans, the Banco Nacional de la Vivienda (BNV), PROMIPYME (first and second-tier governmental lending program to the MSME sector) and FONDOMICRO (NGO that offers second-tier lending aimed at the MSMEs sector) (See Table 3).

1/ Remaining NGOs include: ADOPEM, ASPIRE, FDD, ADEPE, MUDE, CDD, ECLOF, e IDDI.
2/ The reduction is mainly due to the transfer of clients from ADOPEM NGO to ADOPEM Bank.

TABLE 3: LOAN PORTFOLIO OF THE MICRO FINANCING NGOS

NGOs	Existing loan portfolio 2005 (DR$ milllon)	Existing loan portfolio 2007 (DR$ milllon) 2007/2005	Variation (%) Existing loan portfolio	Number of current clients 2005	Number of current clients 2007	Variation (%) Number of current cliens 2007/2005
FONDESA	190	491	158	6,452	16,791	160
Remaining NGOs[1/]	397	521	31	44,187	37,398[2/]	-15
Total	587	1,012	72	58,229	54,189	-7

Source: Micro financing Network.

The governmental program PROMIPYME (National Council for the Promotion and Support of MSMEs) offers direct and second-tier financing aimed at the sector. The PROMIPYME fund is administrated by the Reservas Bank and is made up of State resources and international donations. Until December 2009, the loan portfolio rose to DR$ 1,979 million. More than 90% of the portfolio is comprised of direct loans and, to a lesser degree, by second-tier lending.

The loan portfolio to MSMEs represents 1% of the GDP in the Dominican Republic, rising to US$ 474 million (taking into account the Savings and Credit Banks portfolio, non-governmental organizations and PROMIPYME)[4]. In comparison with other countries in Central American, the ratio with relation to the GDP could be close to that of El Salvador and Honduras (1.4 and 1.6% respectively), but less than that of Nicaragua (9%).[5]

2.2 Demand for financial services: MSMEs characteristics and reported obstacles

MSMEs have increased by 71% in the last five years. In 2000 there were 359,304, rising to 616,215 by the end of 2005. Approximately 96% of the companies were micro companies. This estimate was carried out using the classification detailed in Table 4.[6]

TABLE 4: CLASSIFICATION OF DOMINICAN MSMES

Type of Company	Number of Workers	Assets	Sales
Micro	1 to 10	to US$ 30,000	to US$ 60,000
Small	11 to 50	to US$ 300,000	to US$ 1,200,000
Medium	51 to 150	to US$ 1,200,000	to US$ 5,000,000
Large	over 150	over US$ 1,200,000	over US$ 5,000,000

Source: Study on market financing of small and medium companies in the Dominican Republic. FONDOMICRO (Fund for Small Company Financing).

4 If we take into account the credit portfolio of the commercial and cooperative banks, the ratio could rise to 1.3 per cent of the GDP.
5 The credit portfolio information to MISMES from the countries mentioned comes from Mix market
6 The recently approved MSMES law defines official criteria to classify these companies: 1) micro company: 1 to 15 workers, assets to US$88,000 and a gross income of up to US$176,000 per year. 2) Small: 16 to 60 workers, assets from US$88,001 to US$353,000 and a gross income from US$176,001 to 1,180,000 per year. 3) Medium: 61 to 200 workers, assets from US$353,001 to 1,180,000 and with a gross income from 1,180,001 to 4,412,000 per year.

In 2005, this sector generated a total of 1,455,162 jobs. According to the last FONDOMICRO census, 77.3% of MSMEs are located in urban areas and only 22.7% in rural areas. Over half a million jobs were created in Santo Domingo and provincial cities. The importance of MSMEs in the business network and GDP in the Dominican Republic is similar to that of other countries in the region (Table 5).

TABLE 5: MSMES IN LATIN AMERICA

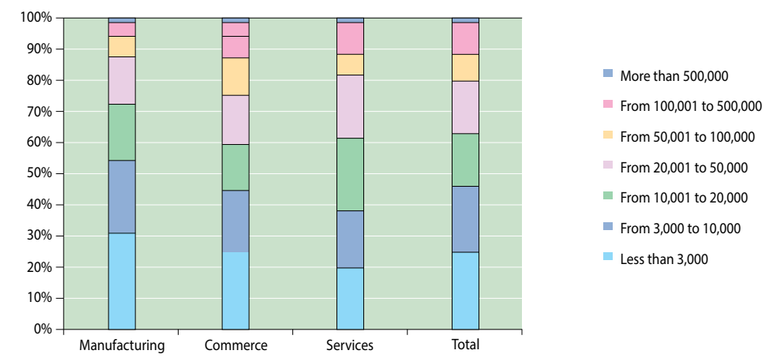
Countries	Proportion of MSMEs over Total Enterprises (%)	Jobs generated by MSMEs (% of total)	GDP Generated by MSMEs (% of total)
Argentina	99,5	39	45,1
Brasil	99,7	57	30
Chile	98,7	50	n.d.
Colombia	96,0	63	25
Costa Rica	97,9	48	28
El Salvador	96,9	50	24 a 36
Honduras	98,0	45	18
Nicaragua	80,0	60,0	n.d.
Panamá	36,0	12,0	11
Perú	98,3	88,0	n.d.
Dominican Rep.	96,0	29,0	23
Venezuela	92,5	41,5	4,9

Source: Small and medium-sized company financing in Latin America.

The majority of MSMEs are concentrated in commercial (44.6%) and services sectors (31.6%). A total of 287,156 are commercial companies, 194,724 services companies and 134,335 are manufacturers. Between 2000 and 2005, business participation rose by 5% in the service sector and 3.7 in the commercial sector. In contrast, the number of companies in the manufacturing sector decreased from 31% to 22% during the same period.

Services and commercial companies report the highest volume of sales. One out of four MSMEs reported monthly sales below DR$ 3000. In the same way, 21% relied on monthly sales between DR$ 3000 and DR$10000 pesos, while only one out of ten companies earned over DR$ 100,000 pesos in one month. 11,4% of service enterprises and 13.3% of commercial enterprises have sales of more than RD$ 100,000 (See Figure 3).

GRAPH 3: MONTHLY SALES OF COMPANIES BY SECTOR (% OF TOTAL SALES - US$)



Source: Authors - Central Bank of the Dominican Republic

Even when the number of MSMEs with access to formal financing sources has increased from 5.4% in 2000 to 10.3% in 2005, this access continues to be one of the main obstacles for development. In 2005, 29.3% of companies received cash from formal and informal sources during the 12 months preceding the survey. Close to 30% of businesses of up to 10 employees obtained money in cash, of which 9.8% resort to formal institutions. Only 22% of businesses with more than 11 employees managed to secure financing: 14.8% achieved this through a bank or a financial institution while 7.1% obtained credit from moneylenders. Family and friends are another important source of credit for 9.8% of micro entrepreneurs. NGOs with micro-financing programs operate with 3.3% of companies.

2.3 Governmental Framework Support

There are public institutions that provide support to MSMEs but with a lack of coordination. Among them are the National Council for the Promotion and Support of Micro, Small and Medium-Sized Companies (PROMIPYME), the Corporation for the Promotion of Industry (CFI-PROINDUSTRIA), the Center for Export and Investment of the Dominican Republic (CEI-RD), the National Institute of Technical Studies (INFOTEP), the Institute for Innovation in Biotechnology and Industry (IIBI) and PROEMPRESA. Coordination will be important to develop joint programs and to achieve a greater scale effect, considering in particular their limited resources. Close articulation and cooperation between the public bodies and organizations in the private sector aimed at MSMEs is not observed.

TABLE 6: PUBLIC INSTITUTIONS LINKED TO MSMES

Entity	Activities
PROMIPYME	Provide both first-tier lending (commercial loans for working capital, acquisition, installation, and modernization of machinery and equipment) and second- tier lending. In addition, provide free technical assistance in coordination with the Taiwan Mission, based on the bilateral agreement of industrial cooperation between the Dominican Republic and Taiwan.
PROINDUSTRIA	Establishment of Industrial Districts in order to promote MSMEs development.
INFOTEP	Development of workers and entrepreneurs-training programs..
IIBI	Develop scientific research, provide technological transfer and foster innovation, and provide technical assistance in key areas for national development in order to improve national competitiveness.
CEI-RD	Export and Investment promotion in order to improve the competitiveness of Dominican enterprises in International markets of goods and services.
Support Program for Private Enterprises (PROEMPRESA)	Using resources from the European Union, this program looks to promote technical assistance, firms clustering and the improvement of the business climate of the Dominican enterprises.

The MSMEs Law creates the National PROMIPYMES Council with administrative and financial autonomy as an organization responsible for the administration, control and implementation of the Law. The Council is in charge of the design, formulation and implementation of public promotion and support policies to MSMEs. It will also be responsible for coordinating with other public and private institutions regarding the development of MSMEs support programs. The Law ascertains that the Executive Power will consign 0.4% of fiscal collections for the Council. From these resources, 30% will be used for the creation of a Guarantees Fund, 6% for educational and business development activities and 50% will go towards financing the MSMEs Fund whose objective is to promote MSMEs financing. Out of the resources administrated by the Fund, 90 % will go to first-tier lending operations and the rest for second-tier operations.

3. The Financial Sector

3.1. Offer of financial services

Regarding evaluations of assets, an asymmetry could exist in the Superintendence of Banks regulations concerning the treatment of commercial banks and other recognized credit institutions in the Finance and Monetary Law. Savings and Credit Banks (BAC in Spanish), Loan and Saving Organizations (AHP) and Credit Corporations (CC), also regulated by law, fulfill the same prudential regulations as commercial banks. The latter is important in order to avoid regulatory arbitration among different types of financing bodies. However, in the regulation of asset evaluation, Savings and Credit Banks and Credit Corporations are treated in a different way to Commercial Banks and Loan and Savings Organizations that could introduce differentiated competition conditions in the market.

The modification of asset evaluation at the beginning of 2009 is a positive element to increase the amount of loans to MSMEs through the upper limit of the "minor debtor". However not everything is resolved. For example, in accordance with current regulation, for Commercial Banks and Loan and Saving Organizations, a "minor debtor" is someone whose consolidated obligations are lesser or equal to DR$ 15 million. Nonetheless, the limit is DR$ 10 million for Savings and Credit Banks and Credit Corporations.

The ceiling should be increased by DR$ 10 million that the Savings and Credit Bank has, which specializes in the SMES sector, and to put them on equal standing with commercial banks. However, it may be true that commercial banks and Savings and Credit Banks have different minimum paid-in capital, this does not mean that they do not have the capacity to financially evaluate loads between DR$10 and 15 million under late payment criteria. In the "minor debtor" category, financial evaluation is based mainly on a client's credit history *(morosidad)*. However, the financial evaluation of a "large debtor" client requires more documented information such as audited financial statements. This differentiated ceiling affects the credit expansion to SMEs given that specialized micro-finance institutions' clients financial evaluation is mostly based on credit history and not by their payment capacity through audited statements.[7]

The Monetary and Financial Law should include Savings and Credit Cooperatives (SCCs). They positively contribute to financial consolidation through the provision of financial services, particularly in rural zones. Nonetheless, they do not include financial regulation and supervision. Even when the volume of CAC assets is approximately 2% of the total of assets in the financial system, the growth rate of loans in the last three years has oscillated between 15 and 20%, a reflection of the growing dynamic and significant expansion. In this context, it is necessary to implement a regulatory and supervision framework for the cooperatives. Currently, the Institute for Development and Cooperative Credit (IDECOOP) verifies that SCCs behave as cooperatives but not perform financial supervision and regulation.

Direct financing for MSMEs by PROMIPYME could be causing distortion in the market. Over 90% of PROMIPYME resources are directly channeled and with subsidized interest rates between 12 and 15%, far below market rates (between 25 and 38 %). In this context, it is competing with specialized institutions to offer financing to MSMEs, including *Banreservas*. This competency could be creating a distortion in the market, far beyond obvious demand excesses for resources. On the other hand, the *Banco Nacional de la Vivienda (BNV)* is offering second-tier lending to MSMEs, setting the possibility to directly operate with this segment. If so, it would also be directly competing with micro-financing bodies and even manage to crowd them out.

3.2 Demand for financial services

Access to financing is an important obstacle for the development of MSMEs even when access to formal financial services has increased lately. Greater access to financial services in relation to five years ago is mainly due to a greater incursion of NGOs with credit technology according to the sector characteristics and a credit recovery rate of over 97%. Private commercial banks aim to develop similar credit technology which differs from technologies used for consumption and corporate banking to venture into the sector in a more aggressive way. Nonetheless, the factor that will allow a greater strengthening of financing services is a better adjustment of the banking legislation or regulation with the characteristics or nature of the business.

7 According to the information obtained, the credit recovery rate for the MSMEs is higher than 96%.

MSMEs do not only need financing services. Even though access to financing is identified as an important obstacle for the development of companies, it is not the only one that exists. MSMEs demand integral support. This support includes business development programs (management and managerial training), technical and financial assistance (development of a financial culture) and technological and innovation development programs. SMES also need programs that can assist their access to new markets (domestic and external), to offer strategic information and to generate business partnership.

3.3 Government Programs and Elements regarding Financial Infrastructure

3.3.1. Governmental Programs

Government support to MSMEs has been atomized and not well coordinated among the institutions. In the past, the absence of a government body centralizing and coordinating the development of an integral support policy to MSMEs generated that different public bodies developed their own activities thereby reducing their total impact, even more considering the fact that the resources used are fairly limited.

The MSMEs Law creates the PROMIPYME to develop the sector. This body has concentrated on direct financing. Even so, it will have to expand company development policies and programs, encourage exports and access to new markets, strategic information, cluster activity (productive articulation) and technological assistance and transfer. For this, it will have to raise its ability to instrument support programs. Law regulation should be carried out in four months but institutional strengthening will demand a much greater period making this a condition for successful implementation.

Under the PROMIPYME law, direct financing will continue. 90% of the fund will be dedicated to this. Direct intervention by subsidized tariffs would generate unleveled competences with micro-financing organizations and, in this way, would continue to introduce market distortion. Authorities could receive the proposal to technically evaluate the implementation of a second-tier strategy to transfer resources.

According to the law, 30% of fiscal income assigned to the Council will go to the creation of that fund. **It is necessary to perform a technical study during the regulation period of the law in order to design a guarantee scheme created by the MSMEs law**. The scheme involves an assessment for the percentage coverage, the cost or Premium and the criteria to be able to apply the guarantee. This study should determine the potential demand for the guarantee to evaluate if the funds will be sufficient or not. The latter requires a dialogue with other financial bodies though which the guarantee will come into effect. Finally, the study should present basic principles and guidelines through which the Guarantee Fund will be self-sustained without implying costs or fiscal charges to the government.

3.3.2. Elements of Financial Infrastructure

CREDITORS' RIGHTS AND INSOLVENCY NORMS

Deficiencies in financial infrastructure result in financing access restrictions for all the firms, not only MSMEs. Significant progress has been made in modernizing some elements of its financial infrastructure, in particular in the payments and credit report system. Nonetheless, insolvency regulations and creditors' rights show deficiencies. On the one hand there are a limited number of assets that can be used as collateral and mechanisms, to ensure the compliance of norms related to claiming of these assets, are not effective. On the other hand, insolvency procedures are rarely used and the perception of the need of a legal reform still exists.

A limited number of property assets can be used as collateral. Only security on automobiles and machinery are accepted property assets and, in any case, an institutionalized register does not exist for them. The Register for property guarantees is perceived as expensive (has a register tax of 2 per cent) and time consuming (the register is not completely computerized). An easily affordable computerized consulting mechanism does not exist for the public. Only five commercial banks would have access to any kind of information regarding a real estate registry.

Land property titles do not always ensure total property rights. Real estate assets that can serve as collateral could expand significantly if uncertainties regarding titles are clarified. An important step, the still in its initial stages, to clarify demarcation limits for real estate property is the *deslinde*. Likewise, limitation of the use of certification letters is being implemented for this and can become an important measure.

Bankruptcy legislation is hardly used because it neither provides a reorganization mechanism nor an efficient liquidation process. Most of the substantive legal provisions applicable in insolvency cases are antiquated and inefficient. Currently Congress is debating the Business Restructuring Draft that represents an important step towards the modernization of bankruptcy legislation.

ACCOUNTING AND AUDITING NORMS

The depth of financing services involved not only generates adequate financial regulation for MSMEs, it also creates regulations that permit businesses to be formed more easily. In other words, a legal framework that takes into account the particular characteristics of the different types of businesses in order to provide greater incentives for business formalization[8]. The statutory framework does not differentiate between large, medium-sized and small enterprises and is excessively burdensome for small and medium-sized entities (SMEs), both in terms of financial reporting obligations and audit requirement. The new Company Law of December 2008, which did not introduce substantial changes in terms of accounting and auditing requirements, has not significantly relaxed the regulatory regime for SMEs.

In financial reports, all commercial companies[9] should apply the standards promulgated by the Public Accountants' Institute (ICPARD) that are more stringent than their peers in Central America, the United States and the European Union; which as it is unrealistic is not observed in practice. With relation to auditory requirements, the Commerce Code noted that all companies with a capital equal to or higher than DR$ 50,000 should be audited. However, this limit has been replaced by a potentially higher limit which could serve as a positive element regarding the formalization of MSMEs.

4. Policy alternatives

4.1. Offer for financial services

- The Banks Superintendence could consider the implementation of a homogenous asset evaluation regulation across banks and other credit entities under the Monetary and Finance Law[10]. Given that credit organizations meet the same stringent regulations, a homogenous agreement could also be reached for regulation in order to avoid different competitive conditions in the market. Even if it is true that credit organizations have different minimum levels of paid capital, this does not imply that they do not have the same capacity to develop the financial evaluation of clients.
- **It would be important to implement a financial supervision and regulation scheme for cooperatives.** The consolidation of financial services cannot be separated from system financial stability. Cooperatives contribute significantly to this.

  Within amendments carried out as part of the Financial and Monetary Law, cooperatives are included as part of the statutory framework. This represents a positive component, nonetheless, and given that cooperatives are urrently self-regulated, the Banks Superintendence could first opt for an initial statutory framework that takes into consideration cooperative characteristics to later make a regulatory transition or convergence towards the Finance and Monetary Law.
- **The Institute for Development and Cooperative Credit (IDECOOP) does not currently have the institutional capacity that is necessary to perform the financial supervision of the cooperatives.** Therefore, it would be ideal that its supervision is carried out by the Banks Superintendence so that the most is made out of synergies, coordinated work, ensure a complete flow of information and the credibility of the institution.

8 This discussion assumes the existence of homogenous criteria to define a productive unit such as a micro, small and medium-sized company as much as on a public as a private level. While it may be true that the new MISMES law presents a homogenous definition, it is surprising that this is different to the one that was being worked on in previous versions of the draft (August 2008). It is not yet clear what the technical criteria was to develop this new classification.

9 The law takes into account five types of commercial companies (corporations, companies with limited responsibility and societies). It also introduces individual companies with limited responsibility for which, nonetheless, accounting and auditory requirements are not clearly defined.

10 Technical evaluation is important to determine the potential risks that could be introduced to the overall stability of the financial system.

- **It would be convenient that the government financial support for MSMEs sector be channeled exclusively as second-tier.** Resources would be channeled in a more transparent and competitive way to specialized bodies in the MSMEs sector, eliminating distortions and excesses of demand generated by subsidizes interest rates. This model would allow for institutional strengthening of the specialized bodies given that they would have to compete for resources. The second-tier body would need to have a clear mandate and should introduce market mechanisms that allow the mobilization of resources from the private sector to the agricultural sector. Examples of this model in other countries are the Development Financial Corporation (COFIDE) in Peru, the Production Development Corporation in Chile, which also relies on guidelines and programs for SMES. Both institutions energize and develop a loan market to MSMEs through financial intermediaries.

4.2 Demand for financial services

- **The public support policy for MSMEs should develop an integral support bracket, more than just financing.** Integral support should include business development programs (management and managerial training), technical and financial assistance (the development of a financial culture), technological and innovation development programs and programs that help MSMEs to access new markets that offer strategic information and that generate business partnership.

- **There are questions regarding the availability of budgeted resources.** A technical study should be carried out that allows for an estimate if the resources to be assigned to the Council created by the MSMEs Law would be enough to meet the demand of all services.

4.3 Governmental Support Framework and Financial Infrastructure

- **Institutional strengthening is recommended for the organization responsible for developing the integral public support policy to MSMEs.** The Council needs an institutional strengthening to improve its capacity for the design and implementation of MSMEs support programs beyond the financing scope only. This institutional strengthening is needed given that PRO-MIPYMES has mainly focused on financing services. In order to develop this, recommendations suggested by the National Plan for Systematic Competitiveness, elaborated by the National Competitiveness Council, could be taken into consideration. The experience of CORFO could be also observed in the implementation of business programs (management and business development, partnership, innovation and access to international markets) including MSMEs.

- **Before developing additional guarantee schemes established by the MSMEs law, should first look at how the Guarantees Fund, mentioned in the law, works.** After developing technically the design of the Guarantees Fund scheme, as mentioned previously, its functioning and use should be observed before including additional schemes such as the reciprocal guarantees proposed by the Central Bank; even more so when taking into account that guarantees funds need initial resources from the State that are scarce and cannot be multiplied simultaneously for diverse guarantees schemes.

- **Deeper consolidation of MSMEs financing services would require that policies and regulations fit more to their characteristics.** Norms and financial regulations should take into account the nature of the business and not necessarily the type of financial institution that offers the loan. For this reason, credit limit ceilings should be modified so that non banking organizations are on equal footing with commercial banks; even more considering that savings and credit banks are aimed at the MSMEs sector with different and specialized credit technology to the sector.

- **Regulations related to the collateral used in financial transactions should be updated.** A comprehensive revision of the legal framework would allow to increase the number of movable assets that can be used as collateral as well as organizing a register. At present automobiles and machinery are the most commonly accepted types of active property. Likewise benefits should be technically studied to reduce the costs of the assets registry.

- **Authorities should technically evaluate the benefits of a statutory framework of accounting norms that introduce a difference between small, medium and large companies,** as much in terms of financial reporting obligations as auditing requirements. Commercial companies[11] should apply standards promulgated by the Public Accountants' Institute (ICPARD), which at the same time has adopted the International Financial Report Standards (IFRS) for listed companies, without differentiating between size or whether they are listed or not. This means that Dominican Enterprises are expected to observe much more stringent reporting obligations than their peers in Central America, US, the European Union, etc., which is unrealistic and not observed in practice.. Among the countries who apply accounting norms that are differentiated by company size are South Africa, England and El Salvador (in progress).

5. Conclusions

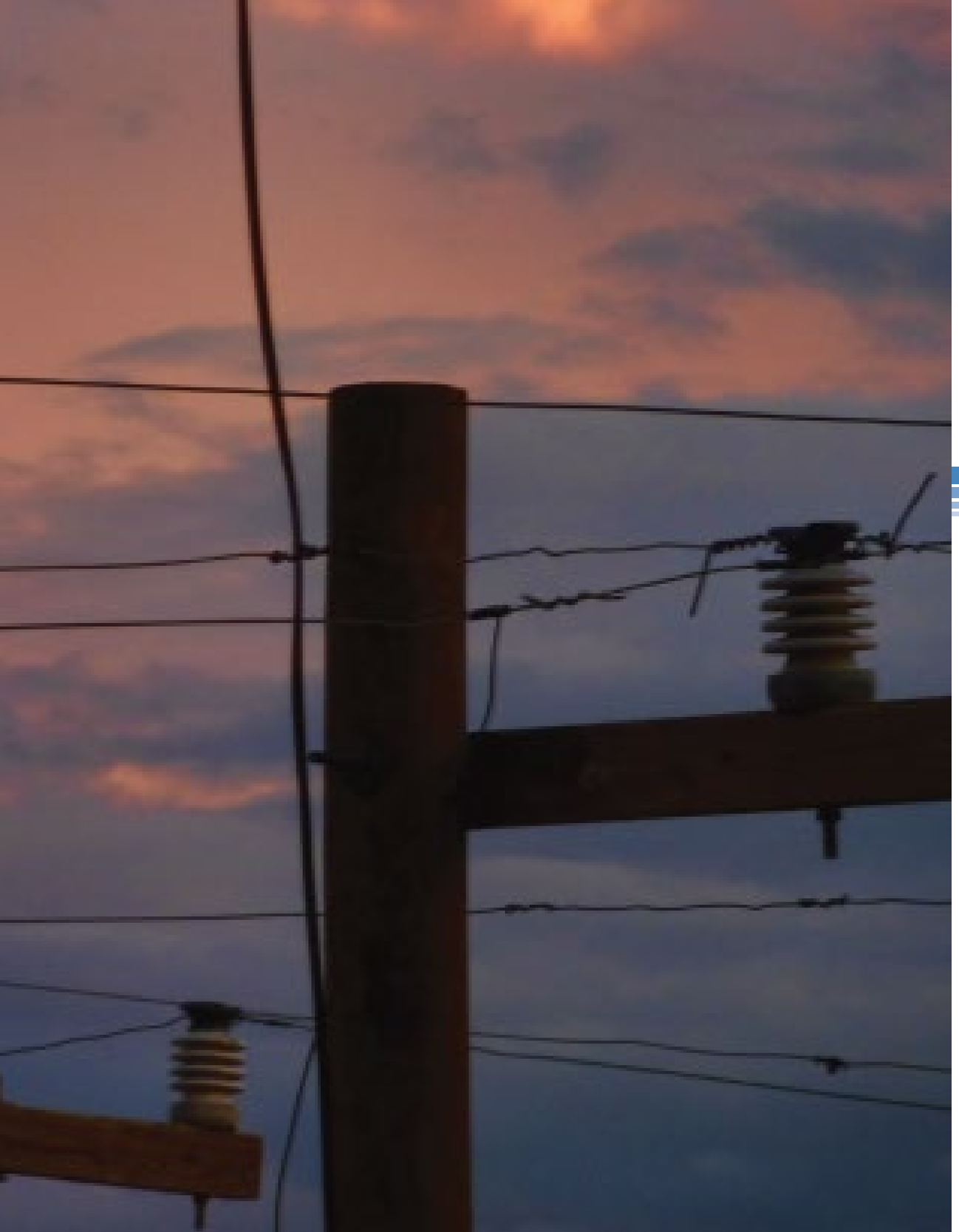
The consolidation of financial services to MSMEs is a wide issue that should not only be reduced to areas such as interest rates and guarantee funds, as obstacles and/or restrictions of MSMEs from demand and supply for financial services should be taken into account as well as potential restrictions and/or obstacles that may come from governmental, organizational and normative actions (regulation).

An integral public support policy for MSMEs should develop broad support that would go beyond the financial field. Integral support involves the development and coordination, with the private sector, of business development programs (management and managerial training), technical and financial assistances (development of a financial culture), technological and innovation programs and development programs that help MSMEs to access new markets (domestic and external), offer strategic information and generate business partnership.

Based on international experiences, it is recommended to start a dialogue process that allows modifying and/or adopting banking, accounting and auditing regulations, taking into consideration the characteristics of the MSMEs. In the financial field we suggest the evaluation of second-tier lending programs that allow for loan markets to be developed for this sector. These may become solutions that contribute to a more positive impact for the sector than the current first-tier lending programs.

It is suggested that the regulatory authority places special emphasis on the control of banks with a rapid growth portfolio. The strong growth of loans to the sector can generate past-due portfolios and, eventually, solvency problems if the analysis of capacity of the banks does not grow at the same rate.

11 The law takes into account five types of commercial companies (corporations, companies with limited responsibilities and societies). It also introduces individual companies with limited responsibilities for which accounting and auditing requirements are not clearly defined.



CHAPTER V

The Electricity Sector

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1. INTRODUCTION

Energy policies play an important role in the Dominican government's agenda. Despite the fact that the country has a growing and stable economy, with a GDP per capita of US$ 4406.4 (2007), and a relatively high purchasing power (PPP) for Latin America, the electricity sector is an area that needs to be reformed in order to improve competitiveness, to achieve a reduction in poverty and to consolidate sustainable economic growth. This Policy Note aims to provide a balanced perspective on relevant electricity sector issues.

2. Diagnosis

2.1 Background on the sector

Before the reform in the 90s, the electricity sector was in the hands of the Dominican Electricity Corporation (Corporación Dominicana de Electricidad - CDE), which was state-owned and vertically integrated. Its operations were characterized by large energy losses, low bill payments, bad operation and deficient maintenance, with a service that suffered frequent power cuts and rationing, all of which were the grounds for the sector reform.

The rapid expansion of the sector was a reflection of the high level of growth the country was going through. Total demand for electricity rose to an annual rate of 7.5% between 1992-2001 and GDP growth was at 5.9%. As generation capacity was not sufficient to cover peak demand, with constant supply restrictions and massive blackouts, the government encouraged Independent Power Producers (IPP) to sign Power Purchase Agreements (PPA) with the CDE. These agreements led to high electricity prices.

In 1998-99 the sector disintegrated and five companies were created (two generation and three distribution companies), successfully selling 50% of the latter three. In order to resolve the permanent and continual problems regarding the lack of installed capacity and constant blackouts, a Public Enterprise Reform Law

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was promulgated which provided the framework for the privatization and restructuring of the sector. Between 1998 and 1999, under the first government of Leonel Fernández, the Dominican Electricity Corporation monopoly was dissolved into a series of generation companies. EGE Haina and EGE Itabo, which operated thermal generation plants, were privatized and three distribution companies were created: *EdeNorte* (North Distribution Company), *EdeSur* (South Distribution Company) and *EdeEste* (East Distribution Company).

The 2001 Electricity Law, inspired by reforms carried out in other countries in the region, established an integral regulatory framework. The private sector was awarded with the generation and distribution while transmission and Hydroelectric generation was given to the State. The operative presence of the State in the sector consisted of the following bodies: the formally integrated public services corporation CDE (that held contracts with independent energy producers IPP), the Dominican Electricity Transmission Company (ETED) and the Dominican Hydroelectricity Generation Company (EGEHID).

A new conglomerate of companies was also established, the Dominican Corporation of State Electricity Companies (CDEEE), to take on the ownership of ETED and EGEHID as a substitute for the CDE. Initially, the government considered transferring its shares to administer the companies as an investment under a trust fund independent from the sector regulatory bodies, instead of using its ownership as a potential instrument for sector policies. Nonetheless, this change did not occur. The law and its complementary norms from 2002 included the creation of an autonomous regulatory agency, the Electricity Superintendence (SI[E])1. The National Energy Commission (CNE) was also created as the coordinating organism for energy policy and a wholesale market under the responsibility of a Coordinating Body (*Organismo Coordinador* - OC).

Due to new investments, between late 2000 and mid 2003, effective generation capacity experienced a rise of 43%. Improvements were also registered in the distribution network, with a provisional reduction in blackouts and distribution losses and an increase in operative efficiency. The undelivered energy supply fell to 11% of the potential demand in 2002, far below its earlier amount of 40% in 1991. During this period, it is estimated that the deficit capacity to meet demand fell from 30% to 16%. **The worst electricity crisis hit in 2002, with up to 20 hours of rationing and the PPAs were re-negotiated through the "Madrid Agreement" with an extension until 2016**. Faced with the rise in fuel prices, the government froze tariffs and agreed to make up for costs to the generators with resources from the Treasury (up to US$ 20 million per month). The government did not have the resources to compensate the IPPs and accumulated a debt of US$ 179 billion (Sept. 2002), not managing to fulfill commitments caused by freezing the tariff. The EDEs were not able to solve the fuel shock. In 2003, unfavorable conditions and constant political pressure led to the government reacquiring shares from Unión Fenosa in the privatized distribution companies EdeNorte and EdeSur. Since the re-nationalization these companies have experienced deterioration in operative efficiency.

2.2 Structure of the Sector

The CDEEE is an important agent in the sector, bringing together all the government's generation, distribution and transmission companies and officially associated programs:

- The Dominican Hydroelectricity Generation Company (EGEHID).
- The Dominican Electricity Transmission Company (ETED).
- The Rural and Suburban Electrification Unit (UERS).
- The Blackout Reduction Program (PRA).
- 50% of the North Distribution Company (*EdeNorte*).
- 50% of the South Distribution Company (EdeSur).
- 50% of the government holding of the East Distribution Company (EdeEste).

The National Energy Commission (CNE) is in charge of defining energy policies. One of its main responsibilities is the elaboration of a National Energy Plan. In 2004, the plan was presented for the period from 2004-2015 as well as the Indicative Plan of Electricity Generation (PIEGE) for 2006-2020. The distribution is in the hands of the companies through the CDEEE and the Companies' Patrimonial Fund. 86% of generation capacity is privatized (excluding self-generation) and 14% is public property. Generation capacity is shared between different companies as it follows:

1 Under the scope of the SIE, the Office for the Protection of the Consumer (PROTECOM) was also established.

Companies	Generation Capacity (MW)	Participation (%)	Geographical areas (North, South, East)
Haina (private)	663,3	19,5%	N, S, E
Itabo (private)	630,5	18,6%	N, S, E
Hidroelectricidad (public)	469,3	13,8%	N, S
Productores de energía independientes (IPP) (private)	515	15,2%	N, S, E
Unión Fenosa Unión Fenosa (private)	194,5	5,7%	N
CEPP (private)	76,8	2,3%	N
Transcontinental Capital Corp. (private)	116	3,4%	S
Monte Río (private)	100	2,9%	S
AES (private)	555	16,4%	E
Metaldom (private)	42	1,2%	S
Laesa (private)	31,4	0,9%	N
TOTAL	3.394,1		

Source: Statistics from the Electricity Superintendence

2.3 Current State

The CDEEE, the CNE and the SIE designed the aforementioned plan in an attempt to gain self-sufficiency. Their main objectives are to: (i) make the sector financially sustainable, (ii) reduce tariffs for final customers, and (iii) promote efficient energy use. For the mid-term, the plan recommends the renegotiation of the generators' contracts, the construction of coal-fuelled plants, the development of transmission plans, an increase in hydroelectricity capacity, the promotion of renewable energy sources, a revision of cross-subsidies and the strengthening of the Electricity Superintendence (SIE).

There is currently a US$ 11 million technical assistance project for the electricity sector for 2004-2010 with US$ 7.3 million in funds from the World Bank. The project's aims are to: (i) strengthen the government as a regulator and for customer protection, (ii) to improve the formulation and implementation of policies, (iii) design a transmission network and the wholesale electricity market, (iv) raise the quality and amount of electricity for the poor and (v) to protect the environment. There have also been several second-generation electricity sector reforms executed through a US$ 150 million fund program financed by the World Bank for the period 2005/2008. This program, which consisted of two policy-based loans and a distribution investment loan, supported the strategy for the recuperation of the electricity sector. Aimed at: i) reducing losses and improving the service quality, especially through the reduction of mass blackouts, ii) establish conditions for the sustainable financing of companies, and iii) to increase the percentage of the population with access to electricity.

The sector is currently facing a very complicated situation due to an array of factors such as the lack of availability of various generation plants, a lack of money to pay the generators the agreed commitments, a climb in oil prices and structural problems such as electricity theft and non-payment of the services by customers, which aggravates the outlook for efficient electricity distribution company management. This assortment of factors negatively impacts the sustainability of the sector.

In 2008, the sector had a strong impact on the fiscal budget. The oil price shock increased generation costs dramatically and the need for transfers to cover the tariff-cost gap. Price volatility resulted in a growing tariff gap and higher costs, causing that treasury resources designated to the electricity sector to reach 3% of the GDP.

Tariffs are among the highest in Latin America and the Caribbean, which represents challenges in terms of competitiveness and social equity. There are a variety of factors responsible for high tariffs such as: dependence on imported fuels, a fragile institutional environment, difficulties to sue large debtors, the high prices initially negotiated for energy purchase agreements with generators, elevated risks for the generators (such as unpaid or delayed payments from the distribution companies and/or the government), a low cash recovery index (CRI) and high operative costs in distribution.

The policy to cross-subsidize residential tariffs with disproportionate raises in tariffs to the commercial and industrial sectors result in much higher prices for these consumers compared to residential consumption. In 2007 the average residential tariff was US$ 0.160 per Kwh (the average for Latin America and the Caribbean was US$ 0.115 in 2005), while the industrial average was US$ 0.230 (the assumed average in the same region was US$ 0,107 per Kwh in 2005). Furthermore, the average commercial tariff rose to US$ 0,290 per Kwh at this time.

It is estimated that subsidies exceeded one billion US$ in 2008. The need for subsidies has grown due to the rise in oil prices with constant tariffs. Subsidies are channeled through two main mechanisms: the Blackout Reduction Program (PRA) and the Tariff Stabilization Fund (FET), designed to reduce the impact of oil prices. The financial burden is transferred to distribution companies, whom found it impossible to cover their costs because of the rising fuel rate, low efficiency and a limited customer base that could be charged to finance the cross-subsidy.

PRA was established in 2001, initially designed for a period of two years, but it was extended to make up for the absence of an alternative to resolve blackouts and the subsidy for a low-income population. Its objective was to reassign subsidies to the poor according to their geographic distribution and carry out timetabled blackouts in a more organized manner. Currently the subsidy has a limit of 700 Kwh/month, which unnecessarily incentivizes consumption and has a negative effect on companies' balance sheets. Close to 80% of residential users outside PRA areas fall into this category. The consumption of the actual poor population is far lower than this level (100-120 Kwh/month). The geographic criteria, used to apply the subsidies, has incentivized many customers to move to other areas, raising energy delivered with a very negative effect on distribution companies' operational balances.

Since 2002, the sector has remained in a sustained state of crisis and as such the planning, strategy and policies should aim to resolve these issues to achieve sustainability. Crises have shown to be (a) cyclical in aspects related with fuel prices and high fiscal costs, and (b) permanent, such as low service quality, and plagued by inefficient and improvisational business practices. A retrospective look from the 80s and careful planning of the sector suggests that strategy and policies should respond to: a) achieving consolidation of reforms introduced in previous years, b) achieve sustainability in the sector to respond to future demands in a timely and efficient manner, c) raise generation investment.

3. Challenges

3.1 Institutional Strengthening

The key challenge is the consolidation of the current reform scheme to strengthen and recover the credibility of the sector. The Dominican Republic approved the laws and created the necessary institutions to improve efficiency and performance within the sector, as for example the possibility of introducing private capital. These reforms have still not been able to demonstrate the expected results due to decisions that were at times contradictory to the philosophy on which the introduction of these reforms was based. In order to consolidate the scheme and the enormous advances achieved in legislation, these decisions should strengthen management and institutional actions so that investors' credibility is recovered and so that customers assume responsibility and maturity with electricity sector lenders.

The private sector seems to have lost confidence in sector institutions and is looking to guarantee investments through direct contracts with the State because of lack of credibility in the regulatory and control bodies This in turn leads to non-fulfillment of the compromises made by sector agents, as in the case of the CDEEE on the issue of payments to electricity generators.

3.2 Tariff Rationalization

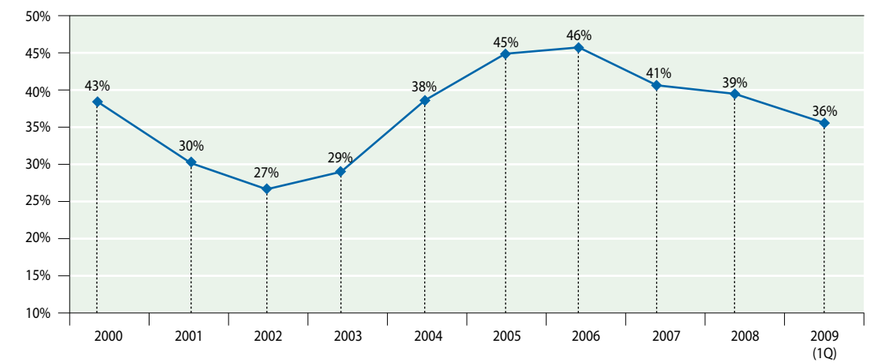
The current financial crisis and lack of sector sustainability can be confronted by reducing the vulnerability to the highly volatile fuel prices. Since it was necessary to sign various contracts at the time of the crisis, this resulted in agreements or remuneration formulas that not only began with very high fuel prices and that also remained indexed with adjustment formulas or mechanisms that encourage a rise in prices to improve generator profitability. However, these formulas provided no relief mechanisms for customers once fuel prices diminished.

Improving billing also represents important and fundamental challenges as does the matter of focalizing subsidies (evaluation of the Blackout Reduction Program – PRA).

3.3 Technical and Commercial Losses

It is important to continue efforts to gradually reduce technical and commercial losses. These, including electricity theft, increased consistently from 10.7% in 1990 to 21.6% in the year 2000 (Graph 1). Since then, they have gradually been reduced as a result of methods to improve measuring and the recovery of company portfolios which include measuring outsourcing and bill payment with incentives to prevent fraud, the development of remote measuring systems and quality improvement of subscription, measurement, billing and collection of payments (for example, using commercial banks to facilitate payments), and remote connection and disconnection of customers once fraud is detected.

GRAPH 1: TOTAL LOSSES OF DISTRIBUTORS (CDEEE)



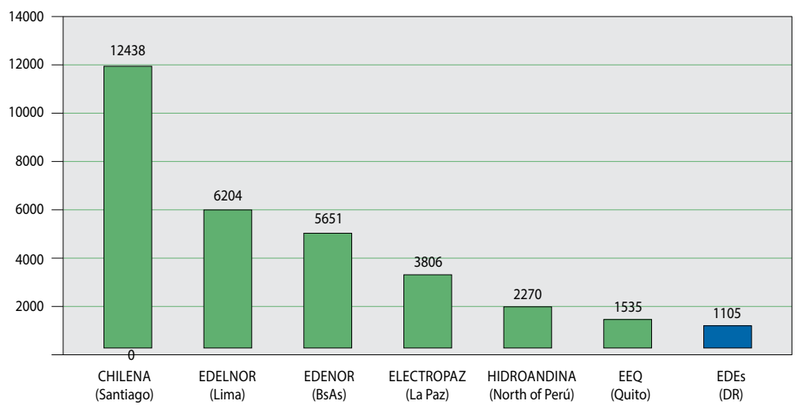
One example of loss reduction is Codensa in Bogotá, Colombia. In 1997, technical and commercial losses were at 24%. The company reduced its losses to 10% in three years and they are currently at 8.6%. Codensa began by concentrating its strategy in low-income neighborhoods where most unmetered customers or those with illegal connections (approximately 400,000) were based. Work was carried out with the population to explain the nature of the work and the benefits that this would bring (improved connections, better service and public lighting in the streets) reaching written and signed agreements regarding customers' rights and obligations. Only communities that were willing to cooperate benefited from the program. After three years 349,000 customers at a cost of US$76.4 million were legalized (an average of approximately US$220 per customer). Additionally, programs were established to normalize the service and to control fraud in selected neighborhoods (369,000 customers at a cost of US$ 35 million, US$ 95 million per customer), and for larger customers (8000 users at a cost of US$ 2.8 million, $350 per customer). Additional income for the reduction of losses was equivalent to gross income in 2000, a year in which the program was completed. Codensa continues to anticipate losses by creating incentives that generate loyalty, such as providing credits to purchase electrical appliances or information regarding energy saving. As a result, low-income customers prefer to use Codensa's services to other companies. Another example is Albania. There inefficiencies were reduced in electricity use and the sector's income was increased. The program consisted in three components: a) an Action Plan to reduce losses through better management in measuring supply, disconnecting and reconnecting customers; b) technical and educational assistance, and c) support for institutional reform and

sector strengthening. The Action Plan included various elements, some of which are being applied in the Dominican Republic, such as: (1) Raising the number of inspectors and reorganizing them; (2) Updating and improving measuring equipment; (3) Improving customer service management (including contracts) and the development of trustworthy customer databases; (4) A publicity campaign; (5) Introduction of an incentives scheme among distributors, and (6) The setting-up of a new financial and accounting scheme. Sustainability of the scheme is supported by educating communities and customers as to electricity costs and self-organization to receive better service and to carry out payments in accordance with economic capacity.

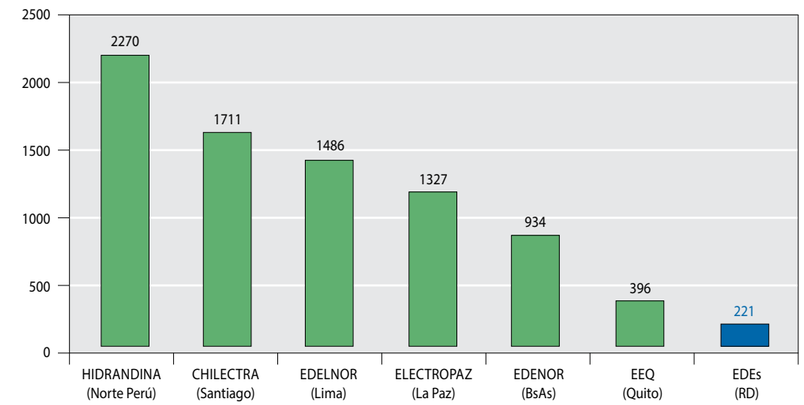
3.4. Operational Costs

Reducing operational costs is a challenge. The following graphs illustrate the problem.

GRAPH 2: EFFICIENCY INDICATOR COMPARISON MWH/WORKER



GRAPH 3: EFFICIENCY INDICATOR COMPARISON – NUMBER OF CUSTOMERS/WORKER



3.5. Energy sources Diversification

Most electricity generation comes from thermal sources. Only 14% of installed capacity is hydroelectric and, when taking into account all thermal self-generation, it is 9%. The EGEHID expansion plan considers a 762 MW increase in hydroelectric capacity from 2006-2012[2].

The Renewable Energy Development Project (REDP) from China began in 2001 and has had successful results in the photovoltaic technology market. Until June 2007, installation was supported with 374,000 photovoltaic systems (FV) with a total capacity of 9 MW, benefiting more than two million people and the creation of more than 30 companies that commercialize this equipment in north eastern provinces. The FV systems costs were reduced by 50%. The program introduced two innovations: (i) competitive funds and (ii) a quick response facility for quality issues regarding existing FV components. Its design is based on the Dutch FV Investigation Program (NOZ-PV), which existed between 1997 and 2001. Around 200 proposals were received for a total of approximately US$ 3.3 million, with a significant impact in the market to introduce testing centers and quality Chinese FV products and innovation in international markets. As an objective for 2020, China aims to generate 15% of its total energy with renewable sources. The government promulgated the Renewable Energy Law, supported by a World Bank technical assistance project, which also supported Renewable Energy Expansion through a US$ 174 million loan and GEF financing for US$ 40 million. Similarly, the IFC lent a local Zhongda Sanchuan hydroelectric company US$ 22 million for the development of three hydroelectric plants passing along the White river of the Yunnan province. Additionally, the World Bank's Carbon Finance Unit buys carbon emissions per 100 MW from the wind park in Huitingxile.

2 According to the CDEEE, the first in a new series of dams and hydroelectric plants (Pinalito) is an "environmental administration model" as to date only 12 families were relocated and sufficient reforestation has taken place.

4. Policy Alternatives

Consolidation implies actions in four areas that are mutually interrelated and can contribute to achieve mid-term sector sustainability: (i) tariff rationalization; (ii) a reduction in losses; (iii) a reduction in operational costs; and (iv) subsidy targeting on the poorest population.

4.1 Tariff scheme rationalization

Tariff rationalization would reduce the crisis and diminish the fiscal deficit, sending signals to customers. A freezing of the tariffs means that the State assumes the deficit or the remaining deficit with a high impact in macroeconomic sustainability. Tariff rationalization would result in a substantial improvement in the sector's finances. This rationalization should improve cost coverage throughout the whole of the electricity production chain. This would allow for new generation to be contracted through competitive mechanisms and to use new technologies such as making the most of a larger volume of natural gas in generation and adequate remuneration for transmission and distribution.

The tariff backlog could be tackled with an immediate decision to increase tariffs to a feasible or acceptable level. With the current low level of liquid fuel prices, an increase in tariffs would allow the sector to attain a situation of relative solvency in the short term, with payments to generation companies in accordance with an agreed upon Adjustment Plan, establishing an efficient payment scheme. The latter would facilitate the implementation of a new tariff in order to tackle to the problem in the long term.

4.2 Loss reduction in distribution and transmission

It is necessary to improve operative efficiency in the sector. There are various investment projects to improve the level of electricity measuring that is delivered to the market, such as repayment from the distribution companies. It is also necessary to introduce an efficiency improvement plan so that an increase in the CRI is not absorbed by administration inefficiencies. The Electricity Superintendence should define company management indicators and at the same time control and follow-up mechanisms should be implemented for the administrative, financial and technical management of these firms.

It is also necessary to put into effect the anti theft law in order to increase electricity payment by large commercial and industrial customers. In 2002, with Decree No. 748, the government created the National Program to Support the Eradication of Electricity Fraud (PAEF). Its main objective was to help distribution companies in their efforts to eliminate fraud. To date, results have been modest. The main progress took place in 2007 with the modification in the Electricity Law, making electrical theft a crime (illegal connections, non-payment, etc.) and penalizing with fines and/or prison terms those who do not comply. The law has not been implemented and theft continues at a high rate, even among the population that has the capacity to pay.

4.3. Operational costs reduction

It is necessary to enhance efficiency in companies by adopting improvement policies related to management capacity:

- Management professionalization, overcoming political and organizational factors.
- Reduction in administrative and operational costs and expenses, monitored through indicators for continued improvement (number of employees per customer, efficiency of the payment system, disconnections for fraud, etc.).
- Precision in coordination between all management and administrative levels in institutions, eliminating the duplication of roles and overlapping of responsibilities.
- Investment in crucial areas such as maintenance of distribution networks, improvements in companies' billing and administration systems.
- Implementation of schemes for a competitive energy supply by the current and new generators, avoiding transactions at the moment of crisis that result in major costs and require exceptions to acquiring assets and services that guarantee competitive and transparent processes.
- Financial planning that allows payments to current generators to be regularized and at the same time take on commitments with new investors.

4.4. Energy diversification politics

The adoption of national energy efficient and diversification policies should be considered for the energy grid to reduce current dependence on fuel and fuel derivatives, to reduce costs and a more intense use of renewable energies and rural electrification.

4.5 Rehabilitation of generation plants

The Dominican Republic is home to the major LNG operational terminal in the area. Quick negotiation to make the most of the investment carried out by the owner of this terminal would, in the short term, incentivize higher use of natural gas. This would facilitate a rehabilitation plan to be brought forward for some generation plants that are obsolete today and for which the maintenance is very costly.

4.6 Sector Institutionalism to Reduce Transaction Costs

Greater institutionalism would give the sector more clarity and would make it more operable. This would eliminate transaction costs and would facilitate decision-making and strategic planning of the energy grid. This could require:

- A redefinition of roles and responsibilities in each of the factors that are part of the energy policy definition process, sector planning, implementation of policies, materialization of investments and a control and vigilance process of actions of sector agents.
- Horizontal dialogue between sector bodies for coordination and cooperation.
- Vertical dialogue among the national and regional governments.
- Explicit incorporation of public policies that relate to energy, natural resources and environment[3].

4.7 Focalization of subsidies on the poorest population

It is necessary to reform the Blackout Reduction Program (PRA) so that subsidies are directed to the poorest population. Thus, it is necessary to redesign the subsidies and rationing system, continuing with the current task of gradually reducing cross-subsidies with the final objective of limiting the subsidies to only homes with a monthly electricity consumption that is substantially less than the current amount.

5. Conclusions

To conclude, this Policy Note on energy for the Dominican Republic can be summarized by a need in the short and mid-term to bring forth actions that aim to achieve the consolidation and implementation of reforms introduced in previous years, building better and more efficient institutional framework for the formulation, implementation, regulation and evaluation of energy policy. In the long term, it would be favorable to prioritize efforts to achieve the sustainability of the sector and to respond in a timely and efficient manner to future electricity demand. In addition, to be able to promote equity in the sector once reforms are made, and to attend the needs of the poorest consumers, the current subsidy schemes should also be revised.

3 In 2005, the National Energy Commission (CNE) and the Secretary of State for the Environment and Natural Resources (SEMARN) signed a mutual cooperation agreement to implement an environmental strategy based on the active participation of the private sector. The CNE and SEMARN, through the formation of environmental audits certified by an international signature, of those who will be responsible for checking energy company performance regarding environmental regulations and certifying those who are subject to environmental management plans defined in the license awarded by SEMARN. The CNE will verify that the development projects in the sector respond to the Plan defined by the body.

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CHAPTER VI

Climate Change and the Dominican Republic

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SERAPHINE HAEUSSLING[b]

1. INTRODUCTION

The effects of climate change, already felt all over the world , might become very intense in Latin America and the Caribbean, where many eco-regions are very sensitive to the climate. While the long-term effects of climate change remain in the realm of speculation, there is sufficient information available on the pace at which several climate parameters are changing; for instance, the change in temperature of the surface waters in the Caribbean Sea, the rate of retreat of glaciers in the tropical Andes, and the rising sea level, among many others.

These changes constitute major risks for the Dominican Republic. According to the climate risk index (for 1998-2007), the DR is the fourth country most affected by extreme climate events[2,3]. Some of the sectors that are most vulnerable to climate change are water resources and tourism. Important changes are expected in the quality and quantity of water and in the state of the watersheds. The impact on the tourism sector (which represents 13% of GDP) might have important economic repercussions. Other vulnerable sectors that were identified are: forestry, agriculture, health, and the coastal-marine ecosystems.

This Policy Note considers the main challenges that the country will have to face, as well as the critical decisions it will have to make.

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(b) Climate Change Consultant.
1 Global CO2 emissions already exceed the worst emissions scenarios (SRES) of the IPCC, as average global emissions till 2007 have exceeded those projected under the worst-case scenario known as AR4 A1FI, as observed in Graph 1. Thus, the current trend may lead to a situation that is worse than the expected consequences. Although there is a degree of uncertainty as to the exact consequences, it is feared that even under scenarios of far less emissions, the operation and integrity of the key ecosystems might be affected. To these impacts one should add the pressure exerted by local anthropogenic effects (Evaluation of Ecosystems of the Millennium, 2007), a combination that constitutes an unprecedented challenge for socioeconomic development and for the world's biosphere.
2 The Global Climate Risk Index analyzes the extent to which the countries have been affected by the impacts of climate-related events, such as hurricanes and floods, and takes into consideration the following indicators: total number of deaths, deaths per 100,000 inhabitants, absolute losses in millions of US$ (at Purchasing Power Parity - PPP) and losses per GDP units in %.
3 http://www.preventionweb.net/files/8658_cri2009.pdf.

2. Diagnosis

2.1. Vulnerability to Climate Change

The climate risk index points to the situation of vulnerability of the country. Table 1 presents specific indicators for the ten countries most affected by extreme climate events between 1998 y 2007.

TABLE 1: CLIMATE DECADAL RISK INDEX - CRI

CRI 1998-227	Country	CRI Score	Average death toll	Average deaths per 100,000 inhabitants	Average total losses (in million US$ PPP)	Average losses per GDP in %
1	Honduras	6.75	579	8.50	1,166	5.15
2	Bangladesh	10.92	1,093	0.70	4,426	3.02
3	Nicaragua	11.62	308	5.70	528	4.30
4	Dominican Republic	14.83	414	5.00	503	0.98
5	Haití	15.75	402	5.10	232	2.42
6	Vietnam	18.33	406	0.50	2,152	1.47
7	India	18.83	4,532	0.40	12,047	0.62
8	Mozambique	24.75	121	0.60	228	1.98
9	Venezuela	24.75	3.012	11.9	433	0.18
10	Philippines	25.83	472	0.60	698	0.33

Source: Global Climate Risk Index; Weather-related Loss Events and their Impacts on Countries in 2007 and in a Long-term Comparison; Sven Harmeling.

According to the scenarios developed in the First National Communication to the United Nations Framework Convention on Climate Change prepared in 2003, the following changes are expected:

- **Rise in temperatures:** it is expected that temperatures will reach an average of 26.2 º C in the year 2010, 26.9 º in 2030, 27.7 º in 2050, and 29.6 º in 2100.
- **Reduction of rainfall:** for 2010 the level of rainfall expected is 1,277 mm; 1,137 mm for the year 2030 (a reduction of 11% in comparison with the year 2010); 976 mm in 2050, and 543 mm in 2100, which represents a reduction of 57% in comparison to 2010.
- **Sea levels rises:** sea levels are expected to rise between 1.47 to 13.55 cm in the year 2010, between 3.77 to 26.73 by the year 2050, and 12.71 to 105.67 by the year 2100, depending on the scenarios.

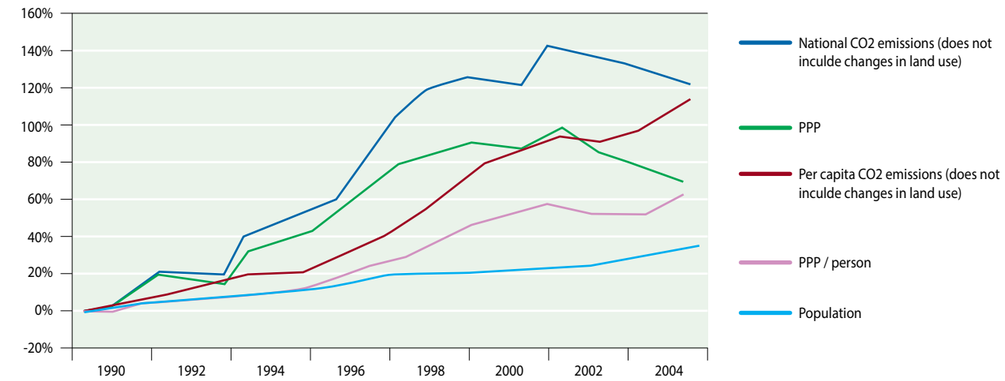
The projected temperature rises, together with the expected reduction in rainfall, will lead to an increase of evapotranspiration and, consequently, to a water deficit with a runoff reduction of up to 95% by the year 2100, under the assumption of the most pessimistic scenario. Also, it is expected that humid zones will become much drier, and that the currently most arid zones will expand.[4]

Some of the main vulnerabilities are: i) exposure to extreme events; ii) the impact of the rising sea temperature, with implications for the coral reefs, which in turn has an impact on the protection of the coastlines, tourism and fishing; iii) the rising sea level with its impact on coastline infrastructure and communities, and iv) the changes in rainfall cycles.

2.2 Carbon footprint of the Dominican Republic

The effects of Greenhouse Gas (GHG) Emissions are relatively minor. In 2000, the country emitted 27.7 Mt CO2, including emissions due to land-use changes. The country ranks 110th in terms of GHG emissions, representing 0.07% of global emissions. On the other hand, carbon intensity is not low: 0.5 Kg. CO2e /$GDP PPP. Per capita emissions amount to 3.2 t CO2e[5]. Graphs 1 and 2 show both the trends of emissions and the distribution of GHG per sectors.

GRAPH 1: GREENHOUSE GAS TRENDS (GHG)

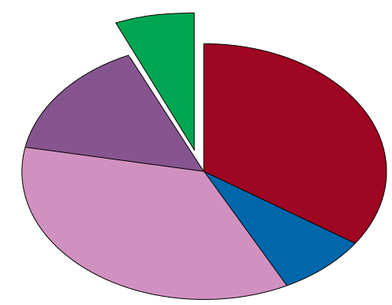


Source: Climate Analysis Indicators Tool (CAIT).

GRAPH 2: GHG EMISSIONS PER SECTOR IN 2000

Dominican Republic

Sectors	MtCO2	%
Energy	17.4	93.1
Electricity & Heating	6.5	34.7
Manufacturing & Construction	1.5	7.8
Transport	6.6	35.5
Other Fuels [1]	2.8	15.1
Fugitive Emissions [1]	--	--
Industrial Processes [1]	1.3	6.9
Agriculture	--	--
Land-Use Changes and Forestry	--	--
Waste	--	--
Total	18.7	



Source: Climate Analysis Indicators Tool (CAIT) Version 6.0. (Washington, DC: World Resources Institute, 2009).

4 World Bank; Climate Change Aspects in Agriculture; Dominican Republic Country Note.

5 Cait.wri.org.

The Dominican Republic has been developing a program to respond to the problems caused by climate change. The First National Communication was presented in the year 2003 and included the first inventory of greenhouse gases and studies of the impact of climate change on the sectors of agriculture, human health, water resources and marine coastal resources. At present, the Draft for the Second National Communication is being prepared.

2.3. Climate Change impacts

- **Water Resources**

The Dominican Republic faces challenges in the management of its water resources. Water scarcity is a regional problem caused by poor water management, by the urban areas water supply, and by the existence of tourism infrastructures in the most arid regions of the country. The contamination and degradation of the upper water basins shelf significantly contribute to the degradation of the coastal basins, adding to the local pressures of the tourism industry in these areas. The mismanagement of watersheds has led to soil erosion and has worsened the frequency and damage caused by floods. Erosion rates have quadrupled since 1980, and the increased muddiness of the water, caused by earth sedimentation, affects the formation of coastal reefs.[6]

According to a study of the vulnerability and adaptation of water resources, the reserves of groundwater are seriously affected by their physical and chemical deterioration and by the rainfall deficit. The expected rise of the sea level and changes in rainfall patterns might affect groundwater basins, mainly in the south of the country. The study concludes that the most likely scenarios would be a significant reduction of the country´s water resources, both surface and ground water, and a deterioration of the chemical and biological quality of the water. Regarding groundwater, the rising sea level might cause saline intrusion[7].

- **Tourism**

The growth of the important tourism sector will depend on the quality of the environment, including safety of drinking water, clean beaches, healthy coral reefs and well-managed protected areas. Nonetheless, the sector is being affected by a lack of water supply and wastewater treatment services. The quality decrease of coastal waters and the health risks posed by unfavorable environmental conditions threaten the existing tourism destinations.

The development of tourism operations exerts pressure on the coastal ecosystems and it takes place in naturally fragile environments. Broad coastal areas have suffered the impact of unsustainable activities such as the development of beaches, which in turn has caused damage through sedimentation. Other effects include: disposal of untreated wastewater and solid waste along the coastline, overexploitation of groundwater, destruction of forest cover and overfishing of corals and marine species. Those impacts reduce the resilience of the ecosystems increasing the vulnerability to the impact of climate change.

The changes in intensity of extreme climate events will have an impact on tourism infrastructure and coastal erosion. The state of the coral reefs is of particular concern. Along the east and northeast coasts exist broad shallow shelfs, but the muddiness caused by sediment from the mainland prevents the formation of coral reefs along the remaining coastline. Moreover, the rising temperature of the sea water causes whitening of the corals, with impacts on the availability of sand, on diving tourism suffers, and on its role as a natural protection barrier of the coastline.[8]

- **Forest and Coastal-Marine Ecosystems**

In 1994, a World Bank environmental evaluation identified deforestation as the main environmental priority. Since then, an aggressive policy against deforestation, subsidies to liquefied petroleum gas (LPG) as a substitute for firewood in rural areas, migration to urban areas, and reforestation efforts, seem to have reduced or even stopped net deforestation. However, the consequences of past deforestations are still felt: large areas remain vulnerable to erosion due to the lack of forest cover destroyed, also, by hurricanes. And, the increased intensity and frequency of the latter might worsen this impact. It would be advisable to study more in-depth the impact of climate change on forest eco-systems, and the contribution of reforestation and restoration measures to the increase of resilience to expected impacts.

The increase of population, sedimentation, sewerage and other forms of contamination produced by agriculture, mining, industry, shipping activity and tourism, exerts a lot of pressure on the beaches, coral reefs and fishing zones. Climate change will exacerbate these problems, particularly because of the rising sea levels and the increase in temperature and extreme events, causing additional impacts on the already weakened coastal and marine ecosystems.

- **Agriculture and Food Security**

The contribution of the agricultural sector to greenhouse gas (GHG) emissions is fairly low in the country. According to the First National Communication, the agricultural sector was responsible for 1% of such emissions in 1994. Out of the total emissions of methane and nitrous oxide, 38% and 86%, respectively, are attributable to agricultural activities. Nevertheless, the sector is highly vulnerable to climate variability, particularly in the southwest and in the northwest, where drought has a considerable impact on harvests. Moreover, the country is very vulnerable to extreme events such as storms and floods that have a direct impact on the sector. Consequently, it is essential to reduce this vulnerability in order to preserve food security and livelihood of the rural populations.[10]

- **Health**

There exists a clear relation between changes of climate variations and the changes in the behavioral patterns of diseases such as dengue and malaria. The importance of this is expressed in the increased number of sick people, and in the fact that these diseases occur in months and seasons that are different from their normal behavior. The projections of the study are validated by the current behavior of the disease patterns and by certain trends in their manifestations. The impact attributable to the climatic stress, caused by variations, is not negligible and, in combination with the hygiene and sanitary conditions of each region, this could lead to major public health emergencies. The results show that dengue, and malaria to a lesser extent, are diseases that are very vulnerable to climate change, and the tendency is to rise in such cases. In addition, there are other risk factors that might aggravate or mitigate these impacts, such as the age groups, degrees of urbanization, migrations, among others.[11]

6 World Bank, *"Prioridades Ambientales y Opciones Estratégicas, Análisis ambiental del país, 2004"*.
7 National Action Plan for climate change adaptation in the DR., Pana DR.
8, 9 Banco Mundial, *"Prioridades Ambientales y Opciones Estratégicas, Análisis ambiental del país, 2004"* .

10 Climate Change Aspects in Agriculture; Dominican Republic Country Note.
11 National Action Plan for climate change adaptation in the DR., Pana DR.

3. Policy Alternatives

- Studies

The DR should adopt an anticipatory strategy against climate change, with emphasis on the sectors identified as the most vulnerable ones (water, tourism, agriculture, infrastructure, energy, etc.). This requires a deeper analysis of the vulnerability of each sector. For instance, consideration should be given to the impact scenarios based on the framework of the National Communications and the National Action Plan for Adaptation to Climate Change prepared by the Secretariat of State for the Environment and Natural Resources (SEMARENA). This effort should include the analysis and systematization of climatic variables such as rainfall, temperature, water balance, sea level and temperature forecasts and the occurrence of intense and frequent hydro meteorological events under different scenarios of climate change (for instance, the SRES scenarios elaborated by the IPCC)[12].

In the water sector it will be necessary to develop tools to apply to the watershed level (entry data for rainfall-runoff models) the information contained in the climate change scenarios. In this sector, support should be given to pilot projects geared towards a more efficient management of existing water resources (e.g. adoption of drip irrigation) and the development of alternative water sources, such as the treatment and use of rainwater and desalinization of sea water with renewable energy sources. Moreover, studies should be conducted to analyze the impact of climate change on the availability of water resources and to estimate the opportunity costs for different users. This would help to better plan the management of water resources and to create incentives for a more efficient use[13].

- Policy Strategy

It is suggested to adopt the measures of the study "Environmental Priorities and Strategic Options – Environmental Analysis of the Country" supported by the World Bank[14]. All these measures will benefit the planning and implementation process, with more detailed data on scenarios for the impact of climate change on water resources. This integration of climate change considerations will contribute to more sustainable measures and more resilience of the water resource. These considerations are based on the projections of the majority of the models applied within the framework of the National Communication that suggest a worsening scarcity of water resources in the future.

- Sectoral Policies

Sectoral strategies should be considered in order to consolidate the necessary capacity to respond to the expected impacts of climate change. These strategies should improve the capacity of adaptation to these impacts, with emphasis on the most vulnerable sectors, and at the same time, integrate climate change issues into sectoral policies and development plans.

The policies should consider the results of the vulnerability studies and of the climate change scenarios generated for each sector, with economic evaluations of the expected impacts and a cost-benefit analysis of adaptation measures. This process will allow to draw lessons from the implementation of adaptation pilots, which would generate data and feed into the policy design process.

It is suggested to adopt a coherent framework for the management of water resources that also focuses on sustainable demand, considering among other things, the possibilities of reducing water demand for irrigation, as well as incentive programs for irrigation management, water supply in urban areas, reforestation and reduction of erosion, management of coastal aquifers and watershed management. Likewise, future hydroelectric generation should take into account the forecasts derived from studies on climate change and its impact on watersheds.

12 The projections of these variables should be based on available models of General and Regional Atmospheric Circulation. For instance, among others, the results could be considered of the Earth Simulator model of the MRI of Japan, with a high resolution (currently, of 20 km x 20 km, but in the future of 5 x 5 km).

13 In this regard, the experience accumulated in the region is very useful both for the implementation of adaptation pilots and for conducting studies to analyze the impacts as specifically as possible (e.g. in Peru a study is being conducted to analyze the impacts of climate change on the water resources affected by the retreat of glaciers).

14 World Bank. Environmental Priorities and Strategic Options. Environmental Analysis of the Country. 2004.

- Institutional Capabilities

At the same time as developing the pilots, it is essential to strengthen local institutional capabilities to analyze the climate change scenarios and their impacts on the different sectors, and to define responses through the design of pilots and policies. In this regard, the training of local scientists in the application of high-resolution climate models in areas and zones of interest has been very useful to define longer-term adaptation programs. The active participation of local communities has been fundamental for the successful implementation of local actions.

- Experimentation Pilots

Several adaptation pilots are already generating data on the costs and benefits of adaptation[15]. Examples include desalinization of coastal aquifers using wind energy and reverse osmosis on the island of Bequia, the strengthening of coastal infrastructure to resist hurricane winds in Saint Lucia, and the regeneration of corals affected by thermal whitening in Belize. Regarding this latter pilot, the establishment of protected marine areas is a policy that takes into account both local and global threats against the ecosystems. The creation of non-fishing zones in protected areas is a good strategy to reduce stress on the coral reefs and to maintain a healthy equilibrium[16]. Experience with restoration of corals has proven to be more effective in non-fishing zones than in reefs affected by over-fishing[17].

In summary, the adaptation program in the Caribbean started in 1997 with the CPACC project and support of the GEF that have contributed to increasing awareness of climate change among decision-makers. This project was followed by the MACC project that supported the introduction of climate change considerations in sectoral programs and policies. Finally, the third stage, that still under implementation, consists in implementing specific adaptation measures to learn about their costs and benefits.

4. Conclusions

As the country is highly vulnerable to the impact of climate change, it is crucial to start an intensive adaptation program. It is expected that the impact of climate change adds stress to the economic sectors, particularly tourism and agriculture. Consequently, it is important to consider climate change in the sectoral policies and to strengthen local capabilities in order to confront those challenges. The Latin American region is leader in the implementation of specific measures and institutional strengthening. Experience has shown that the eco-systemic approach is very useful and comprehensive. It allows tackling several problems and sectors simultaneously and strengthens the resource base of economic activities. A stronger ecosystem is more resistant to the impact of climate change and is likely continuing to benefit fishing, tourism, coastal protection, biodiversity, water supply, and others.

15 The Caribbean region has been working for more than ten years on the topic of adaptation.

16 Marshall and Schuttenberg 2006, Grimsditch and Salm 2006.

17 International's Coral Gardens-Living Reefs Initiative. www.counterpart.org; Bowden-Kerby et al, 2005.

CHAPTER VII

The Health Sector

FERNANDO MONTENEGRO TORRES[a]

1. INTRODUCTION

In the last five years progress has been made on key reforms aimed at improving the health system's responsiveness and efficiency. *Key steps for the expansion of universal insurance, decentralization and strengthening of regional networks have been achieved. Nonetheless there are still pending issues that need to be tackled to attain adequate levels of resource allocation in an efficient way. Public spending on health in the Dominican Republic is lower than the average compared to other countries with the same income level and even with lower income countries. Increases in public expenditures for the health sector requires to be carried out along with the adoption of policies and interventions oriented to improve the sector capacity to implement results-based budgeting, particularly considering current fiscal space.*

In 2001, the General Health Law (42-01) and Dominican Social Security System Law (87-01) were passed. The key objectives of these laws were to improve health system's performance and efficiency: (i) to improve public expenditure equity for health through universal health insurance coverage comprehending three health insurance regimes one of which was fully subsidized for coverage of the poor and other vulnerable populations; (ii) decentralization of the provision of health services through a decentralized and autonomous public network; and, (iii) the reorganization of the health system, separation of functions: financing, risk pooling, strategic purchasing, and provision of health services. This, in turn, implies the strengthening the capacity of the Ministry of Health (MOH) to provide stewardship to the health sector.

Organizations established by Law 87-01 has already been created and the Subsidized Regime that covers the poor population's health insurance has begun to be implemented. MOH has developed the envisioned decentralized health care through Regional Health Services *(Servicios Regionales de Salud - SRS)*. SRSs are public health care provider networks organized within the framework of WHO's primary health care approach. SRSs have annual management agreement with MOH central authorities that are monitored with performance indicators. The first annual management agreements between the central level of MOH and the two first regional health systems (regions VI and VIII) have already been signed in 2009 and the rest of the regions have begun to prepare to sign in the short and mid-term.

(a) Economista Senior del Sector Salud.

The greatest three challenges of the health sector are: (i) improving equity in health financing; (ii) improving the level of public health spending (one of the lowest in the region) through the expansion of health insurance coverage (especially in the Subsidized Regime) and (iii) introduction of results-based financing mechanisms.

2. Diagnosis

2.1. Current Situation

The latest information regarding services coverage and health outcomes suggests that there have been important improvements reflected in the increase of life expectancy and the reduction in deaths caused by infections. However, in the same way as other countries in the region, the country has a double challenge: a) to overcome an unfinished agenda of solving diseases typical for countries of low development (common infectious disease, maternal-infant health, etc.) and b) the prevention and treatment needed to respond to the rapid growth of chronic diseases.

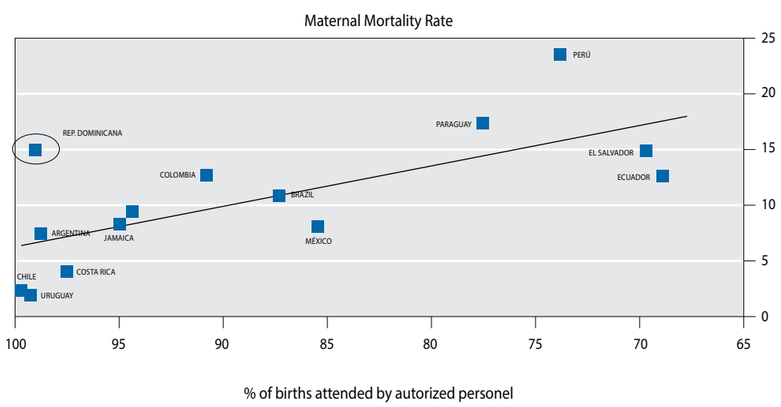
TABLE 1: SELECTED HEALTH OUTCOME INDICATORS FOR THE DOMINICAN REPUBLIC - 2007

Life Expectancy	Infant Mortality	Maternal Mortality	% with a medical diagnosis of a chronic condition	% with a medical diagnosis of hypertensionn
Men: 66	1996: 47	1992-2002: 178	Urban areas: 15.0%	Urban areas: 7.7%
Women: 74	2007: 32	1997-2007: 159	Rural areas: 13.4%	Rural areas: 6.5%

Source: WHO, UNICEF, UNFPA and Health and Demographics Survey (ENDESA) Dominican Republic 2007.

Nonetheless, the quality in the provision of services has not increased at the same pace as coverage exacerbating existing health system challenges. One example of this is reflected in the analysis of institutional deliveries and maternal mortality data. Despite the large number of institutional deliveries (over 95%), maternal mortality levels are as high as that of countries with lower institutional delivery rates and comparable income levels.

GRAPH 1: INSTITUTIONAL BIRTHS AND MATERNAL MORTALITY IN SELECTED COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN.

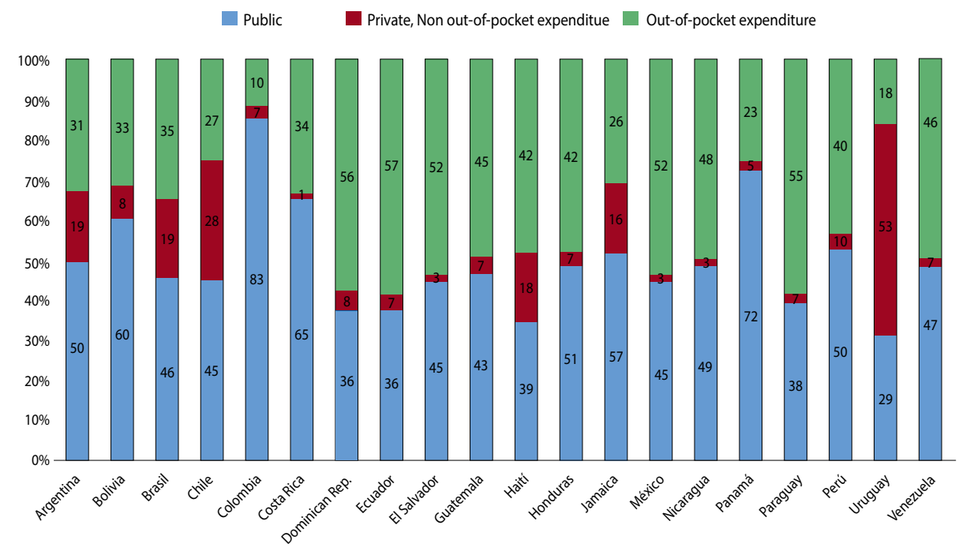


Source: World Health Organization, 2007.

2.2. Health expenditure and provision of services

The Dominican Republic is financing the total national health expenditures with one of the highest percentages of out-of-pocket expenditure in the region, as indicated in *Graphs 2 and 3*.

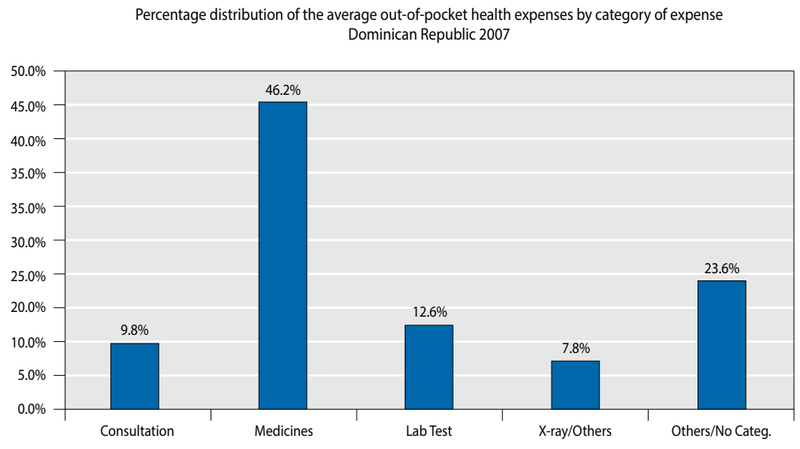
GRAPH 2: NATIONAL HEALTH EXPENDITURE BY TYPE OF EXPENDITURES IN SELECTED LATIN AMERICAN AND CARIBBEAN



Source: World Development Indicators database.

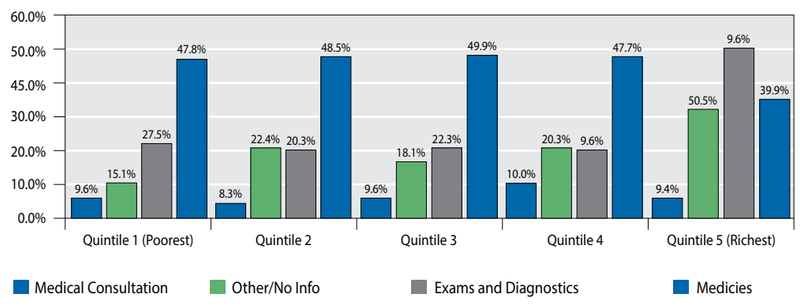
Private expenditure is the main source of income to finance health services, making up out-of-pocket expenditures the bulk of national health financing, far exceeding the overall public expenditure, as indicated in Figure 1. Out-of-pocket expenditure is regressive; although lower income households may spend less in absolute terms, in relative terms is high. The survey analysis also shows that expenditures in medicines constitute the main part of the total out-of-pocket expenditure, and constitute a larger share for households of the poorest quintiles.

GRAPH 3: HOUSEHOLD EXPENDITURES ON MEDICINES AS SHARE OF TOTAL HEALTH OUT-OF-POCKET EXPENDITURES



Graph 4 presents previous data by income quintile.

GRAPH 4: PERCENTAGE OF OUT-OF-POCKET EXPENSES OF INDIVIDUALS WHO REPORTED HEALTH EXPENDITURES IN THE LAST MONTHS BY INCOME QUINTILE AND TYPE OF EXPENDITURE. DOMINICAN REPUBLIC, 2007.

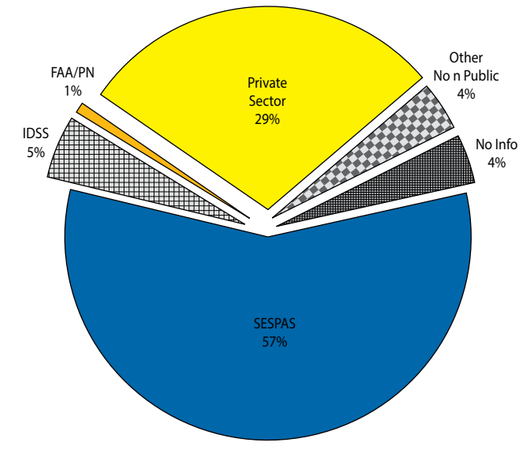


Source: ENDENSA Demographic and Health Survey, 2007

2.3. The provision of health services

The largest provider of health care services is MOH through the SRS providing ambulatory and hospital services to over half of individuals who reported needing and seeking medical care. The private sector provides services to 1/3 of the population in ambulatory services and a few more in hospital services. According to the Demographic and Health Survey (ENDESA) of 2007, less than 12% of the population had health insurance coverage provided by the Subsidized Regime for whom MOH is the mandatory provider. That is to say that even when the Subsidized Regime has still not reached the whole population objective (1.2 million of the total estimated of 3.4 million), the SRS from the Ministry are the main providers of health care for the majority of the population. . Improvements introduced for the provision of these services will have a direct positive impact on the majority of the population[1], especially for the poorest households (Graph 5).

GRAPH 5: USE OF AMBULATORY SERVICES[2] ACCORDING TO THE INSTITUTION WHERE THESE SERVICES WERE PROVIDED. DOMINICAN REPUBLIC, 2007.



Source: ENDENSA Demographic and Health Survey, 2007

The survey shows a high percentage of individuals seeking medical care for ill health (98.4%). Nonetheless, 5% of the rural population does not seek medical care due to a lack of resources for the consultation or transport, and 2.5% does not for perceiving the quality of care received as bad, due to a lack of medicines, absence of doctors or due to other failings in health units.

2.4 The health sector reform: legal and financial framework

The public health sector had two institutions (MOH and IDSS) that maintained their own services and providers network. Both organizations acted as a vertical integrated health subsystem, with no separation between the financial and the provision of services. This meant that there was no contractual or quasi-contractual relationship that allowed management based on financing linked to measurable results. Nor was an explicit list of guaranteed health care. These factors made efforts to develop and maintain effective access and quality systems that allowed for results to be monitored more complicated, both by the government as for the beneficiary population.

Reform laws from the sector in 2001 provided the regulatory framework for a radical change in health financing, oriented to be a more efficient, equitable and sustainable sector in the long term. These laws sought to achieve a better quality of financing that would allow reducing gaps in access and quality of services without increasing or deepen poverty of the lower income strata.

The new legal framework creates a universal health protection system with three regimes; a) a Subsidized Regime (for the poorest and most vulnerable groups of the population outside the formal sector employment), b) a Con-

1 And according to figures from the latest survey of ENDESA, it remains as the leading provider for populations in the poorest and most vulnerable strata.

2 The figures for the use of placement services are similar but increase the use of the private sector. The reported distribution is: MOH 55.5%; Private Sector 36.6%; Dominican Institute of Social Security 3.4%,; Army 2.1%, Other non-public 1.6% and not reported 0.7%.MOH

tributory Regime (for households whose heads of family belong to the formal sector employment) and finally, c) the Contributory-Subsidized Regime for individuals who do not belong to the latter-mentioned groups.

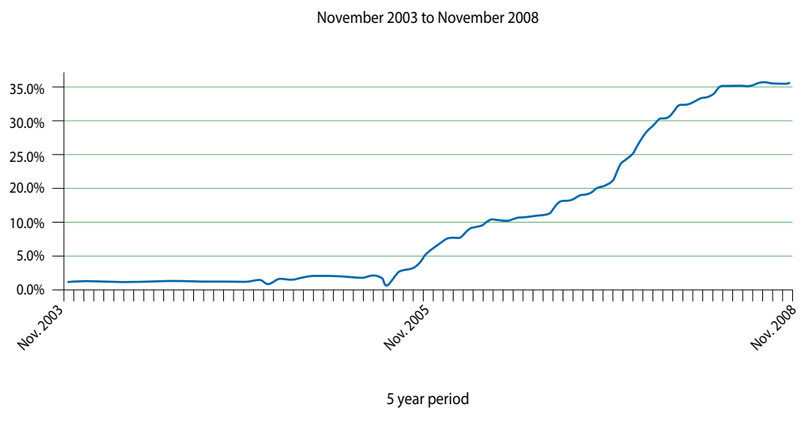
In the subsidized regime, the government finances 100% of health care costs for enrollees. In addition, insurance must offer a benefit package with an explicit list health services covered. The legal framework stipulates that the Universal Health Insurance System Treasury is the only entity authorized to pool the financial resources. Health Risks Managers (*ARS – Administradores de Riesgos de Salud*) were also established and are endowed with the responsibility of managing the pooled financial resources collected from different sources according to each regimes: employer and employee contributions in the case of the Contributory Regime; contributions from the state for the Subsidized Regime; and contributions from enrolled and the State for the Contributory-Subsidized Regime.

The establishment of National Health Insurance (SENASA) as Health Risks Manager and as the organization responsible for receiving and managing the resources for the Subsidized Health Regime, allows that allocation of financial resources, set aside for the provision of health services for poor and vulnerable households, have a specific contractual framework. These new contractual rules create conditions to monitor the provision of services aligning financial incentives with an improvement in the population's access to higher quality services.

2.5. The implementation of the health reform

Since the laws were passed, the implementation of sector reform has advanced at a substantially slower rate than planned. Laws provided a term of ten years to conclude the establishment of three regimes and the enrollment of the whole population in the Family Health Insurance. Over the first few years some of the key institutions responsible for the financial and administrational management of the social health protection system were established; nevertheless, enrollment was extremely slow. It does not currently appear very probable that the total coverage goal will be met for the year 2011.

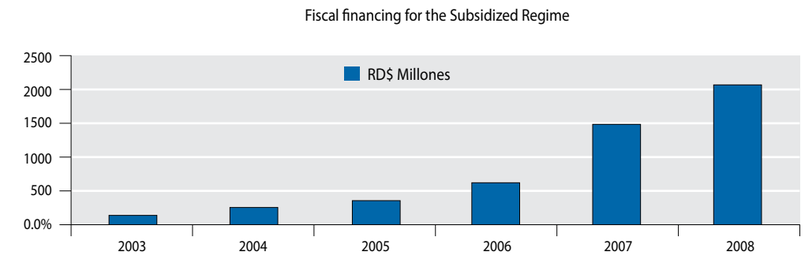
GRAPH 6: ENROLLMENT RATE GROWTH FOR THE SUBSIDIZED REGIME OVER THE PAST FIVE YEARS.



Source: Ministry of Economics, Planning and Development, 2008.

From 2004, it was decided to focus more on social protection for the poorest strata of the population. The enrollment rate rose notably, in particular over the last three years, as shown in *Graph 7*. At the end of 2008 over 1.2 million individuals from poor households were enrolled, which represents approximately 26% of the target population. In 2007, after a long negotiation process, the contributory regime finally began to be implemented and the enrolled figures are approaching 2 million people for the end of 2009.

GRAPH 7: FINANCING FOR THE SUBSIDIZED REGIME



Source: Ministry of Economics, Planning and Development, 2008

2.6. Health sector financing

The main challenge is to improve targeting and quality of public spending while increasing spending on health concomitantly with the introduction of accountability and results monitoring mechanisms. As the fiscal space permits, it is also essential to increase funding for the provision of services to the poorest strata. Economic health literature suggests that when there are high rates of out-of-pocket expenses for individuals to finance health services, this founding is regressive and has a direct negative impact on the family budget of the poorest households of the population[3] but it also diminishes the resources available for other types of investment in human capital.

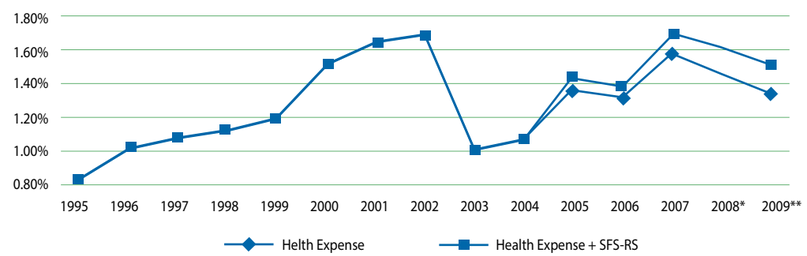
Apart from the need to prioritize and protect health expenditure, it is a major challenge to introduce targeted financing mechanisms that allow the generation of incentives for a more efficient and better provision of health services with an emphasis on primary health care. Currently the bulk of resources are allocated trough non-optimal mechanisms for expenditure targeting and to align incentives to improve the quality of health services. An example is the financing for the provision of health services from the MOH to the regional public providers' network and the financing for medicines for primary health care. Funds are mainly defined according to past budgetary amounts with marginal increases or decreases. The increase in financing through capitations for the subsidized regime opens the possibility of increasing financing to the health sector through more equitable and efficient mechanisms.

The introduction of strategic purchasing mechanisms, both for services and goods and medicines would allow improving allocation of expenditure for agreed goals with public providers, both through MOH and the Subsidiary Regime. The Ministry explores mechanisms to strengthen its rectory capacity, to improve the incentives framework and to exploit synergies with SENASA to improve efficiency of the allocation of resources in the health sector including the development of information systems that allow for monitoring to improve the provision of services. The agreement reached between PROMESE/CAL and SENASA will allow for health sector financing to be increased through the expansion of a more transparent and effective subsidized regime coverage. On the other hand, although management consolidation for the effective and transparent use of resources designated to the purchase of medicines and other consumables has meant very important progress through the Essential Medicines Program - PROMESE/CAL-, an institution that has yet to expand the medicines supply management across the public sector.

3 Baeza y Packard "Beyond Survival: Protecting Households from Health Shocks in Latin America". The World Bank, 2006.

Public expenditure designated to the Subsidized Regime grew in the past two years. Nonetheless, the historic expenditure is still predominant as can be seen in Graph 8. At present a total of 1,226,142 eligible individuals have been enrolled to the Subsidized Regime. This represents approximately one third of the total target population estimated as of 2007 to be about 3.7 million individuals.

GRAPH 8: TOTAL PUBLIC EXPENDITURE ON HEALTH AND TOTAL PUBLIC EXPENDITURE FOR THE SUBSIDIZED REGIME AS GDP %. DOMINICAN REPUBLIC 1995 – 2009.



* Planned budget.
** Estimated preliminary budget

Source: Ministry of Economics, Planning and Development, 2008.

If the level of enrollment is maintained, on average 500,000 individuals annually, the whole targeted population of the Subsidized Regime, basically poor population, could be covered by 2013. However, if the average enrollment annual rate halves to 250,000 individuals, the enrollment goal of all the target population would be reached in ten years, which would represent a seven year delay regarding the mandate of laws from 2001 and the loss of opportunities for a more efficient investment in human capital given that health investments, in particular maternal-infantile health, have a long term impact on the life of individuals enhancing the results of public investments in education and social protection and also labor competitiveness.

2.7. Main Health Sector Challenges and Priorities

The priority is to increase financial protection in health for the poorest groups of the population through the financing of the mandatory health insurance regime (Subsidized Regime) and, to progressively reduce the relative percentage allocated through historical financing. The majority of resources are allocated through imperfect mechanisms regarding targeting and the lack of incentives to improve quality. Some examples are financings for the provision of services to the regional public providers' network and of essential medicines needed for primary health care, which are allocated according to historical criteria. The allocation of resources to regional providers is in the process of decentralization and the government will begin to explore the potential benefits of introducing new results-based mechanisms of allocation within the framework of management agreements.

The management capacity of the Ministry should be strengthened both for individual medical care and for collective prevention, through a refining of management agreements with services providers and information and evaluation systems that allow for monitoring of the fulfillment and progress of goals. In the same way, incentives should be improved and synergies acquired with the expansion of the Family Health Insurance. Should also develop information systems that allow decentralized management and monitoring of results.

Additionally, the situation needs to consolidate more effective and transparent management in the purchase of health services and inputs such as medicines (prioritizing primary health care). The expansion of synchronized and more perfect planning mechanisms for needs and purchases, would allow for resources to be allocated according to the real needs of the population and depending on agreed results with public providers. In order to implement more efficiently the purchase of medicines on a large scale for the public sector (MOH and SENASA), it is required to introduce monitoring and information systems at the SRS level allowing PROMESE/CAL to acquire and distribute medicines based on real usage and not merely to replace inventories. The main challenge is the design and quality control of the input information for each of the health units that is used at different managerial levels. The eventual automation of the system can facilitate more efficient management whenever it has been tested that the information system can work with clear responsibilities of recollection, flow and quality control.

3. Policy Alternatives

Consolidation and expansion of the Subsidized Regime enrollment and its respective financing;

- **To prioritize and protect poorest groups through the Subsidized Regime, channeling finance with mechanisms that improve expenditure efficiency.** If the per capita amount were to remain fixed over the next five years, the total annual amount increase, required to finance the whole eligible population for the Subsidized Regime, would be approximately US$150 million annually. In fact, the total annual amount per individual of the Family Health Insurance for the Subsidized Regime is at DR$2,176 (approximately 61 dollars per year). Coverage is approximately 1.2 million enrolled individuals to the subsidized regime which represents and annual total amount of DR$ 2.6 billion (approximately US$75 million). The financing of approximately 2.2 million of additional beneficiaries (assuming that the estimated target population is 3.4 million) would require an additional annual budget of DR$4.7 billion (approximately US$137 million). To achieve this goal, would be advisable to coordinate a multi-sectoral and multi-institutional agreement with the participation of key actors in the health and social protection sector to ensure realistic multiannual planning that advances towards the right direction.

4 Estimated Exchange rate of DR$35 per 1 U.S. dollar

Examples of welfare in health protecting the Spending on Health Insurance: budgetary priorities, targeting and progressive but sustained expansion of universal insurance.

Taiwan and the Republic of Korea have successful strategies for universal health insurance. In Korea, a growth context and the expansion of the labor market were important factors in its success, but several analyses have shown that budget planning and protection for the already enrolled population allowed for goals to be combined and to advance progressively but sustainably in universal health insurance coverage.

In Taiwan, compulsory membership of health insurance came at the end of a reform process that took more than a decade. One factor for the success was the introduction of partial programs with progressively more complex packages and a rigorous evaluation to learn lessons from the implementation. Taiwan began with the poorest and rural population (farmers) to make efficient use of fiscal resources to protect the most disadvantaged groups. After various cycles of expansion to diverse groups, the universal insurance law incorporated lesson learned and the results of progressive implementation with persistent financial resources. Once a group from the population was incorporated, fiscal resources were the first priority in each cycle of planning and implementation of the governmental budget. Only two years after the universal insurance laws were passed, the whole population had medical insurance.

In Korea the assurance process was the convergence of several programs for the population in both formal and informal sector. The first program that took priority in Korea was the Free Health Services Program (Programa de Servicios de Salud Gratuitos - PSSG) that was subsidized for the low-income population. The selection of health services and its improvement to ensure that the PSSG would respond to the needs of the poor population outside the formal sector. At the beginning of the program, in the late seventies, only 9% of the population had some kind of medical insurance; nevertheless, ten years later almost 80% already had a package of health services that had gradually progressed from the most simple to the most complex. The priority for the government was to first guarantee coverage for the poorest part of the population in rural or small urban areas so that the allocation of fiscal resources was prioritized. The last group incorporated into a medical insurance program, at the end of the eighties, was limited to self-employed workers from urban areas. At the beginning of the nineties the entire Korean population, over forty-two million people, had health insurance.

- **It is important to refine the portfolio of health services to ensure meeting the priority needs of the population giving priority to the weight of the illness of the poorer and more vulnerable groups and it also needs to be sustainable.** Adopting a unique healthcare package that covers services for all diseases (complex and not complex), can become not only a serious challenge for the sustainable finance of the universal health insurance but could not guarantee the satisfaction of the needs of services that meet the bulk of the disease burden of the poorest groups. An alternative is to commence a progressive financing transition process to a results-based prospective one, prioritizing prevention interventions, promotion and healing strengthening a primary health care strategy in a gradual process that begins by strengthening primary health care and infant-maternal health with fiscal impact monitoring.

- **Consolidate the pace of expansion and development of regional public decentralized networks for providers (SRSs).** Results-based financing within the framework of management agreements (in this case MOH) or contracts (in the case of SENASA) with regional providers, would allow for resources to be placed with report accountability and the promotion of incentives. All this requires the capacity to prioritize and institutional capacity in regions that can be progressively constructed learning from their implementation[5]. However, regions are already managing health resources in a decentralized manner, for the provision of health services SENASA already have contracts with public providers. This approach also requires the development and implementation of an information system for the management and purchase that links several actors at a central and regional level. This requires investment and coordination.

- **RS contractual mechanisms can be strengthened with monitoring and information instruments to capture data on the demand and offer of health services.** Three insurance regimes have generated new organizational agreements between purchasing (in the RS carried out by SENASA) and in the provision of services (public providers.) SENASA uses capitation for primary health care, and direct purchasing for the rest of the services. Financing by capitation mechanisms (allocation of per capita resources), with payments in two stretches[6], can be used to generate incentives based on improving the quality of first level services using simple payment formulas.

Popular Health Insurance in Mexico prioritized the consolidation of a targeted services package designed to solve to the bulk of health problems for the poorest population later developing the financing to insure catastrophic events through a common fund.

Popular Health Insurance (*Seguro Popular de Salud - SPS)* began its pilot phase in 2001 which lasted for three years. The SPS began with a 100% subsidy for populations from the two poorest percentiles of the population. Preliminary studies suggested the benefits from commencing with a health services package that responded to the epidemiological needs of these populations. The original package had 78 primary health care interventions but also included second level health care. Some studies showed that in order for beneficiary households to improve access to quality services because of the timely and complete availability of medicines, it acts as a powerful incentive for the continued demand of services. In 2004, the package increased from 78 to 91 interventions, with equal emphasis on primary and secondary level of health care.

The analysis of results for the application of the program showed that there had been an important demand for services as it was believed that the package would reduce access barriers, in particular financially, as it does not only consist of prevention, diagnosis and sickness care but it also provides patients with medicines. In final stages, the acceptance of the program and the growing demand for services, have allowed for the creation of protection mechanisms for diseases that require third level health care and highly specialized medical care (including catastrophic illnesses). The management of the services package for more complex and costly illnesses is carried out by bringing together funds for resources from several origins.

- **To explore the development of payment mechanisms for specialized services that allow cost control as the covered population and the demand increase, specially for high specialized hospital services.** At present, the predominant pay mechanism for second and third level of medical care is the payment of loan services (also known as the fee-for-service). This practice could be useful for the expansion and monitoring of financing in the initial stages of health insurance; nonetheless, it can generate an eventual increase in costs that puts the sustainability of the social protection system at risk. Exploring the introduction of other payment mechanisms for some hospital and specialized services that are suitable for the reality of the Dominican Republic and that contribute to strengthening a cost restrain policy that would allow for the expansion of demand without the cost of highly specialized services eventually limiting investment capacity in key primary health care interventions.

5 In the case of the Argentina's *Plan Nacer* program (see the box in this section) instead of beginning a new infant-maternal insurance package in provinces with greater institutional capacity, they began in areas with lesser capacity. The government decided to use the framework of a budgetary support loan for public policy reforms ("Development Policy Loam - DPL") and in a parallel manner in an adaptable lending program ("Adaptable Lending Program – APL") to overcome this obstacle.

6 During training with two stretch payments, the first stretch is paid by the certification of a list of enrolled to an insurer; or from the population appointed to a coverage and quality improvement program (in order to avoid dual enrolment or to facilitate compensations between diverse coverage areas). The second stretch in paid by periodically completing indicators goals usually annually.

- **Exploit opportunities to make a qualitative jump in inter-sectoral coordination in order to recognize synergies orientated to improve the quality of services faced with a rise in the demand of primary care services.** The work, in coordination with other social protection policies and with interventions from the Ministry of Economy and Planning aiming to improve budgetary planning and results- based financing, which would allow for the strengthening of the offer to be consistent with the increase in services required for the expansion and consolidation of a national welfare system, including a national *"Programa Solidaridad"* program of conditioned monetary transfers.

Argentina's Plan Nacer program and the consolidation of results-based information mechanisms for financing through a decentralized system for the provision of services

Argentina's *Plan Nacer* is an infant-maternal insurance program for mothers and children without any kind of insurance coverage and a joint effort between the Federal and the Provincial Government. This insurance program began in the provinces with the poorest population groups and where the experience and institutional capacity of the provincial governments was less in relative terms compared with other provinces. The Plan Nacer program generated infant-maternal insurance in each province with financing from the Federal and Provincial Government.

Each Provincial Insurance program establishes contracts with public health services providers whereby financing is results-based on an information system that is generated by the providers, but is audited by an external company. The payment captured estimated by the average cost per capita from an interventions packet in the chosen provinces to begin the insurance payment in two parts. The first on the basis of a list of recipients audited by an external firm and the second in terms of fulfillment of goals annually agreed between the infant-maternal insurance authorities and health providers. The generation and management of indicators information in fulfillment of negotiated goals between the infant-maternal provincial health insurance and providers (known in Argentina as *"trazadoras"*) allows for greater transparency and efficiency in resources allocation to generate incentives for a continual process of improved access and quality for the provision of infant-maternal services.

- **In order to improve performance and results in the health sector, the separation of functions in the public health system requires the strengthening of the rector role of MOH to ensure that the transition between models does not negatively impact main interventions of public health.** Advancement in the implementation of a health strategy centered on a primary health care approach requires for the strategic institutional reorganization of MOH to contemplate the development of organizational arrangements, information systems, allocation of human resources needed to strengthen the prevention and promotion of health as well as a monitoring system of collective health interventions. The separation of functions should be implemented with a system that allows for close monitoring of public health to reduce the risk of adverse effects on the organization of preventative areas such as child vaccination, the vector control, etc. The experience of other countries in the region indicates that, in the transition of public health system organization models, it is a key not to neglect the organization of the provision of services oriented to the protection of public health goods.

- **Advances in purchase and supply chain of medicines from PROMESE/CAL can be of service to the consolidation of a primary health** care approach with the development of a strategic four year plan with clear goals that allow the availability of medicines in hospitals and health units, with an emphasis on primary health care in all areas of health. The addition of the demand, the rise in purchasing power, acquiring more competitive prices for medicines and reducing discretional purchases would be a consequence of this harmonization. A medicines purchasing system, at the same time, allows increasing the guarantee of a more efficient supply chain and encourages the demand aggregation.

In conclusion, the Dominican Republic should concentrate its efforts in three areas: a) developing a plan to maintain the expansion of the subsidized regime prioritizing beneficiaries of the Solidaridad Program; b) introducing financing mechanisms that incentivize the improvement of the quality of primary health care public spending, accountability and results; and c) in consolidating achievements in the purchase and supply chain of medicines with an emphasis on medicines for primary health care.

CHAPTER VIII

Territorial Development: Convergence Policies in a Divergent Country

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1. INTRODUCTION

This notes' objective is to provide elements of judgment that can contribute to the debate regarding and formulation of social cohesion and territorial policies while providing a framework to territorialize sector policies. First, it presents the errors and inequalities between spatial ambits . Next, it discusses the progress that has been made and the opportunities that exist. Lastly, it describes the experiences that can shed light on policy options and help define priorities to strengthen the joint impact of public policies.

The transformation process toward a convergence model that promotes social and territorial cohesion requires a long-term vision and a new political culture. Institutional and organizational reforms are needed to formulate and implement policies that ensure governability while achieving a higher impact on growth and equity[1]. This note concludes with recommendations to achieve greater coherency between sector and territorial issues in a framework of a national strategy that includes local participation.

The fact that insufficient information is available regarding the spatial distribution of economic activity, public spending, natural resource reserves and transportation and communications infrastructure impedes an in-depth analysis of territorial imbalances. The country is very heterogeneous in terms of regional development and national estimates fail to reflect the true situation of extreme disparities. This note uses the data available to characterize some of the primary aspects of a policy for territorial cohesion but does not examine issues such as environmental conservation and land use planning.

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1 The focus used in this policy note is backed by the analysis and conclusions of the World Bank World Development Report 2009: Reshaping Economic Geography (2008)

2. Diagnosis

2.1. Growth without development

Over the last few decades, the Dominican Republic has performed relatively well. Despite a number of crises, it has been one of Latin America's top economic performers. The country's economy has experienced periods of sustained growth and low inflation with GDP growth rates that topped 5% in 1995-2000 but fell to 0.3% in 2003-4 due to a severe crisis. After this period, the country recovered its growth levels (9.3% in 2005, 10.7 in 2006 and 8.5% in 2007).

The Dominican Republic has shown an inability to translate growth into improvement in the population's well being and social indicators, which are out of sync with income levels. The country's elevated poverty levels declined somewhat during the 1997-2000 period. The subsequent crisis caused a significant increase in poverty, a trend that was partially reversed once growth resumed. In 2007, 44.5% of the population was poor and 21% was indigent in comparison to 47.1% and 20.7% respectively in 2002. The situation in rural areas is even worse given that poverty and indigence levels were 15% and 8% higher respectively than the corresponding levels in urban areas. Inequality is also part of this scenario: in 2004, 20% of the wealthiest families concentrated 56% of the country's income while 20% of the poorest population received only 4%. In 2005, the human development index ranked the Dominican Republic 79th out of 177 countries.

Despite the fact that the Dominican Republic invests a large quantity of public resources in subsidies and transfers, the impact on poverty and human development has declined due to errors in design and management. In this context, new initiatives coexist with traditional programs with similar objectives. The rationale behind these programs is unclear and there are errors in design and execution.

2.2. Territorial imbalances

There are enormous differences inside the regions, provinces and municipalities, where processes of concentration and depopulation coincide. Territorial development is the result of historic processes that have led to an undesirable pattern of income and wealth concentration that is closely linked with geographic location and natural resources[2].

The concentration of political-administrative functions and economic-productive activities in the main cities, particularly Santo Domingo, is associated with population density. Urban growth has been disorderly and there are large pockets of informality and exclusion . Much of the territory is virtually unpopulated and/or contains disperse populations, particularly in mountain areas in the South East (particularly to Central Cordillera) and along the border with Haiti[4].

Rural areas did not benefit from the prosperity of the second half of the nineties and were the primary sources of migration. Areas with lower levels of well being, which were also bereft of expectations for change, saw their populations dwindle as people moved to the country's cities or abroad[5]. Migration to other countries, with a net index of 2.4, has contributed to a decline in population growth while internal migration helped smooth out income. According to the 2002 Census, during the five-year period of 1998-2002, the Metropolitan region continued to be the primary recipient of migrants (34.4% of the total). Migrants were primarily from the Southwest, although the numbers declined considerably in comparison to other periods such as the 1986/89 period, when the region received 46%[6].

2 Of the areas that make up the National Territory, 17 are on the coast, including the Distrito Nacional, and the primary economic activities are fishing and tourism. Five of these areas border with Haiti. The rest of the provinces, which are found inland, have fertile valleys for agricultural and livestock activities and the topography and climate in mountainous areas are home to forest development and ecotourism.

3 Las principales conurbaciones distribuidas en los entornos de las provincias Distrito Nacional, Santo Domingo, Santiago y San Cristóbal, concentran el 48.8% de la población. En la capital, Santo Domingo, reside una cuarta parte del total de la población.

4 The three Western regions (Noroeste, El Valle and Enriquillo) have 15% of the population and the five border provinces only 3.6%.

5 The recepient provinces were Altagracia, San Pedro de Macorís, La Romana, Independencia y Santiago.

6 This lag in the power of attraction of the Metropolitan region is due to hypertrophy and urbanistic chaos. This has caused migrants to choose other areas that have benefited from industrial free trade zones and tourism development. After the Metropolitan area, the primary recipients of migrants are the provinces of Santiago (10'1%), San Cristóbal (6'2%) y La Altagracia (4'4%).

The number of companies and employees per activity is highly concentrated in three areas (Distrito Nacional, the Province of Santo Domingo and Santiago), which account for 77% of the total number of establishments and 80% of all jobs[7]. The number of businesses and employees per activity is highly concentrated in three areas (Distrito Nacional, the Santo Domingo Province and Santiago)[8]. Inequalities are also evident in unemployment levels: three regions have relatively low levels of unemployment while others have very high rates[9]. Tourist areas and free trade zones experienced population growth even when, in the case of the latter, employment declined over the past few years particularly in Santiago, La Romana, San Pedro de Macorís and La Vega.

Road networks in the Dominican Republic were designed with a strong hub and spike pattern. The main roads link the capital city to large geographic areas: Cibao, the South and the East. However, inter-communication between these areas is very limited, particularly in rugged mountain locations. Physical and communications infrastructure has exacerbated economic and demographic concentration (in Santo Domingo, Cibao and tourist areas in the East) given that it was not designed with regional balance in mind. The secondary network of highways, and in many cases the primary network, is in a poor state of repair and further isolates entire provinces, making it difficult for them to be included in the national economic mainstream.[9]

2.3. Social territorial imbalances

Poverty reflects the country's fragmentation. Map 1 shows the number of poor households in each province. Income disparities are more accentuated between the municipalities of each province than between provinces. This adds levels of complexity to policy making and leads to uneven impact. These differences mean that efforts must be made to understand the specifics of each territorial situation and programs have to be executed in a disaggregated and decentralized fashion. This scenario is replicated between municipalities, neighborhoods and sections throughout the provinces.

More than half the households and poor individuals, and 40% of those living in extreme poverty, live in urban areas[10]. A correlation exists between poverty, living in the periphery of urban areas and access to services. This correlation is higher if we include services such as education and electricity and particularly sanitation. The correlation drops, however, when more basic services such as health and drinking water supplies are considered. The UNDP's Human Health and Development Report for 2008 concluded that the gap between provinces increased between 1981 and 2002, which caused the inter-provincial variation coefficient of poverty to go from 15% to 22%. In some sectors such as education, the convergence process has been positive[11]. The same problems appear with spatial distribution in the areas of health and sanitation.

7 Industrial Board of Directors for the year 2004, Central Bank of the Dominican Republic.

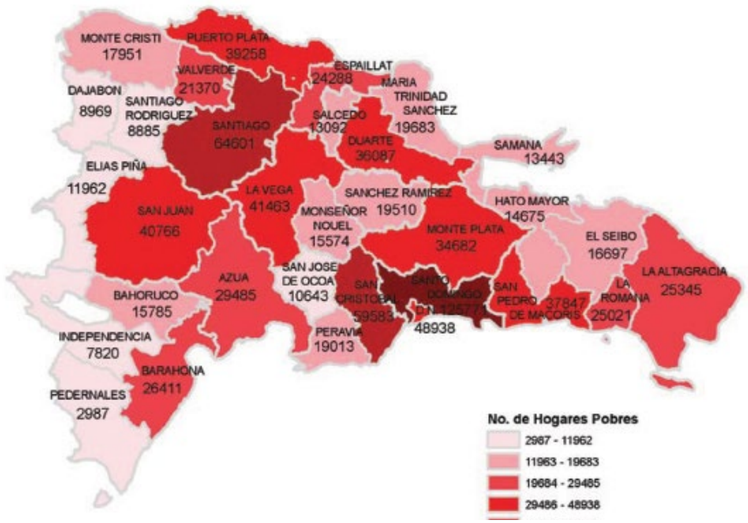
8 The main areas are Cibao Noroeste, El Valle and Cibao Norcentral. The second most important group includes the Distrito Nacional, Valdesia and Esquillo.

9 The Human Development Report 2008 found extreme disparities among provinces in terms of access to telecommunications services. The number of internet accounts went from 82,518, in 2002, to 264,284 in 2007 (of this amount 143,400 DSL). According to ENDESA 2007, 26% of the households in the Distrito Nacional have a computer (18.7 according to Census 2002) but the national figure is only 12%.

10 The province with the highest percentage of poor people in 2002 was Elías Piña (82.9%) and 47.3% living in extreme poverty. The provinces that have poverty rates above 70% include the border provinces of Bahoruco and Independencia and also San Juan. El Seibo, San José de Ocoa and Monte Plata all have percentages above 65%. The Distrito Nacional, the municipality and urban area with the highest per capita income report the highest concentrations and densities of poor households and individuals. These concentrations reach densities of approximately 20,000 poor/Km2 in neighborhoods in Circunscripción 3 (Domingo Savio, La Zurza, Gualey, Ensanche Capotillo, Simón Bolívar). Map 1 shows the poorest households per province according to data from 2002.datos de 2002.

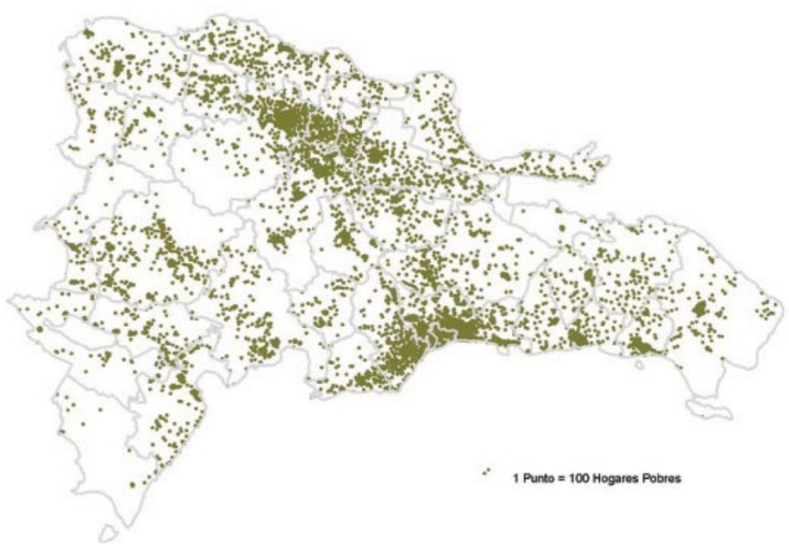
11 Los estudios realizados por el Centro de Estudios Padre Montalvo en los barrios más pobres de la Circunscripción 3 del Distrito Nacional así lo ponen de relieve.

MAP 1: POOR HOUSEHOLDS BY PROVINCE



Inequities at the interprovincial level in access to basic services are evident in the most dynamic urban areas. Overcrowding, low levels of healthiness, deficient basic services and a lack of access to these services as well as exclusion are generalized problems . Map 2 shows the geographic location of the poorest neighborhoods. It is important to remember that information on a per province basis is insufficient to draw a clear picture of the situation in territorial terms. The territorial distribution of rural poverty also indicates territorial disparities, which are shown in Table 4 for the year 2002.

MAP 2: GEOGRAPHIC LOCATION OF POOR HOUSEHOLDS



2.4. Spatial inequalities in access to services

There are significant territorial inequalities in access to infrastructure and basic services such as education, health, water supply, sanitation, electric energy and telecommunications. A correlation can be observed between poverty, living in the periphery of urban areas and access to services[12]. The most complex and specialized services have lower diffusion levels throughout the territory and the lowest coverage is evident in peripheral provinces that have higher poverty levels (particularly the South East). In terms of access to health services and water supply, the territorial reach is wider and extends to peripheral provinces with high levels of poverty [13].

According to human development indicators, the Dominican Republic's education indicators for coverage and assistance are higher than the rest of the countries in Latin America and the Caribbean. Efforts have been made to improve coverage (particularly in secondary given that the progress that has already been made in primary) but questions remain regarding desertion and repetition rates, quality, infrastructure, overcrowding and double and triple shifts.

Access to basic services and housing has improved but significant gaps remain between population groups and service quality. Despite progress in supplying electricity to rural areas, service remains inconsistent and unreliable. Although 86% of families have at least nominal access to drinking water, the average household with water pipe connections receives the equivalent of 3 full days of water supply a week. Access to sanitary services is also below the average reported for Latin America and the Caribbean and remains unequal: only 54.2% of the households have lavatories (private 43.9% and shared 10.3%)[14].

3. Territorial policies and their institutionalization

3.1. Planning and programming

The Dominican Republic has a history of institutional deficiencies and weaknesses and the system is highly centralized. At the end of the 1990's, a process was initiated to modify norms to modernize the state and fine-tune the central government and public administration structure[15]. The changes created the Secretariats of Treasury, Economy, Planning and Development (SEEPYD), Environment and Natural Resources and Public Administration and budget and fiscal systems[16]. Law No. 170-07 of the Municipal Participative Budget System establishes citizen participation mechanisms, and 40% of the transfers that Municipalities receive are reserved for investment purposes. Law 176-07[17] , which applies to the Distrito Nacional and the Municipalities, assigns authority and defines accountabilities and the role of social participation[18].

12 The province with the lowest percentage of poor households, the Distrito Nacional, has the highest level of access to services. On the contrary, three provinces of the group that has the highest percentages of poor households (Elías Piña, Bahoruco and Pedernales) are repeatedly ranked among the five provinces with the lowest levels of access to services. To analyze the territorial inequalities we have used the indicators and maps published in the Informe Nacional de Desarrollo Humano República Dominicana 2008 and ENDESA 2007 as bases.

13 An example is the Independencia province (sixth poorest country according to the World Bank), which is included in the fire best ranked provinces at a national level in terms of access to health and water supply indicators.

14 According to ENDESA, 95.7% of all households had electricity. The ENHOGA 2006 survey indicated that 53% of the poorest quintile of the population uses vegetable-based fuels, which are not frequently used in other social groups.

15 The General Education Law, the General Health Law, the Law to create the Dominican System of Social Security, the Municipalities Law, the Non-Governmental Organization Law, the General Law of the Environment and Natural resources and the Penal Process Code among others.

16 Planning and Public Investment Law, the Organic Law for the Public Sector Budget regarding Insurance and Bonds, the Treasury Law, The Public Credit Law, the Integrated Financial Administration Law, the law of the Accounts Department, law on Internal Control and Auditing and regarding Purchases and Contracts for Goods, Services, Works and Concessions.

17 This law recognizes the communities' right to form a "union" to jointly execute the goods and services within their competencies. The law explains that it is not necessary for municipalities belong to the same province to form this union and no territorial continuity need exist.

18 National Planning Office. Strategy to begin formulating the National Plan to Order the Territory of the Dominican Republic (PNOT) (2005) Indicates that: "The DR does not possess an ideal framework to define two basic instruments of the TO, which are: 1) a territorial policy; 2) national plan to order territory. It also lacks complementary legal instruments: 1) land use law; 2) base law for the local regimen. Although the municipal legislation in effect is obsolete, the Law that is currently being debated in Congress adapts acceptably to PNOT's objectives.

Several initiatives have put together development plans to reduce social gaps and increase cohesion[19]. Law 498-06 created the System of Planning and Public Investment and mandates that a National Development Strategy be developed[20]. Budget Law 423-06 stipulates that public entities should develop 3-year budgets based on institutional strategic plans. The State Secretariat of Economy, Planning and Development is in the process of developing this Strategy and pluri-annual plan. Although the pluri-annual plan takes precedence over strategy development, both are being developed simultaneously to speed up the process. Although progress has been made at a normative level, policies have yet to converge adequately within a national development strategy that has significant impacts on territorial development.

3.2. Regionalization and zonification of the territory

There is no national legislation regarding zonification or land use. The Dominican Republic has many government levels and a complex planning system[21]. Neither of these elements permits the government to articulate actions or address territorial specificities. Regionalization, although normatively defined, only applies to the organization of some services. In general, the situation is chaotic and there has been scarce impact on territorial policy convergence. Sector policies and execution bodies use different criteria to guide their actions at national level. The absence of shared classification systems has compromised deconcentration and decentralization efforts, which has caused further fragmentation in the provision of state services. Zoning in the rural and urban ambits has generated conflicts given that efforts are either completely inexistent or ambiguous. The Judicial Branch has made some progress in terms of real estate jurisdiction although property titling remain slow and lacks transparency. National legislation lacks modern instruments for land management. Although the Distrito Nacional and the Municipalities give local governments the power to define these instruments, there is little experience in this area. The municipalities' ability to raise taxes is limited by the competencies assigned to national bodies and the legislation governing the same. The value capture process, compensation processes and the allotment of costs and benefits relative to land development to land owners and the State are not rigorously defined. These instruments are of particular interest to local governments, which could use them to finance local investment in infrastructure and services, protect ownership rights and encourage investment.

3.3. Decentralization and the municipal model

The traditional model provides services through centralized entities that belong to the Executive Branch. This arrangement is not designed to distribute capacities among government levels and is instead institutionally based. This has concentrated decision making power and resources in the Central Executive Branch. This has, in turn, meant that the relations between actors and social practices have been characterized by dependence on the central nucleus as well as segmentation and institutional and territorial fragmentation. One of the main impediments that municipal governments face is a lack of capacities. Formalization at this level is low, professionalism is lacking, personnel turnover is high and management technologies are obsolete. All of the aforementioned reduce efficiency and efficacy.

The decentralization process was initiated in response to demands for more democratization and citizen participation but the debate has focused on providing better services to the communities[22]. According to a World Bank Study in 2002, the main restrictions on the decentralization process are: a) lack of an adequate fiscal and administrative focus, b) lack of a final vision of the process and c) prioritizes the political and ideological. These restrictions explain why the decentralization process has been more formal than effective. It lacks a clear idea of how it can contribute to an integral development strategy that contemplates municipal participation at the budget level[23]. The results of this process in terms of municipal service provision have not been satisfactory. Local governments have not been truly empowered. There is minimal transparency and State bodies do not exercise effective control at the municipal level. Decentralization has led to a number of proposals that have had an impact on institutional and organizational norms. Currently, however, there is no political consensus regarding the scope and results sought by these initiatives despite a concerted belief that centralism and fragmentation must be effectively addressed.

Public administration reforms are moving in the direction of deconcentration. The municipalities have also implemented policies to strengthen their capacities. The Dominican Republic has some experience with participative planning at the local level[24]. Some territorial ordering initiatives, which utilized cartography and municipal self-diagnostics, were initiated with international assistance under the ONAPLAN framework years back but were never concluded. These efforts were never duly considered or utilized by national or local planning institutions. Some progress has been made, however disorganized and fragmented, in basing public investment efforts on municipal agreements with civil society. The lack of territorial planning in rural and urban ambits has generated more compatibility conflicts regarding its use. The risk management system prioritizes emergencies and pays little attention to inter-institutional planning or the National Information System.

3.4. Territorial development policies

Territorial development policies are complex; they imply major challenges and enormous obstacles. The desire to overcome imbalances between regions and zones by implementing policies to discourage urban growth, rapidly reduce income disparities between rural and urban areas, or creating employment in areas that have lagged behind can have a counter-productive impact if they are not addressed through appropriate policies. The strategy should focus on identifying intervention priorities based on criteria to maximize impact.

International experience shows that the regional and territorial development strategy should concentrate on allotting resources to promote potential development rather than merely compensating for disparities. This strategy should be multi-sector and spatial and strategies for territories should be disaggregated by specific areas (regions, groups of municipalities and municipalities). The Global Development Report 2008 of the World Bank provides evidence for this point. All territorial development processes generate imbalances. As such, strategies must contemplate the fact that poor, excluded areas with disperse populations and scant possibilities to build infrastructure and supply services will co-exist with other areas that have higher populations and access to services. It should also create conditions for competitive and promising activities and forego activities that have little potential and large investments in infrastructure.

A number of successful experiences have shown that regional and municipal governments should be responsible, within the national policy framework, for formulating territorial strategies as well as plans and programs. Local actors must participate at this level and emphasis should be placed on creating consensus and coordinating actions. The territorial strategy is based on identifying the principal problems, determining potential, recognizing heterogeneity and addressing the specific aspects of each territory.

The model goes beyond norms and municipal capacities, although both are considered. This model instead expands the focus to include issues such as planning, scheduling and budgeting, determining areas of responsibility and decision-making competencies, providing efficient services and coverage based on populations and territories, ensuring the availability and allotment of resources, guaranteeing transparency with regard to transfers and the development of organizational and management capacities, etc. This model's design requires concerted analytical, political and social efforts.

19 These initiatives include: a) producing the document known as República Dominicana 2030, with the support of CEPAL, b) producing the Strategic Plan of the State Secretariat of Economy, Planning and Development and c) the design and approval of the Regional, Local and Community Development Project, with the support of the World Bank. Social and territorial cohesion is addressed in the National Development Strategy.

20 This law should be approved in June 2009. It also mandates the formulation of the Pluri-annual Plan for the public sector.

21 World Bank: A strategic view of decentralization in the Dominican Republic, Draft, may 2002.

22 In the year 2002, the World Bank produced a profile of decentralization in DR. This report contained background information and defines the situation, difficulties and risks. It also makes a series of policy recommendations.

23 90% of municipal income comes from central government transfers, which reflects the inability of the majority of municipalities to collect taxes. The maximum transfer is 6.8% of the 10% legal. The Dominican Federation of Municipalities (FEDOMU) claims that the full 10% is transferred but the municipal governments do not even provide minimum municipal services and fail to comply with the 25% destined for salaries.

24 More than 70 municipalities have some method for participation in budget formulation or have a strategic plan for local development. This participation has generated different expectations and evaluations of its contributions, which focus on identifying projects that respond to perceptions of local needs and demands and generates local empowerment. Forty percent of the municipal budget should be allotted for investment, which reduces the municipal authorities' budget discretionality. These decisions have lacked a territorial framework that gives coherency to investment plans and different state interventions.

cipal governments in particular. The basic principle is to clarify responsibilities by defining provisions standards, budget allotments as well as results' monitoring throughout the territory.

- The aforementioned requires that a system of information on territorial economic and social statistics needs to be developed to determine each municipality's GDP and identify the most relevant activities. This will help guide spending and investment. As part of this effort, it is important to strengthen cadastral information and drive the implementation of geo-referenced information systems, including protocols for information access.

4.3. Sequence of institutionalization of mechanisms for territorial development

- The process to institutionalize mechanisms for territorial development should follow a sequence with immediate, mid-term and long-term goals. These mechanisms should vary in complexity and should progressively take on increasingly demanding functions:

- Regional delegates of SEEPYD to ensure relevancy and follow up. A similar arrangement is currently in effect.

- SEEPYD officials at the regional level with the power to convene representatives for the sectors and municipalities with oversight and follow up functions to align policies and projects with regional and sector priorities.

- Create Regional Councils that, in addition to the aforementioned integration process, are participatory and ensure the presence of civil society. To do this, it will be necessary to define territorial ambits that share a degree of homogeneity in terms of problematic and resources.

- Create territorial development agencies; these agencies' functions still need to be defined but this can be done progressively.

5. Conclusions

The Dominican Republic is facing a major challenge: generating convergence policies in a divergent country. This policy note has described the current situation and the tensions that it generates. Institutional challenges make it highly unlikely that short-term actions will have a significant impact. Nevertheless, a coherent strategy can be progressively designed to build the institutional, legal, policy and organizational bases to help the country rise to this challenge.

The systematic incorporation of the territorial dimension in state planning and the rigorous search for alternatives to achieve greater decentralization and regionalization- which should take into account different territorial, social and productive realities while ensuring the legitimacy and effectiveness of the agreements- can be coupled with efforts to ensure more territorial connectivity. All of this will help jump-start development and bridge current social and territorial gaps.

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CHAPTER IX

Towards an accountability and Performance System in the Dominican Republic

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1. INTRODUCTION

In recent years, the Dominican Republic has reformed the legal framework for planning, investment and budgeting processes. These reforms aim at improving transparency, fiscal discipline and accountability through better controls and institutional equilibrium.

The purpose of this Policy Note is to offer suggestions for the implementation of reforms. First, we describe the intentions of the reform and the model of "results-based management" to be implemented. Secondly, we identify the progress already made and confronted challenges of the past, and thirdly, on the basis of the experience of the OECD countries, we suggest policies to consolidate the reform.

2. The reform: objectives and state of play

2.1. Bases, Attributes and Requirements

The reforms are based on two pillars: a) a governmental financial administration and b) a system of policy planning with long-, medium- and short-term objectives. These pillars aim to build a management model focused on compliance and accountability by explicit policy goals. Although these reforms do not include the technical adoption of a Results-Based Budget, they set the bases for achieving such Budget. This is why this Note pays particular attention to the requirements that have to be met to reach this purpose.

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2.2. Analytical Framework for the Reform

According to the new legal framework, "results-based management" is the model that proposes the administration of public resources in compliance with the strategic actions established in a plan over a certain period of time[1] . It is a model that seeks to administer public institutions in such a way that the expected results are achieved with the budgeted resources. For this system to be successful, it is essential to assign clear responsibilities for achieving results.

This model is based on tightly linked subsystems: a) public planning, b) policy priorities oriented budget, c) resource management, and d) control management (monitoring and evaluation)[2]. The interaction among these subsystems occurs at the **macro** level (between the National Development Strategy and the Macroeconomic Planning), the **sectoral** level (between the Sectoral Plans and the Multi-annual Budget) and the **institutional** level (between the Institutional Strategic Plans, the Preliminary Annual Programming and the Institutional Budgets). The different phases of these processes are linked and require coordination between the governing bodies (Ministry of Economy, Planning and Development (MEPYD) and the Ministry of Finance (MH)), which is the main challenge for establishing the system. The next Table shows the different instruments.

TABLE 1: LONG, MEDIUM AND SHORT-TERM PLANNING INSTRUMENTS

	Long and Medium term	Short Term
Macro Level	• National Development Strategy • Medium-Term Macroeconomic Programming Medium-Term Fiscal Framework • Multi-annual Plan for the Public Sector • Multi-annual Budget for the Public Sector	• Annual Macroeconomic Programming • Annual Budgetary Policy • Revenue Budget and Public Spending Law
Institutional Level	• Sectoral Plans • Institutional Sectoral Plans • Results- and Performance-Based Contracts	• Preliminary Annual Programming • Institutional Budgets

These instruments will allow public institutions and governing bodies to sign Results-and Performance-Based Contracts as established in the Public Spending Law. These contracts may be entered between MEPYD, MH, MAP, the highest authority of a body, and the Ministry to which the organization is affiliated. These contracts shall establish the following commitments:

- Compliance of goals and policies that can be verified through well-defined indicators.
- Type and amount of budgetary incentives granted by the governing bodies[3] to agencies and/or officials during the period of contract.

1 See *"Gestión orientada a Resultados y Contratos por Resultado y Desempeño"* (Results-based Management and Results- and Performance-based Contracts). MEPYD, 2008.
2 For instance, the laws that establish the National Planning System and the Budget System (No. 423-06 and No. 498-06) and their regulatory decrees prescribe a modality with strong links and interdependence between the budget process and the planning process.
3 See Article 14 of Act 423-06 and "Gestión Orientada a Resultados y Contratos por Resultados y Desempeño", MEPYD, 2008.

Public institutions:

- Explain, for the medium- and long-term, the results they commit themselves to achieve, as well as the mechanisms to do so.
- Annually define both their goals and processes and resources that will be inputs towards these goals.
- Formulate indicators for performance, monitoring, evaluation and accountability.
- Establish agreements among themselves to obtain results and other commitments.
- Manage the resources to obtain the products and results that had been committed to.
- Emphasize on transparency. Ensure that independent third parties evaluate their performance.
- Report the evaluations to the society and explain the reasons why gaps still remaining between goals and results.

The governing bodies shall strengthen their follow-up and evaluation capacity. The Ministry of Economy, Planning and Development has defined in its Institutional Strategic Plan the development of follow-up systems for policies, and the gradual structuring of the follow-up of institutional commitments and management of incentives . In conformity with the model, the modifications to the National Internal Control System establish the bases for the development of a control strategy that ensures the transition from ex-ante to ex-post controls, with delegation of autonomy towards the institutions, and focused on performance rather than administrative or financial aspects.

2.3 The Experience with the Establishment of a Results-Based Budget

2.3.1. Variety of Models to Improve Budgetary Systems

For many years, efforts are being made in several countries, both of the OECD and in Latin America, to introduce improvements in the budgetary systems, such as the establishment of program budgeting and the initiatives to work with results-based budgets. Program budgeting is geared towards products and their relation with economic/financial resources, while Results-Based-budgeting links resource allocation to measurable results[5].

The following Table indicates the types of performance indicators most frequently used.

TABLE 2: TYPES OF PERFORMANCE INDICATORS

Performance and time indicators

Outputs produced	Quantity, quality, cost and timeliness of products and services	
Efficiency	Output/costs	
Productivity	Output/input	
Policy goals achieved	Intermediate outcomes (direct consequences of the output)	These outcome-based measures are valid for performance only to the extent that there is a clear casual relationship to individual or agency's outputs.
	Final outcomes (significantly attributable to output)	
Effectiveness	Contribution of the output to the desiderate outcome (intermediate or final)	
Cost-effectiveness	Outcome / costs (intermediate or final)	

Source: Ketelaar, Manning y otros OECD, 2007.

It is possible to distinguish three categories of results-based budgeting (See Table 3)[6] .

4 SEEPYD, Plan Estratégico Institucional 2008-2012, Santo Domingo,2008. http://stp.gov.do/Uploads/2008120421393_Plan_Estrategico_SEEPYD.pdf.
5 *OECD, Modernizing Government: The Way Forward, OECD Publishing, Paris, 2005.*
6 *Performance Budgeting at OECD Countries, OECD, Paris, 2007.*

TABLE 3: RELATION BETWEEN ALLOCATION OF RESOURCES AND PERFORMANCE INFORMATION

Grado de Institucionalización		Tight	Loose
	High	Direct/formula performance budgeting (Use limited to few OCDE countries and very specific sectors)	Performance-informed budgeting (Most extented in the OECD countries)
	Ad Hoc	No cases	Presentational use of performance information (Use limited to few OCDE countries)

Source: WORLD BANK, 2008, Performance formed Budgeting in Lat American Experience and Opportunitie.

- The **presentational use of performance information** uses performance is presented as background information in budgeting documents for accountability. This budget is complementary and does not play any role in resources allocation. Its purpose is to ensure accountability and to enrich the dialogue with legislators and citizens.

- The **direct / formula performance budgeting** proposes a stronger relation between resource allocation and results. The link between allocation and performance unit – generally, products – is direct and may be based on a formula/contract associated with the results achieved. This type of budget is used in a small number of OECD countries and is applied to very specific sectors.

- **The performance informed budgeting uses performance data for budgetary decision-making, but this data does not determine resource allocation. This information is considered together with data on fiscal restrictions.**

2.3.2. Requirements for a Performance-informed budgeting

According to international experience, the implementation of a performance performance-informed budgeting requires progress in the following fields:

- **Program budgeting** reflecting policy priorities, according to the productive processes of the public administration, with identification of its products and determination of input-product relations.

- **Annual budget with multi-annual macroeconomic projections,** fiscal objectives and ceilings within an **Integrated Financial Management Information System,** with inputs to budget formulation, execution and evaluation.

- **Monitoring and Evaluation, with identification of goals and indicators for the results** of sectoral projects, programs and sectoral policies that facilitate the analysis of effectiveness and efficiency[7].

- **Control management,** with a systematic internal and external audit plan for the control bodies that fully includes the performance dimension.

- **Performance Information with indicators** that progressively include all performance dimensions.

7 As a complement to these "vertical" or sectoral systems in the OECD countries, an effort has been made to conduct cross-cutting or "horizontal" evaluations that analyze scenarios with different levels of financing, and contribute with valuable information to the establishment of priorities for the programs and resources of the whole budget, beyond a strictly sectoral vision.

FIGURE 1: INTERNATIONAL EXPERIENCE WITH MEDIUM-TERM BUDGET FRAMEWORKS

In the majority of OECD countries, budget processes have been reoriented in order to cover the fiscal frameworks period. Although specific formats vary, most Medium-Term Budget Frameworks (MTBF) include clear fiscal policies assumptions, medium- and long-term macro-economic projections and establish expected trends for aggregated revenue figures and deficits for the next 3 to 5 years. In general, it is required for the line ministries to stay within their budget allocations for the fiscal year, and explicitly calculate the impact on expenditures of other medium-term measures.

The objectives of the MTBF include:

- Improvement of fiscal discipline and predictability by establishing "top-down" fiscal objectives and sectoral strategies, and an integrated series of macroeconomic and fiscal objectives, as well as projections consistent with fiscal sustainability and macroeconomic stability.

- Improvement of planning, allocation and execution of resources towards strategic priorities. The structure offers better planning of programs and expenditures for investments during the coming years.

- An increase in efficiency of public expenditures offering more certainty, to those who handle the resources, about the availability of future resources, at the same time providing a mechanism for accountability regarding assigned resources.

The design of MTBFs is crucial for their success. In the European Union, the majority are flexible multi-annual frameworks, with fiscal objectives that preferably cover the totality of the central government in order to cover the whole impact of public policies. The studies also point out "the relation between the quality of the medium-term budget planning institutions and the capacity to achieve expenditure objectives" (EC, 2007). The lessons drawn from the MTBFs in the OECD include:

- Broad political support is necessary to have a credible commitment towards sustainable fiscal policies.

- MTBFs are based on solid, consolidated and integrated financial management systems (i.e. budget, treasury, procurement, reporting, etc.) that generate credible and transparent annual budgets. Also, there should exist a strong link between the MTBF and the annual budget.

- The central budget agencies, like the Ministries of Finances and Planning, play a fundamental role in enforcing the "game rules" and in coordinating the actions of the public agencies at all levels of government. However, only when there is enough capacity and installed system at the Line Ministries, the "bottom-up" detailed projections will be useful.

- In general, there exists a dilemma between the period to be covered and the level of detail of the Medium-Term Budget Frameworks, for instance, in countries where the MTBFs are not revised every year, these tend to only include aggregate levels for revenues and expenditures.

- Frequently, moderate revenue and growth projections are used combined with budget reserves, in order to introduce a certain degree of flexibility in the MTBF.

Source: European Economy, No 3, Public Finances, 2007, EC y OECD Economic Outlook, No. 81, June 2007 y World Bank.

FIGURE 2: INTERNATIONAL EXPERIENCES WITH INCENTIVES TO RESULTS MANAGEMENT

The experience in the OECD countries confirms that an incentive structure to support results management and results budgeting is essential. These incentives fall in agencies and in senior managers who are in charge of producing and achieving goals and aligning them with the government objectives. Besides, managerial reforms should be accompanied by measures that lead to a results-based budgeting, without anticipating it since if the budget is prepared independently from the budget process reforms, these tend to be more limited in scope. Consequently, the introduction of performance-based management agreements generally focused on the most senior civil service – only has a limited scope, based on "the quality of the products of the agencies and not on the capacity to respond to the changing priorities of the government".

To establish performance based management agreements within the context of a results budget could link the incentives of officials to policy priorities in the broadest sense of the word, as in the United States, France and the United Kingdom, where the performance agreements of the agencies lead directly to performance "agreements" for management. This is why it is important to have a clear vision through governmental labyrinth of performance objectives and goals, and bear in mind that the most productive use of performance measurements is the dialogue and not the control.

The OECD countries have given their ministers and managers more discretion to choose the combination of inputs that helps the efficiency of the services they render, but more delegation also requires a solid accountability system. In the United Kingdom, many ministries have the liberty to use the funds allotted for each program as they wish, only under two minimal conditions: first, that there is no increase in the amount of money for staff recruitment and, secondly, that the money cannot be transferred from the capital account to current expenditures.

But, the simple delegation of authority to expenditure agencies without strengthening accountability mechanisms for the use of resources increases the opportunities for embezzlement. To prevent this, the nature of expenditure controls should be changed and formal mechanisms should be introduced to ensure that accountability is based on program results, while maintaining or strengthening financial authority and accountability at the level of expenditure agencies to assure an effective execution of budgets. France has a system where administrators are clearly identified with each program, both at the national and local levels, thus creating a chain of responsibility.

But, how to change this control culture? In the first place, the systems that formally emphasize financial control, with centralized financial ministries, as in France, Spain and many countries of Latin America, should be prepared to delegate funds and responsibilities to the executing agents. Moreover, the management agencies should have the capacity, incentives and willingness to adopt change and to accept responsibility. All this takes time and perseverance. In the OECD, performance measurement and goals are often used between structured agreements such as contracts or quasi-contracts, and these contracts are interpreted in a flexible way, in fact more for information purposes than for mechanically determine the consequences on resources and programs. Besides, contracts do not guarantee that programs will be protected against political interference when the risks are high.

In Latin America, there are few possibilities to increase delegation and to prepare contracts aimed at achieving results. Major administrative reforms would be required in several centralized administrations of Latin America to implement delegation systems. The solution could be the introduction of a formalized informality approach – i.e. formal agreements between the line agencies and ministries of finances and presidencies, in order to explicitly recognize that performance information is the basis for a continuous dialogue and not the trigger for actions related to budget management. These contracts will need a framework of norms to ensure compliance, quality and contrast with reality.

Source: Source: Ketelaar, A., N. Manning and E. Turkisch (2007), "Performance-based Arrangements for Senior Civil Servants OECD and other Country Experiences", OECD Working Papers on Public Governance, 2007/5, OECD Publishing. doi:10.1787/160726630750; World Bank, Public Sector and Governance Unit, Latin America and the Caribbean Region (2008), "Performance-Informed Budgeting in Latin America, Experiences and Opportunities"

3. Diagnosis: advances and challenges in the implementation of reforms

3.1. Status of Results-Based Budgeting precursors

Program-Based Budgeting: By Decree No. 492-07, which approves the Implementing Rules of the Public Spending Law for the Public Sector, the Program-Budgeting technique was adopted. Article 8 establishes:

"The annual budgets of public agencies shall be prepared, executed and evaluated in conformity with the budgetary principles established in the Law, and shall apply the program-budgeting technique, which shall clearly express the strategic plans and the input-product relations, emphasize in methodological development and the application of results indicators and ensure that those in charge of the budget programs rigorously define the products, revise and update them, and establish the corresponding indicators to allow an evaluation of the execution and to provide detailed information on the achievements and difficulties" [8].

In spite of the reform, there is still a gap between the law and the implementation. This is because, for budgetary purposes, there is not an exact definition of what a "program" is. On the other hand, the "products" are not well defined either, and consequently, it is difficult to define the inputs. Moreover, there exists confusion in the use of the programmatic category of project, including in certain cases, the difference between capital expenditures and current expenditures. Until fiscal year 2008, the budget did not include information on physical production neither during the formulation nor during the execution phase.

In terms of planning and budgeting, multi-annual instruments have been approved, as well as the first National Development Strategy (END) and the first National Multi-annual Plan of the Public Sector (PNPSP), which are the beginning of the development of the Medium-Term Macroeconomic Programming and of the Multi-annual Fiscal and Financial Framework.

In the development of the medium-term instruments, the participatory processes have not been defined. In some cases, the regulation of the new legal framework[9] is still to be completed and there is no medium-term fiscal framework to support the planning instruments that are being developed.

The integrated financial information system has had an important development: Article 14 of Act 5-07 has created an Integrated Financial Administration System of the State (SIGEF) to support the Integrated Financial Administration System of the State (SIAFE). SIGEF has developed considerably, but: a) it still does not contain information on all the expenditures of the public sector, b) it has weaknesses in the registration of the time of expenditures, especially of commitments and accrued expenditure, c) it still has no functionalities that allow to give an account of the programming and execution of the goals and work volumes.

The Public Spending Law establishes the physical and financial evaluation of budget execution. However, as the budget does not contain information on institutional production, and as there are important gaps in the information systems of the public institutions about generated goods and services, the evaluation is limited to the financial aspects and does not consider any dimension linked to performance.

The new legal framework modernizes the control management system by shifting the focus of control actions from ex ante to ex post. However, ex ante control by the Comptroller General of the Republic, continues to prevail focused on the administrative, financial and legal aspects, particularly in terms of intervention prior to orders of payment. On the other hand, the external control body, the Accounts Chamber of the Republic, has included in its strategic plan the development of management audits according to the principles of efficacy, results, and impact of the application of public resources. Nevertheless, in practice, it mainly conducts financial-type audits.

The Ministry of Public Administration has launched an ambitious quality management administration program that includes obtaining certifications for public organizations according to quality management models, and the establishment of staff performance evaluations according to the goals of the institutions concerned. This program is still in a preliminary stage and it is an initiative aiming

8 Article 8 of Decree No. 492-07, Implementing Rules of the Act on the Budget of the Public Sector.
9 For instance, the Rules for the Preparation of the Multi-annual Financial Framework, as well as for the design of follow-up and evaluation of the execution

to correct weaknesses in the quality of information of institutional performance.

A system is required to implement all the initiatives mentioned above offering timely information on performance. To this end, the participation of the National Statistics Office is important, as well as the improvement of the administrative records of the institutions, all this in accordance with the Access to Public Information Act.

3.2 Articulation between Planning and Budget

The process to formulate the Multi-annual National Plan for the Public Sector and the Multi-annual Public Sector Budget are still in their beginning stages and, consequently, does not allow to verify the degree of consistency between instruments. Although MEPYD and MH have made progress in harmonizing processes and consulting on methodological documents, an effective coordination is still lacking to satisfy the requirements of the adopted model, i.e. strong relation and interdependence.

Diverse public institutions have been developing strategic sectoral plans[10], but the institutional budgets do not reflect such plans, for the following reasons: a) they do not express the production of goods and services for the yearly exercise, b) the programmatic structure is not consistent with the plans, and c) resource allocation is done on the basis of historical criteria. In some cases, products are expressed in a vague way and cannot be translated in budgetary terms.

The different existing institutional plans were not formulated according to common methodological guidelines. The production of common methodological documents that contribute to the articulation between the plan and budget at the institutional level is still lacking in the MEPYD and MH.

Progress has been made at MEPYD, MH and MAP[11] that signed performance and results based contracts, through "Agreement Acts" to initiate the experiment with four line Ministries (Ministries of Education, Public Health, Agriculture and Labor).

MEPYD has advanced in the elaboration of a manual on results-based management and application of contracts[12] that establishes six phases: 1) incorporation of institutions, 2) evaluation of basic conditions, 3) technical assistance for institutional capacity-building, 4) establishment and management of commitments, 5) monitoring and application of incentives and sanctions, and 6) evaluation.

The proposed contract model establishes commitments for indicators on results of intermediate and final production. The purpose is to sign contracts at the end of the year 2009 with incidence on the 2010 budget. Commitments are also envisaged on other performance indicators such as: efficiency, economy, resources and quality. These experiences pose several challenges: a) the need to strengthen the institutions in their processes of planning, budgeting, information and monitoring management, b) selection of relevant and simple indicators, c) an ad hoc system to follow up on these first experiences of application, and d) definition of an institutional incentives scheme, defined in coordination with MEPYD, MH and MAP.

3.3. Key Actors in the Budget Cycle

The public bodies and civil society may and should use the obtained results to improve their participation in the different phases of the budget process. However, the role that these actors can play is conditioned by: a) serious doubts about the quality of administrative records and the characteristics of the existing information systems, b) the capacities of the actors involved in the production, management and utilization of performance information, c) accessibility to information that stimulates its utilization by key actors, and d) system of positive and negative incentives linked to performance information that stimulates its utilization. In this regard, it is essential to improve the quality of performance indicators and of financial information, as well as access to SIGEF by stakeholders outside the Executive Branch and, particularly, of both Chambers of Congress and citizens.

10 Some examples worth mentioning: Ten-Year Education Plan 2008-2018, Ten-Year Health Plan 2006-2015, National Food and Health Plan (PLANAN) 2000-2010, Strategic Plan for the Eradication of the Worst Forms of Child Labor, Strategic Plan for the Housing Sector 2004-2008, Strategic Plan for Science and Technology 2008-2018, National Plan for Gender Equality and Equity 2006-2016, National Strategy for the Information Society, Strategy for Energy Efficiency of the Dominican Republic, among others.

11 The Ministry of Public Administration - MAP has been the signatory steering body since its constitution as Ministry of State. The functions of MAP, at the moment of enactment of the Public Spending Law, were performed by the National Office of Public Administration (ONAP) under the umbrella of the Technical Ministry to the Presidency (current MEPYD).

12 Gestión Orientada a Resultados y Contratos por Resultados y Desempeño (Results-Oriented Management and Results- and Performance-Based Contracts), MEPYD, 2008.

TABLE 3: CONSOLIDATION OF MECHANISMS AND FUNCTIONS IN THE ACCOUNTABILITY PROCESS

Recent experience in the OECD countries confirms the importance of establishing as early as possible in the process of mechanism reform, functions and/or institutions that strengthen the users' capacities of performance information, as well as the improvement of the quality of such information and of the systems that generate it. The recent report of the Highest Auditing Authority of New Zealand (General-Auditor) that informs about the weaknesses of performance information in that administration, is quite revealing for two reasons: the function performed by a body traditionally dedicated to auditing in the revision of (non financial) performance information, and the weaknesses observed by this body in an traditionally pioneer administration in these tasks.

In order to try and prevent or correct this problem, many OECD countries are making extensive use of bodies and units for the consolidation of mechanisms and functions that allow to increase the quality and truthfulness of performance information and a more reliable use of the same by the different players in the budget process, including the Legislative Branch, the different parts of the Executive, and the citizens themselves.

In the United Kingdom a Performance Information Panel (PIP) has been created that includes key actors in the generation and use of Performance Information, such as the Department of the Treasury, the Office of the Cabinet of the Prime Minister, the National Audit Office, the Audit Commission, and the National Statistics Office. These new links among the actors create common practices to ensure the quality and truthfulness of performance information, thus strengthening the capacities of the users to handle performance information. For instance, the National Audit Office has a Directorate of Performance Measurement that coordinates the measurement of performance as part of the financial audits, the revisions of the governance of the bodies of the central government, and the studies on the efficiency of use of public resources. The Audit Commission has a center for performance measurement whose purpose is practical learning, liaising with local and national administrators, and the development of strong links with academia and with the public and private sectors. The National Statistics Office has a central unit that gives support on methodology and certification of the quality of the information used and its sources.

In Spain, the National Agency for Evaluation of Public Policy and Quality of Services (AEVAL) was created to use evaluations in the quality improvement of public services, to increase accountability of government agencies towards the general public, and to promote better use of public funds. Its creation was based on the recommendations of a panel of academic experts, distinguished professionals and public administrators. The Agency, dependent from the Ministry of Public Administration, evaluates programs and policies that are selected every year by the Spanish Cabinet for presentation to Parliament in an annual report on the efforts that develops the central agencies of the Government to improve the quality of the services provided to the public. A management contract regulates the activities of the Agency and its relations with the Government, who finances these activities. The Board of the Agency includes representatives of the Ministry of Public Administration, the Ministry of Finances, the Ministry of the Presidency, the Ministry of Foreign Affairs and Cooperation, and the trade unions, as well as distinguished independent professionals.

Source: Controller and Auditor-General, "The observations on the quality of performance reporting", ISBN 978-0-478-32609-3, New Zealand, 2008; HM Treasury, Cabinet Office, National Audit Office, Audit Commission, and Office for National Statistics, "Choosing the right fabric, A Framework for Performance Information", . Feinstein, Osvaldo and Pedro Arizti, "Policy and Program Evaluation in Spain, The Case of the Spanish Evaluation Agency (AEVAL), (2008), "Budget for results in Spain: Lessons learned after two decades of reforms" Eduardo Zapico-Goñi, OECD; "The impact of joining the European Union on the evaluation of public policy: the case of Spain", Veronica Viñas, Universidad Carlos III de Madrid; "La agencia de evaluación y calidad y la necesidad de evaluar las intervenciones públicas", Inés Pérez-Durantez Bayona, Presupuesto y Gasto Público, Instituto de Estudio Fiscales, 51-(2/2008).

4. Policy Alternatives

Improve predictability of the annual budget and strengthen controls and information on expenditures.

It is essential to continue to strengthen SIGEF in the short term, for which is recommend the following:

- To ensure sustained expansion of SIGEF until the whole public sector has been covered.
- To improve recording of accruals and to achieve a clear differentiation from commitments.
- To incorporate information on the programming and execution of goals and work volumes.
- To pursue the establishment of a Single Treasury Account.

Another major action is the strengthening of Program Budgeting. In this regard, the following is important:

- To include information on physical production. Correct identification and measurement of the latter, both in terms of budget formulation and execution, are the first steps in the elaboration of performance indicators.
- To revise the programmatic structure of the budget: a correct identification of end and intermediate products sets the basis for a revision of the programmatic structures of institutional budgets. Thus, it is important to do the following with the public institutions: a) an analysis of policy priorities and institutional missions, b) an analysis of productive processes and organizational structures, and c) determination of input-product relations. On this basis, it is suggested to launch a gradual process of adjustment in the institutional programmatic networks.
- To evaluate comprehensively the budget, particularly its non-financial aspects. As the determination and measurement of the institutional products improves, it becomes indispensable that the budget evaluation effectively includes its physical dimension, and enlarges its ratio to the different aspects of performance.

To consolidate the development process of a medium-term strategy of the multi-annual plan and the medium-term budget.

It is important to support and to strengthen the medium-term planning and budgeting instruments that are being developed. Figure 1 summarizes some of the lessons learnt from international experience. In order to advance in the processes already initiated in the country, the following is recommended:

- Institutionalization of the consultation process, its scope and procedures, as well as the design of the mechanism to update the National Development Strategy.
- Elaboration of the Methodological Manual for the Formulation and Evaluation of the Multi-annual National Plan for the Public Sector.
- Preparation of the Methodological Guidelines for Medium-Term Macroeconomic Planning.
- Definition of the methodology for the formulation of the Multi-annual Budget of the Public Sector.
- Formulation of the Rules for the Preparation of the Multi-annual Financial Framework, as well as the design of the follow-up and evaluation of its execution.

To continue with the process of elaboration and application of Results- and Performance-Based Contracts at the Ministries of State, and to strengthen, with them, monitoring and evaluation programs.

The regulation of the **Article 14 of the Public Spending Law** is appropriate to determine the operational characteristics of these contracts, the conditions to be fulfilled by the agencies that will be part of this regime, and the frequency and mechanisms of the evaluations that will verify compliance. In particular, for the definition of an incentives plan that should be prepared jointly by MEPYD, MH and MAP, with differentiated treatment for those institutions that sign contracts, including:

- Administrative flexibilities based on the achievement of results in budget execution (budget modifications, programming of execution and budget surpluses), treasury, procurement and contracts, human resource management and organizational design.
- A diversified incentive plan for staff.

It is also essential to expand the evaluation function. Evaluation is a key factor in policy design, decision-making linked to resource allocation and for the establishment of a results-based management model. Consequently, the following is important:

- To define a model for follow-up and evaluation of programs that takes into account and commits the efforts of the different governing bodies and line Ministries.
- To identify results and impact indicators that express the policy priorities defined in the planning instruments and to establish assumptions for linkage with public production.

Improve the management of Public Administration in order to support to the shift towards results-based management.

In the short term it is recommended to support the efforts undertaken by the Ministry of Public Administration in the following fields:

- Implementation and utilization of total quality management techniques such as the CAF model (Common Assessment Framework) used in the European Union[13].
- International certification of certain key management processes such as contracting and staff evaluation.
- Management quality evaluation as part of an institutional diagnosis prior to the development of Results- and Performance-Based Contracts that include indicators to measure progress in each management area, including personnel management.
- Articulation of institutional goals and performance evaluations.

To strengthen the role in the accountability cycle of actors external to the Executive Branch

In order to ensure that the reform process leads to better quality in public expenditure, it is fundamental to enhance the role of the Congress of the Republic, the Chamber of Auditors and civil society. These actors play a key role in ensuring that the accountability system offers the necessary incentives for the reforms to be translated into better quality of expenditure.

Some of the objectives of strengthening the role of Congress is to increase the quality of the budget discussion, to include the logics of fiscal discipline, and to enhance the capacity of the Congress to analyze the Draft Revenues Budget (and the Public Expenditures Act) while increasing the quality of the accountability process. Lastly, the citizens and users of public services play a fundamental role in monitoring the allocation and execution of the budget, and requiring accountability of public administrators and service providers'.

In order to strengthen the role of the external actors, it is suggested:

- Allow access to SIGEF to the Congress, the Accounts Chamber of the Republic, and the general public, and to organize workshops on the information provided by the system.
- To promote and enforce the law on access to public information.
- To present the Results- and Performance-Based Contracts socialization workshops, and to publish on the webpage of the Ministry of Economy, Planning and Development, monitor performance indicators system, so that citizens and users of public services can monitor compliance.

13 The Common Evaluation Framework (CAF), developed by the Group for Innovative Public Services of the European Union, is a self-evaluation tool expressly created for public organizations and includes the main characteristics of several excellence models. It is a common regime of evaluation of public organizations that is simple and compatible with other models, and hence, adequate for application to national administrations. For a Spanish version of the document *"CAF 2006, el Marco Común de Evaluación"* see www.aeval.es.

5. Conclusions

The reforms launched in the budget and planning areas, and for planning and investment, are crucial to advance towards performance based management that improves the quality of public expenditure. Their implementation requires a cultural and institutional change at all levels. The most important challenge will be to manage this change and to overcome resistance to reforms. The other major challenge will be to design a gradual reform process that starts by setting the institutional bases for the reform, generating tangible results in the short term while advancing towards medium-term structural reforms.

This Note has presented a series of recommendations whose purpose is to support this process of gradual reform, taking into account the Dominican context and the experience of some OECD countries that have gone through a similar process. The following five areas should be priorities in the short term:

- To improve predictability of the annual budget and to strengthen the controls and information on expenditures.
- To consolidate the process of formulating a medium-term development strategy, the multi-annual plan and the medium-term budget.
- To continue with the process of elaboration and application of the Agreements for *"Results and Performance"* at the key Ministries, and to strengthen the systems for monitoring and evaluation of the results.
- To improve the management of Public Administration in order to give support to the shift towards results based management.
- To strengthen the capacity of key actors in the budget process to manage results and *performance* information.

ANNEXES

ANNEX I

TABLE 1: MODERATE POVERTY IN THE DOMINICAN REPUBLIC

		National			Urban			Rural		
		World Bank (1)	World Bank (2)	SEEPYD (3)	World Bank (1)	World Bank (2)	SEEPYD (3)	World Bank (1)	World Bank (2)	SEEPYD (3)
1986		37.5			28.5			47.3		
1992		33.9			19.3			49.0		
Apr-97			26.7			17.7			38.1	
1998		28.6			20.5			42.1		
Apr-00			25.8	27.2		16.8	17.7		42.5	44.6
Oct-00			27.7	28.2		18.2	18.3		45.3	46.7
Apr-01			27.7	28.1		18.1	18.2		45.5	46.4
Oct-01			27.4	27.8		18.5	18.5		44.0	45.1
Apr-02			26.6	27.6		18.0	18.9		42.4	43.6
Oct-02			27.7	29.1		18.2	19.9		45.4	46.1
Apr-03			34.7	35.3		24.0	24.3		54.6	55.6
Oct-03			35.3	36.0		27.2	27.8		49.8	50.7
Apr-04			42.1	42.5		34.5	34.4		56.1	57.3
Oct-04			42.2	43.4		34.7	35.4		55.7	58.0
Apr-05				40.9			33.6			54.3
Oct-05				40.1		33.0			53.2	
Apr-06				37.6			30.7			50.1
Oct-06				36.3			28.4			50.8
Apr-07				35.8						
Oct-07	(*)			35.8						
Apr-08	(*)			35.2						
Oct-08	(*)			37.8						

SOURCES:
(1) World Bank (2001), Dominican Republic Poverty Assessment, Report No. 21306-DR
(2) World Bank (2006), Dominican Republic Poverty Assessment, Report No. 32422-DR
(3) SEEPYD (2008), Análisis del Desempeño Económico y Social de la República Dominicana, Enero-Junio 2007
(*) Cifras preliminares

TABLE 2: DECOMPOSITION OF CHANGES IN POVERTY

	Growth effect	Distribution effect	Residual	Total change in moderate poverty
1986-1992	-6.70	4.60	-1.50	-360
1992-1998[1]	-3.30	-1.50	-0.50	-5.30
1997-2002	0.60	-0.74	0.00	-0.14
2002-2004[2]	13.94	-0.19	0.00	13.75

SOURCES:
(1) World Bank (2001), Dominican Republic Poverty Assessment, Report No. 21306-DR
(2) World Bank (2006), Dominican Republic Poverty Assessment, Report No. 32422-DR

TABLE 3: GINI COEFFICIENT IN THE DOMINICAN REPUBLIC

	World Bank [1]	World Bank [2]	SEEPYD [3]
1986	47.8		
1989	50.5		
1992	51.4		
1996	48.7		
1997	49.6		
Apr-00		53.3	55.3
Oct-00	51.1	54.6	
2000	52.1		
Abr-01		51.2	53.1
Oct-01	50.4	52.5	
Apr-02		51.0	53.0
Oct-02		50.8	52.0
Apr-03		50.9	53.5
Oct-03		50.8	54.1
2003	51.9		
Apr-04		49.7	53.8
Oct-04	50.1	54.6	
2004		51.6	
Apr-05			53.7
Oct-05			53.7
2005	49.9		
Apr-06			53.0
Oct-06			54.1
Apr-07			52.1
Oct-07			

SOURCES:
(1) World Bank (Various Years), World Development Indicators
(2) World Bank (2006), Dominican Republic Poverty Assessment, Report No. 32422-DR
(3) SEEP YD (2008), análisis del Desempeño Económico y Social de la República Domincana, Enero-Junio 2007

TABLE 4: STATUS OF MILENIUM DEVELOPMENT GOALS BY TARGET (C. 2005)

Millenium Goal	Target Variable	Dominican Republic	Colombia	Peru	Brazil	Cuba
Achieving Univesal Primary Education	Primary completion rate, female (% of relevant age group)	86.6	107.1	101.2	111.2	91.2
	Primary completion rate, male (% of relevant age group)	79.9	103.4	100.9	109.8	91.9
	Expenditure per student, primay (% of GDP per capita)	8.2	16.2	7.2	12.8	33.8
Promoting Gender Equality	Ratio of female to male primary enrollment	95.1	98.5	100.7	94.2	97.5
	Ratio of female to male secondary enrollment	120.1	110.9	102.8	110.1	101.7
	Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	38.3	48.3	37.5	41.0	42.6
Reducing Child Mortality	Mortality rate, under-5 (Per 1,000)	29.2	20.7	25.2	20.0	6.7
	Immunization, measles (% of children ages 12-23 months)	99.0	88.0	99.0	99.0	96.0
Improving Maternal Health	Maternal mortality ratio (Modeled estimate, per 100,000 live births)	150.0	130.0	240.0	110.0	45.0
	Maternal mortality ratio (Nacional estimate, per 100,000 live births)	91.7			75.9	37.3
	Births attended by skilled health staff (% of total)	95.5	96.4	86.9	96.6	99.9
Combating Disease	Invidence of tuberculosis (Per 100,000 people)	88.8	45.0	162.4	49.4	9.0
	Prevalence of HIV, total (% of population ages 15-49)	1.1	0.6	0.5	0.6	0.1
Ensuring Environmental Sustainability	CO2 emissions (Metric tons per capita)	2.1	1.2	1.2	1.8	2.3
	Improved water source (% of population with access)	95.0	93.0	84.0	91.0	91.0

SOURCES:
(1) World Bank (Various years), world Development Indicators

TABLE 5: DISTRIBUTION OF EMPLOYMENT BY ECONOMIC ACTIVITY IN THE DOMINICAN REPUBLIC

	Total	Agriculture	Mining	Manufacturing	Utilities	Construction	Trade, Rest. and hotels	Transp. and communications	Finance	Private and Social Services
1991	2247.5	457.7	7.4	406.8	8.2	93.2	483.6	135.7	58.8	596.1
1992	2399.6	451.0	7.9	423.8	8.3	96.2	546.1	144.2	69.5	652.4
1993	2413.3	407.3	8.1	448.4	17.0	104.4	567.6	140.7	67.3	652.6
1994	2397.4	345.6	9.3	443.2	17.3	107.0	558.0	161.2	88.5	667.3
1995	2398.6	351.2	10.4	436.4	15.0	113.8	559.1	175.7	86.1	650.9
1996	2465.8	357.6	8.8	433.0	13.7	127.1	572.9	186.0	94.7	671.9
1998	2888.9	493.8	8.2	531.8	14.9	199.7	765.5	198.2	36.5	640.4
1999	2979.5	522.7	7.6	519.0	13.2	214.1	794.8	218.4	37.9	651.8
2001	3176.5	474.3	5.8	486.7	28.8	209.8	866.0	241.1	56.4	807.6
2002	3315.0	526.0	7.6	471.5	26.0	195.2	885.8	245.5	66.6	890.9
2003	3098.4	426.0	7.34	456.0	26.4	220.2	811.0	239.4	63.7	848.4
2004	3209.9	476.3	4.9	494.1	26.1	213.2	832.3	232.8	55.7	873.9
2005	3276.4	477.8	5.9	486.7	26.2	213.4	899.1	238.5	62.3	866.5
Total Cambio (2005-1991)	1028.9	20.1	-1.5	79.9	18.0	120.2	415.5	102.8	3.5	270.4
% del Total	100.0%	1.9%	-0.2%	7.8%	1.8%	11.7%	40.4%	10.0%	0.3%	26.3%

Source: ILO (2005) Key ilndicators of Labor Market, 5th edition

TABLE 6: KEY SECTOR VS. WEAK SECTORS, INCOME AND POVERTY EFFECTS

Households group	Income Change %	Povert rate after income change						Absolute differences with respect to the initial poverty levels					
		Moderate Poverty			Extreme Poverty			Moderate Poverty			Extreme Poverty		
		Cant (pers.)	P1	P2	Cant (pers.)	P1	P2	Cant (pers.)	P1	P2	Cant (pers.)	P1	P2
Shock: 5% GDP equivalent demand increase for key sectors only													
National District	2.3	20.0	7.6	4.3	5.8	2.7	1.9	0.6	0.3	0.1	0.3	0.1	0.0
Other Urban	2.2	31.0	12.5	7.2	10.9	4.3	2.6	1.0	0.4	0.2	0.6	0.1	0.1
Rural	2.3	41.6	17.8	10.2	15.1	6.1	3.6	1.1	0.5	0.3	0.6	0.2	0.1
Aggregate	2.2	31.8	13.1	7.5	11.0	4.5	2.8	0.9	0.4	0.3	0.5	0.1	0.1
Shock: 5% GDP equivalent demand increase for weak sectors only													
National District	0.8	20.5	7.8	4.4	6.0	2.7	1.9	0.1	0.1	0.1	0.0	0.0	0.0
Other Urban	0.8	31.6	12.8	7.3	11.3	4.4	2.7	0.4	0.1	0.1	0.1	0.1	0.0
Rural	0.7	42.3	17.2	10.5	15.5	6.2	3.6	0.3	0.2	0.1	0.3	0.1	0.0
Aggregate	0.8	32.4	13.4	7.7	11.4	4.6	2.8	0.3	0.1	0.1	0.1	0.1	0.0

Source: Authors' calculations

TABLE 7: CURRENT MDG SITUATION AND BASELINE PERFORMANCE: DOMINICAN REPUBLIC

	DOMINICAN REPUBLIC			
	1990	2007	2015 (Objective)	Distance covered in 'base'
MDG 1: People living below the national poverty line (% of population)	29	38	14	44%
MDG 2: Primary completion rate (% of relevant age group)	22	27	100	35%
MDG 4: Under-five mortality rate (per 1,000 births))	58	35	19	64%
MDG 5: Maternal mortality rate (per 100,000 live births)	229	81	57	57%
MDG 7a: Access to an improved water source (% of poluation)	83	76	92	39%
MDG 7b: Access to improved sanitation facilities (% of population)	60	97	80	100%

Source: Sistema de Indicadores Sociales de la UIS; SEE; ENDESA; and OPS/OMS UNICEF.

NOTE: Latest available year if data is not available for 1990 or 2007; Relative to the values for 1990, the 2015 targets are: cut MDG1 by half, MDG 4 by 2/3, and MDG 5 by ¾; cut by half the shares of the population without access to water and sanitation (MDGs 7a and 7b); and achieve 100% completion for MDG 2; The poverty rate in 1990 column is for 1998; The 1990 and 2007 MDG 2 values correspond to the (strict) definition of the completion rate: the proportion of students of the correct age cohort (i.e., no out-of-cohort older students) that enter first grade and successfully complete on-time (i.e., without repeating) all 8 grades of primary school.

ANNEX II
Ease of Doing Business
Comments on the new Companies Act: Opening of new business indicator

At the time of writing this note, the National Congress of the Dominican Republic was on the approval process of the new Commercial Societies and Limited Responsibility Individual Enterprises Law. The new legislation introduces a new corporate structure of limited responsibility (Limited Responsibility Society or LRS) that undertakes a significant improvement given that it offers a major flexibility when starting a business to entrepreneurs. When compared to the most frequent society figure (Limited Liability Company) the new L.R.S. does not need a minimum of 7 shareholders, which was frequently identified as an obstacle. This law will impact the "creation of new business" indicator. This Doing Business indicator could turn to be based according to the new society figure, the L.R.S. According to this, the new law would have a potential influence in the existing process to create and operate a business.

Mandatory authorized capital deposit in the bank. The new law requires the employer to deposit the entire initial capital in a bank account at the time of registration. This would add an additional requirement to the opening process. The purpose and effectiveness of this requirement are questionable since all the funds can be withdrawn immediately after the registration of the company. In this sense, there is no protection of investors or creditors, which often is cited as the rationale for such deposit requirements. Across the globe, countries are phasing out the minimum capital requirements or deposit requirements prior enrollment. The countries that introduced these requirements first (UK and France) have already deleted them.

Mandatory notarization of the certificate of deposit. The new law requires that, once the social capital has been deposited in the bank, employers should take the certificate of deposit to a notary to verify its authenticity. The notary does not check if the funds were actually deposited. This requirement, for employers to deposit funds in the bank, obtain a certificate and, at the same time, authenticate it before a notary, could be replaced by a process by which employers would have to prove before the Registry that have sufficient funds at the time of registration.

Time to complete company registration at the Registry. It is possible that the enactment of the new law requires a new registration of existing companies based on the capital. Minimum and maximum limits of authorized capital have been established according to the type of society (at least 30 million of Dominican pesos -DR$- for SA, a maximum of DR$ 60 million to the LRS). This will influence the number of records and the workload of business registers. To avoid potential delays caused by overwork or delayed records, necessary human and material resources should be ensured.

Model Catalog of Duties and Responsibilities of Corporate Directors for future reform of the New Company Act

NOTE: The language for the formulation of the articles below has been inspired by the Securities Exchange Act of Mexico (2006). Mexico is the country with the highest position Latin America and the Caribbean under the Protection for Investors' ranking of Doing Business..

DUE DILIGENCE

Artícle x1.- The board members, in the diligent exercise of the functions that this Act and the bylaws confer to the social body, should act in good faith and in the best interest of the company and entities it controls, for which they could:

Paragraph I. Request reasonably necessary information, about the company and the entities it controls, for decision-making. In effect, the company board of directors may establish, with the prior opinion of the audit committee, guidelines setting how these applications will be made and, where appropriate, the scope of the information requests from the administrators.

Paragraph II. Require the presence of senior officers and others, including accounts commissioner, which may contribute or provide input for decision making during council meetings.

Paragraph III. Postpone board meetings when a director has not been called, when it has not been on time or, where appropriate, for not providing him the information given to other administrators. Such deferral will be up to three calendar days; the council may hold meetings without reconvening, if the deficiency is remedied.

Paragraph IV. Deliberate and vote, requesting presence, if desired, of only board members.

Artícle x2.- Board of directors, executive officers and other person holding representation power of the corporation, must provide everything necessary to ensure Act compliance. The information presented to the company's council Directors by executive officers and other employees, both from the company and the entities it controls, shall be signed by the person responsible for their content and elaboration.

Members of the board of directors and other persons who hold an employment, position or commission in any legal person that controls a corporation or in which it has significant influence, will not lack discretion and confidentiality established in this or other laws, when providing information to the company's council Directors on the aforementioned entities.

Artícle x3.- The members of company's board of directors will fail in the due diligence duty and will be subject to responsibility when causing financial damage to society or legal person under their control or in which has significant influence under the updated of one of the following cases:

Paragraph I. Not to attend, except for just cause in the opinion of the shareholders meeting, the board meetings and, where appropriate, committees, and that due to their absence cannot legally sit on the correspondent organ.

Paragraph II. Do not disclose to the board of directors or, where appropriate, the committees that form, known and relevant information necessary for proper decision-making in these bodies, unless they are legally or contractually obligated to keep secrecy or confidentiality in this regard.

Artícle x4.- Consistent liability compensation for damages caused to society or legal persons under its control or in which has significant influence, lack of diligence of the company's board members, derived from acts done or decisions taken by the council or those decisions no longer taken due to inability for the social organ to legally hold meetings, will be among the culprits who would have taken the decision or caused the mentioned corporate body could not sit. Such compensation may be limited in the terms and conditions expressly indicated by the social statutes or by shareholders general assembly resolution, provided that such acts are not willful or in bad faith, or illegal acts according to this or other laws.

Corporations may agree compensations and contract, for the board insurance members, bonds or surety ships to cover the compensation amount for the damage their actions may cause to the society or legal persons under its control or in which it has significant influence, unless such acts are willful or in bad faith, or illegal acts according to this or other laws.

TORTS AND LOYALTY DUTY

Artícle x5.- The board members must maintain confidentiality regarding information and issues on which they might have knowledge through their position in the company, when such information or matters are non-public.

The board members, who have a conflict of interest on any issue, should not participate or be present in the deliberation and vote on such issue, without affecting the required quorum for the establishment of the aforementioned board.

The directors shall be jointly responsible with those that have preceded them in office, for the irregularities in that they have incurred if, knowing them, not communicate in writing to the audit committee and external auditor. Furthermore, these managers are obliged to inform the audit committee and external auditor all those irregularities that, during their tenure, they are aware and are related to the company or legal persons under its control or on which it has significant influence.

Artícle x6.- The board members will incur in disloyalty to the society and, therefore, be responsible for damages caused to it or legal persons under its control or on which it has significant influence when, without lawful cause, by virtue of their employment, office or commission, obtain economic benefits for themselves or seek to third parties, including a shareholder or a group of shareholders.

Also, board members will incur in disloyalty to the company or legal persons under its control or on which it has significant influence, being responsible for damages caused to them or that, when performing any of the following behaviors:

Paragraph I. Vote at board meetings or take decisions related to the company's heritage or legal persons under its control or on which it has significant influence, with conflict of interest.

Paragraph II. Do not disclose, in the matters dealt at the board or committees meetings, the conflict of interest with respect to the company or legal persons under its control or on which it has significant influence. In effect, managers should specify the conflict of interest details, unless they are legally or contractually obligated to maintain secrecy or confidentiality in this regard.

Paragraph III. Favor, knowingly, a shareholder or group of shareholders the company or legal persons under its control or on which it has significant influence, to the detriment or prejudice of other shareholders.

Paragraph IV. Approval of transactions which the company or legal person under its control or on which it has significant influence, with related parties, without complying the requirements established by this Law.

Paragraph V. Take advantage or approve for third parties, the use or enjoyment of heritage property of the company or legal person it controls, in contravention of the policies approved by the board.

Paragraph VI. Misuse of relevant non-public information, related to the company or legal person under its control or in which it has significant influence.

Paragraph VII. Take advantage or exploit for their own benefit or for third parties, without the waiver of the board, business opportunities that apply to the company or legal person under its control or on which it has significant influence.

Thereto, shall be consider, unless proven otherwise, that is being used or exploit a business opportunity that corresponds to the society or legal person under its control or on which it has significant influence, when the adviser directly or indirectly performs activities that:

- Are the ordinary or usual society itself or the entities it controls or in which it has significant influence.
- Involve the conclusion of a transaction or a business opportunity that is originally addressed to the company or legal person referred to in the preceding paragraph.
- Involve or intended to engage in business or commercial projects to be developed by the company or legal person referred to in paragraph a) above, provided that the director has prior knowledge of it.

The provisions in the first paragraph of this Article and in paragraphs V to VII of the same also applies to people who exercise power control in society.

In the case of legal entities in which a corporation has significant influence, liability for breach of trust shall be payable to members of the board of directors of that company that help in obtaining, without legitimate cause, the benefits referred to in the first paragraph of this article.

Artícle x7.- The members of the board of directors of corporations should refrain from any conduct that set out below:

Paragraph I. Generate, disseminate, publish or provide information to the public of the company or legal person under its control or which has significant influence, or the securities of any of them, knowing that is false or misleading, or order that takes out some of these behaviors.

Paragraph II. Request or cause to skip the registration of transactions and the company and the entities it controls, as well as altering or order altering records to conceal the true nature of the transactions entered into, affecting any concept of the financial statements.

Paragraph III. Hiding, omitting or causing to be hidden or fail to disclose relevant information in terms of this legal system must be disclosed to the public, shareholders or security holders, unless this Act provides for the possibility of deferral.

Paragraph IV. Request or accept inscription of false information in the company's accounting or legal persons under its control. It will be presumed, unless proved otherwise, that the data included in the accountancy are false when the authorities, in exercising their discretion, require information relating to the accounting records and the company or entities it controls do not have it, and cannot prove the information that supports the accounting records.

Paragraph V. Destroy, alter or cause to be destroyed or altered, in whole or in part, systems and accounting records or documents that give rise to the accounts of a company or legal person it controls, prior to the expiration of statutory conservation deadlines and with the purpose of hiding its record or evidence.

Paragraph VI. Alter active or passive accounts or contract terms, make or order registration of non-existent operations or expenditures, exaggerate the real ones or intentionally perform any illegal act or transaction, resulting in any such alleged a violation or injury in the company's assets or the legal persons it controls, for their economic benefit, either directly or through a third party.

The provisions of this Article shall also apply to persons exercising power control in the society.

Artícle x8.- The responsibility consisting in compensation of damage or loss incurred by reason of acts or omissions referred in Articles x5, x6 and x7 of this Act, shall be joint among the guilty who have taken the decision and will payable as a result of damage or injury. The appropriate compensation should cover the damage caused to society or legal persons under its control or in which it has significant influence and, in any case, there will be removal from office of those responsible.

The company affected, in no case, may agree contradictorily, or provide in its bylaws, allowances, benefits or exclusion of obligations, that restrict, release, replace or compensate the obligations referred to statutory provisions mentioned in the previous paragraph, or hire, for any person, insurance, bonds or bails covering the amount of compensation for the damages caused.

Comments on the Proposed Act on Commercial Bankruptcy

The initiative of the Dominican Republic to modernize its commercial insolvency law is timely and commendable. Effective systems of corporate insolvency resolution are of great importance for financial system stability and for the economic development. An efficient insolvency process helps to stabilize trade relations and to create a reasonable credit culture as well as encouraging responsible corporate behavior.

Insolvency systems provide an efficient exit mechanism for unprofitable enterprises and help reorganizing viable companies. Insolvency procedures represent a way of treating victims of competition in the market. When companies are unable to compete profitably, the logical thing is to provide means for its dissolution or voluntary departure from the market. When a distressed or insolvent company cannot enforce trade agreements, market confidence falls. This situation should be resolved through a collective procedure which ensures prompt resolution and maximum recovery for creditors. This procedure should be flexible enough to provide a variety of options, including reorganization to viable enterprises and liquidation for non-viable.

The Proposal for Restructuring Corporate Law or Judicial Settlement Companies (January 2006 draft, from now on, the Proposed Act), involves two different insolvency procedures, commercial restructuring and judicial liquidation. The proposed regulation is very detailed and extensive, making the definitive evaluation of the Proposed Act to require a thorough study. It will also be necessary to analyze the integration of standards projected with the rest of the laws with which the insolvency law should be harmonized. It will also be crucial to value the adequacy of the institutional framework expected for insolvency procedures (the judiciary, the Corporate Restructuring Center of the Chamber of Commerce and insolvency professionals). An evaluation with these characteristics will be carried out in the ICR ROSC exercise (Insolvency and Creditor Rights Report on the Observance of Standards and Codes). The following assessments should be taken as preliminary and tentative.

The Proposed Act generally adheres to the objectives and policies of modern insolvency procedures, but in the design of these processes major defects, that could conspire against the effective operation of the planned system, are observed. The main system weaknesses, that are observed at first glance, are:

- The system would hardly attract insolvent debtors to use the projected insolvency mechanisms since, even in the restructuring, the debtor would be exposed, too easily, to lose the company's administration by simple decision of the Creditors Committee, without the Proposed Act contemplates the determining causes of this management loss. In addition, in the restructuration the debtor is virtually oblivious to the formulation and negotiation of the Plan and, eventually, to the implementation of the Plan.

- From the creditor's point of view, they could not individually approve or reject the restructuring plan. The negotiation and adoption of the Plan would be exclusively made with Creditors Committee members. Moreover, the members of this Committee would vote promiscuously, without establishing differences in voting power of creditors with real guarantees. Nor would there be safeguards to preserve credit priority with such guarantees. Thus, through the Plan the system of priorities among credits would be undermined. This could have serious effects on the overall credit supply and the credit cost.

- The draft Law does not provide elements that contribute to the informal or extrajudicial restructuring development (workouts). These economic and accelerated resolution mechanisms of certain corporate insolvency are now a fundamental component of modern insolvency systems. Its importance can be crucial in cases of general or systematic economic crisis. The Proposed Act also contains provisions that would conflict with the possibility of negotiating that kind of settlement agreements (for example, the extent of revocable actions in insolvency processes or sanctions that are set by delaying the presentation of the debtor in such processes).

In brief: the decision to reform the Dominican insolvency legislation is timely and important, and the Proposed Act could be a good step in the right direction. However, in such proposal can be seen as notable weaknesses in the formal restructuring process as factors that would discourage the use of informal restructuring mechanisms. That finding makes advisable a thorough evaluation and the eventual reconsideration of the current design of the Proposed Act.

TABLE 1: PERFORMANCE OF THE DOMINICAN REPUBLIC IN DOING BUSINESS REPORT

	Doing Business 2008	Doing Business 2009	Global Best Practice (2008)
Starting a Business			
Rank	89	84	Australia
Procedures (#)	9	8	
Time (days)	22	19	
Cost (% of income per capita)	31,1	19,4	
Paid-in minimum capital (% of income per capita)	0	0	
Dealing with Construction Permits			
Rank	75	77	San Vincent and y the Grenadines
Procedures (#)	17	17	
Time (days)	214	214	
Cost (% of income per-capita)	116,12	93,2	
Emplying workers			
Rank	110	97	Marshall Islands
Difficulty of hiring index	56	44	Singapore
Rigidity of hours index	40	40	United States
Redundancy Index	0	0	
Rigidity of employment index	32	28	
Redundancy cost (weeks of salary)	88	88	
Registering Property			
Rank	112	106	New Zealand
Procedures (number)	7	7	
Time (days)	86	60	
Cost (% of the property value)	5,11	3,8	
Getting Credit			
Rank	61	68	UK
Strength of legal rights index	3	3	

CONT.

Depth of credit information index	6	6	
Protecting Investors			
Rank	125	126	New Zeland
Transparency Index	5	5	
Extent of director liability index	0	0	
Ease of shareholder suits index	7	7	
Strength of investor protection index	4,0	4,0	
Paying Taxes			
Rank	139	72	Maldivas
Payments	74	9	Irland
Time (hours)	286	480	New Zeland
Total Tax Rate (%)	40,02	35,7	
Trading Across Borders			
Rank	37	32	Singapur
Documents to export (#)	6	6	
Time to export (days)	12	9	
Export Cost (US$ por contenedor)	815	916	
Documents to import (#)	7	7	
Time to import (days)	13	10	
Import Cost (US$ per container)	1015	1150	
Enforcing Contracts			
Rank	82	83	Hong Kong, China
Procedures (days)	34	34	
Time (days)	460	460	
Cost (% of debt)	40,09	40,9	
Closing a Business			
Rank	145	144	Japan
Time (years)	3,5	3,5	
Cost (% of goods)	38	38	
Recovery Rate (cents per dollar)	8,4	8,9	
Global Rank in Ease of Doing Business	110	97	Singapur

Source: Doing Business Database, www.doingbusiness.org. Note that the classifications published in Doing Business 2008 are not comparable with those of Doing Business 2009, since they have added two new countries to the study group and in one area the methodology was improved: Getting Credit (legal rights). The ratings shown here have been recalculated, taking into account these developments.

TABLE II: EASE OF DOING BUSINESS IN THE DOMINICAN REPUBLIC: SUGGESTIONS FOR REFORM IN THE SHORT AND LONG TERM

	Indicators (2009 DB Report)	Improvements suggestions in the Short Term	Improvements suggestions in the Medium/Long Term
Starting a Business	Procedures: 8 Days: 19 Cost (%INB): 19.4% Global Rank: 84	• Promote and facilitate the use of the virtual application to start a business.	• Accelerate the register process of a company through the use of electronic signatures and enable the electronic registration. • Make optional the company name certificate requirement and consider cost reduction. • Introduce a fixed rate for business registration in the registry. • Eliminate the constitution tax. • Eliminate the need to declare share subscription before notary (applicable to corporations). • Integrate the employee registration process with the Labor Department and the Social Security Bureau to the virtual portal of company's registration. • Facilitate the registration process with all agencies involved (Register, Social Security, Directorate General of Taxes).
Dealing with Construction Permits	Procedures: 17 Days: 214 Cost (%INB): 93.2% Global Rank: 77	• Establish clear and consistent standards for construction projects in the City Councils and in the Ministry of Public Works. • Implement management addresses applications systems in the City Councils. • Implement approval processes based on the "risk level" in the Ministry of Public Works. • Streamline and coordinate approvals of construction permits in the City Councils and in the Ministry of Public Works.	• Link Councils and the Ministry of Public Works with cadastre (Directorate of Cadastral Surveying). • Create and publish standards of zoning and planning in the City Councils. • Consider the transfer of projects during construction supervision to qualified professionals. • Introduce electronic processes for construction permits applications.
Registering Property	Procedures: 7 Days: 60 Cost (%INB): 3.8% Global Rank: 106		• Reduce time to register property in the registry. • Create a database with online access to allow users to search titles and pledged properties electronically. • Make optional the notarization of the sales contract of a property. • Complete the electronic map and updated cadastre (Directorate of Cadastral Surveying).
Getting Credit	Strength of legal rights index: 3/10 Depth of credit information index: 6/6 Global Rank: 68	Increase the information available in the credit bureaus • o Increasing coverage (measured without impact in the indicators).	• Remove restrictions on the type of goods that can be used as collateral for a loan. • Allow a general description of the security and debt in the guarantee contracts and registration documents. • Grant priority status to secured creditors within and outside the bankruptcy processes.

	Indicators (2009 DB Report)	Improvements suggestions in the short term	Improvements suggestions in the medium-long term
Protecting Investors	Transparency Index: 5/10 Extent of director liability index: 0/10 Ease of shareholder suits index: 7/10 Strength of investor protection index: 4.0/ Global Rank: 126	Increase protection of minority shareholders by reforming the Commercial Code / Corporate Law and Securities Law for: • Establish clear rights and duties of directors to act appropriately during their tenure at the company. • Require the immediate disclosure of information on conflict of interest transactions to the public and market regulators. • Require an external auditor report on related party transactions before they take place. • Allow the court to void transactions between related parties that have caused damage to the company.	• Modify the Civil Procedure Code to provide demandants: • The right to request evidence in general terms (without identifying specific evidence) to the defendant.
Trading Across Borders	Days to import: 10 Days to export: 9 Global Rank: 32	• Evaluate court processes to identify delay points and formulate solutions. • Introduce simplified regulations for small-amount cases.	• Reduce the number of documents required for border trade. • Create a "unique virtual window" for cross-border. • Implement system of risk-based inspection of goods.
Enforcing Contracts	Time (Days): 460 Cost (% of demand): 40.9 Global Rank: 83	• Continue with the successful implementation of the "Efficient Collection Law"	• Develop measures for evaluating the efficiency of judges. • Establish electronic courts systems. • Establish a court or a specialized commercial section.
Paying Taxes	Number of payments: 9 Timr (hours): 480 Global Rank: 72		
Closing a Business	Time: 3.5 años Recovery Rate: 8.9 cents per 1 US$ Global Rank: 144		• Implement the recommended reforms for the contract compliance indicator.

Progress in the Paying Taxes indicators will also be reflected in the Doing Business report 2010 (see methodology in the Doing Business report).