

# **USAID/Dominican Republic**

## **Annual Report**

**FY 2005**

June 16, 2005

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## Dominican Republic

### Performance:

Background: Leonel Fernandez was inaugurated as President on August 16, 2004, as a result of free, fair, and generally orderly elections, albeit after an intense and highly divisive electoral year carried out in the midst of an economic crisis. Fernandez assumed the reins of a government with few resources, with mounting arrears on external and internal debt, with a history of pervasive corruption, and that had lost the confidence of the Dominican people. He faced a collapsed electric sector with extended blackouts throughout the country and the daunting task of quickly renegotiating a derailed IMF agreement before a highly skeptical international community. Furthermore, the majority of Dominicans had experienced significant erosion in their incomes, with the percentage of the population falling below the poverty level having grown substantially since 2002.

The 2004 presidential campaign and election was a major milestone and obstacle. Electoral campaigning seriously distracted the government's attention from dealing with the economic crisis, and the country's citizens had serious doubts, for the first time since 1994, about the possibility of free and fair elections. Fortunately, with the assistance of the U.S. Government (USG) and other governments, the elections were successful and there was a peaceful, orderly transfer of power from one party to another. While the new administration has taken some urgently needed actions to support economic recovery, the transition has slowed the momentum of USAID and other donor programs.

Since its democratic transition in 1978, the Dominican Republic (DR) has sought a path toward democratic consolidation. However, serious weaknesses remain: a highly clientelistic approach to distributing public goods, weak democratic culture and institutions, an electoral system controlled by the major political parties, and a political system controlled by the elite. Nonetheless, the creation of political space and legitimacy for civic advocacy have advanced. Simultaneously, an informed, vocal, and effective civil society has been growing and pushing for transparent and effective electoral administration and the creation of an independent judiciary.

The DR is slowly recovering from the economic, financial, and political crises caused by banking fraud and fiscal mismanagement. During 2004, exchange rates began the year at DR\$40 to one U.S. Dollar, depreciated to 55 to one in March, then slowly strengthened to 29 to one after Fernandez assumed power. Central Bank interest rates moved from the high twenties to 60% in May before declining to 30%. Throughout the year, the electric sector lurched from crisis to crisis. The combination of low prices, high levels of theft, and low collections resulted in sporadic blackouts throughout the country; parts having electricity only two to eight hours a day. The electric sector became increasingly dependent on Dominican Government (GODR) funding for survival, with monthly outlays by the Government reaching U.S. \$50 million. The annualized inflation averaged over 100% for the first two months, but settled down to 33% by the end of the fiscal year. The Central Bank's tight monetary policy and renewed public confidence with the inauguration of a new president helped stabilize the situation. However, the root cause for the economic upheaval still exists: unabated, widespread corruption with impunity from prosecution.

The previous president, Hipólito Mejía, built good relations with the U.S. administration, especially by supporting U.S. policy in international forums and sending troops to Iraq. Also, the United States and the DR signed a free-trade agreement in association with the Central American Free-Trade Agreement (CAFTA). However, since the inauguration of Leonel Fernández as president, the Dominican Congress has passed protectionist tax legislation that could derail the agreement. In 2004, U.S. goods exported to the DR were \$4.3 billion, while U.S. imports from the DR were \$4.2 billion.

On the social side, the 2002 Demographic and Health Survey (DHS/2002) shows an HIV/AIDS seroprevalence rate of 1.0% in the adult population, with certain age groups and regions higher than the national average. For example, the rate among residents of Bateyes (communities of former and current sugarcane laborers) is 5%. Total fertility rate was measured at 3.0, below the average for Latin America and the Caribbean. However, with 98% of mothers being delivered with a trained attendant, paradoxically, maternal mortality continues to be high, estimated at 178 deaths per 100,000 live births. The new President has made solving this problem a government priority. Infant mortality is 31 per 1000 births, and vaccination rates and potable water coverage rates in rural areas continue to be low. In an effort to address the inefficiencies and inequities of the health care system, the country is undertaking a major sector reform. However, progress has been slow and funding insufficient. The quality of basic education is poor, particularly for children in rural and marginal urban areas, and public investment in education remains relatively low. Additionally, the perpetual influx of illegal and transient Haitians adds to the country's poverty burden and further strains the already inadequate health and education services.

**U.S. Interests and Goals:** The USG mission is to “create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.” The USG Mission's focus for the next several years is to help the DR back onto a recovery path and to strengthen its institutions - especially those that uphold democracy, the rule of law, and global integration - so that it can enjoy sustainable growth in a democratic setting and become an even stronger bilateral and regional partner of the United States with whom we can trade, fight global crime and terrorism, and share cultures. The USG Mission's goals are to help build economic prosperity and security, combat international crime and drugs, strengthen democracy and human rights, assist in U.S. homeland security, and improve global health. Some of these goals can best be met by taking an integrated approach to Hispaniola, i.e. through projects aimed at both the Dominican Republic and Haiti. The U.S. Embassy's Mission Performance Plan (MPP) for the DR gives USAID a leading role to achieve three of these.

Supporting economic recovery, the Mission will continue to assist the government to complete the banking, electricity, and fiscal reforms agreed upon with the IMF, World Bank, and Inter-American Development Bank. We will continue efforts to promote ratification and implementation of free trade agreements that will contribute to Mission economic growth and sound governance objectives.

Accountable, democratic governance is still new and fragile in the Dominican Republic. A top USG Mission priority is providing advice, training, and encouragement for the country to develop mechanisms to ensure transparent and accountable democratic institutions and a justice system staffed with well-trained, effective and impartial judges, prosecutors, and public defenders. USAID's role relates to institutional strengthening to promote the rule of law, democratization, and good governance. Without such progress, it will be difficult to stem the tide of migration to the United States, fight pervasive international crime, and move to correct an inequitable distribution of resources.

In recognition of the critical role of health in economic growth and stability, and in recognition of the global risk of infectious diseases, a top Mission priority is health sector reform, improved delivery of maternal and child health care, and control of the spread of HIV/AIDS and tuberculosis.

Upheaval in neighboring Haiti affects conditions and demand for services in the DR. The USG Mission sees, among other things, the need to promote economic development of the border, encouraging joint Dominican-Haitian-US cooperation against narco-trafficking, improving human rights for the one million Haitians in the Dominican Republic, and encouraging the Dominican government to help the Government of Haiti's resolution of the crisis.

**Donor Relations:** Donor coordination in the Dominican Republic is good. A Senior Donor Group supports sector specific roundtables that meet regularly to exchange information on issues, funding and activities. USAID chairs two of these donor groups, for justice and anti-corruption programming, in which nine other donors regularly share lessons and coordinate implementation on complementary activities. USAID coordinates its activities to complement bilateral donor assistance, as well as multilateral assistance from the Inter-American Development Bank (IDB), World Bank (WB) and United Nations (UN). Development assistance to the DR in calendar year 2003 totaled \$356.6million. Bilateral donors in order of actual

disbursements were Japan (\$38.8 million in agriculture, education, water, urban infrastructure and health), the U.S. (\$34.7 million), Venezuela (\$29.3 million for petroleum-related export financing), and Spain (\$28.5 million in governance, education, environment, health, infrastructure, tourism and private-sector development). Other top bilateral donors include Taiwan, Brazil, Germany, Canada and France. Multilateral donors include the Inter-American Development Bank (the largest donor overall, at \$158 million), the World Bank (\$32.5 million), the EU (\$19.7 million), and multiple UN agencies.

**Challenges:** The greatest challenge for the USG Mission and the entire donor community is helping the Dominican Republic back to economic recovery and building government institutions that deliver services to their citizens. The greatest obstacle to achieving these is widespread corruption. Survey results in 2004 put the Dominican Republic at the top of the list of 11 Latin American countries in terms of public perception of corruption. Regional comparisons show dramatically higher levels of bribery in the Dominican Republic, particularly in the justice and health sectors. Addressing corruption is particularly difficult given the intertwined problems of clientelism, non-existent internal controls, impunity, and a lack of fundamental understanding of public sector ethics. Civil society has raised the urgent call for a political consensus to address corruption and create a platform for governance, based on the concept of public service and promotion of the public good. The GODR will have to take very visible, well publicized actions against perpetrators to help Dominican citizens find the basis for faith in their elected officials, the value of the peso and the outlook for jobs and private sector-led growth.

Sustained economic growth and continued social and political progress in the country depend upon increasing the country's competitiveness in world markets, resolving the electricity crisis, protecting the fragile island environment so critical to the tourism industry and to the availability of water, addressing the health and education needs of the country's poor and disenfranchised, bringing widespread corruption under control, strengthening rule of law and reinforcing key government and democratic institutions. The fact that the country shares the island of Hispaniola with Haiti, the only "failed state" in the Western Hemisphere, adds to the development challenges. The DR serves as a source of employment and public services for large numbers of Haitians, while the porous border creates a real challenge in controlling illegal activities such as smuggling of drugs, arms and aliens into the country. Trafficking in persons, both across the border and within the DR, is a continuing problem. The increasing unrest in Haiti, while the DR is in economic crisis, adds to historic tensions between the two sides of the island.

**Key Achievements:** The story of the Dominican Republic (DR) in fiscal year 2004 was laced with successes, disappointments and conflicts, as well as significant social, economic, and political challenges. The people of the DR provided the world with an excellent example of running a free and fair election and a smooth transition between administrations. While the country made gains in most areas related to the USAID program, it also slid back or remained static in others. Our story for 2004 is without a doubt mixed.

**Economic Growth:** USAID technical assistance supporting energy policy reform had a significant impact in spite of a difficult macroeconomic environment. Through timely action and leadership, USAID assistance facilitated the design of the National Energy Sector Revitalization Program when no other donor could respond. In close coordination with the World Bank, USAID worked with the producers and distributors of electricity and the government to negotiate an aggressive action plan to reduce subsidies, increase prices and collections, improve management practices, and crack down on corruption. To its credit, the new administration has started implementing this plan, in spite of the political heat. USAID trade capacity building efforts facilitated the signing of the CAFTA free trade agreement with the United States and the Central American countries that seemed to strengthen prospects for increased investment and exports. However, the strength of the anti-FTA interests was evident when they succeeded in persuading the Dominican Congress to insert into tax legislation a protectionist tax on fructose-sweetened drinks that was incompatible with the FTA and obligations in the World Trade Organization agreement. This put into doubt the possibility of Dominican participation in the regional FTA. The Fernandez administration is working to solve the issue.

**Environment:** USAID and the U.S. Ambassador led an international-donor fight to stop legislation that would have turned over significant amounts of national park land to developers. This law was quietly

being pushed through the Congress by the previous administration and special interests. USAID partners rallied the Hotel Association and environment groups to protest the action. In the end, the legislation passed after modification required by the President greatly improving the measure. Its implementation is now in the courts, in part due to our timely intervention to help raise public awareness. USAID assistance resulted in development of norms and implementing regulations for both the forestry and ground water. USAID assistance also prepared the Dominicans for the environmental portion of the successful free trade negotiations.

**Education:** The Global Food for Education Initiatives (GFEI) program, jointly managed by USAID and USDA, ended this year with numerous achievements benefiting tens of thousands of poor children in dozens of communities. The main vehicle for these achievements was engendering community involvement in local schools. GFEI money paid for infrastructure improvements such as additional classrooms and latrines, school supplies like furniture, text books, and libraries, and community improvements such as safe water systems, small business development, and school lunch programs.

**Democracy and Governance:** USAID shares the success of the Dominican people in conducting a free and fair presidential election. USAID was the only donor working on elections throughout the year. During the campaign, there was low voter confidence in the Central Election Board and concern that the incumbent administration might try to rig the vote counting. USAID worked with the lead local NGO in the electoral arena, Participacion Ciudadana (PC). PC increased voter confidence in the electoral process, improved the competitiveness of elections through candidate debates on key governance issues, and decreased potential for fraud through close monitoring and reporting throughout the entire electoral period. Local and international observers agreed that the long-term monitoring of the electoral process conducted by PC was critical in identifying and negotiating resolution of numerous issues that would have weakened confidence in election results. A major concern was information security at the Electoral Board. USAID's implementing partner identified this critical area of weakness that spurred the creation of a Technical Committee on Information Security. PC also effectively advocated for the engagement of key diplomatic leaders, and the creation of the Elections Monitoring Commission, led by prominent civil society leaders, which came to play an essential role in mitigating tension and acceptance of results as polls closed.

The U.S. Ambassador, with substantial USAID involvement, led an effort to insure international observation amidst deeply held beliefs of opposition supporters of the high potential for election fraud, though the international community had not planned an observation effort. USAID and State provided funding to the Organization of American States, stimulating the European Union and Canada to contribute, as well. These funds enabled an international observation effort with 270 observers and led a coordinated donor effort to mobilize diplomats from many embassies to form part of the observation teams, to reduce costs of international observation.

Justice sector policy reform activities surpassed targeted levels with implementation of five key laws. USAID-supported civil society advocacy fostered the passage of the Implementation Law of the Criminal Procedures Code, the Public Defense Law, the Police Reform Law, the Freedom of Information Act, and the Judicial Sector Budget Law. The USAID-supported criminal procedures code (CPC) and its related legal and institutional reforms, that went into effect in September 2004, are huge steps forward for human rights protection and the administration of justice, now requiring the appointment of public defenders for the indigent and placement of restrictions on pre-arraignment and pre-trial detention.

**Health and Population Results:** In 2004, USAID substantially raised the level of awareness about HIV/AIDS in the DR and led the campaign to combat the disease. At the same time, USAID increased the size of its five-year program to combat the AIDS pandemic to \$26 million. Finally, with USAID on point, the U.S. Ambassador hosted the Third Annual Chiefs of Mission Conference, attracting not only several U.S. ambassadors, but also the Secretary of Health and Human Services, the Surgeon General, the U.S. AIDS Coordinator, and the USAID Assistant Administrator for Global Health. This event helped make HIV/AIDS a priority for the new Fernandez administration and caused the media to put the HIV/AIDS problem in the DR and the campaign against it on the front page and in Dominican living rooms for weeks.

USAID directly supported the renovation of four HIV/AIDS care and treatment centers and the establishment of an Integrated Care Unit in the MOH, which oversees the implementation of national AIDS treatment and care norms. In addition, USAID funded training by Price Waterhouse Coopers to improve the Unit's financial and management capacity. USAID assistance created the institutional base for a rapid scale-up of sound integrated ARV treatment when sufficient government-purchased ARVs become available with Global Fund financing. When the economic situation did not allow the GODR to procure the medications and the GODR and the Global Fund were not able to reach an agreement, USAID provided, on an emergency basis, second-line ARVs for 60 HIV positive patients for six months.

Finally, USAID supported important advances in the Tuberculosis Directly Observed Treatment Short-Course Strategy (DOTS) initiative. The detection rate increased from 53% in FY 02 to 86% and the cure rate is now at 79.9% from 37% in FY 2002. Treatment centers now are using DOTS in more than 900 health posts, with national coverage that serves 73% of the population.

For more information see the mission website, <http://www.usaid.gov/dr/>, or the USAID central website, <http://www.usaid.gov>

## Results Framework

- 517-002 Increased Use of Sustainable Basic Health Care Services and Practices**
- 517-003 More Participatory, Representative and Better Functioning Democracy Achieved**
- 517-005 Hurricane Georges Recovery and Reconstruction**
- 517-007 Policies Adopted that Promote Good Governance and Sustained Economic Growth**
- 517-008 Increased Sustainable Economic Opportunities for the Poor**

### **SO Level Indicator(s):**

- Number of children enrolled in sponsored schools
- Number of new electric connections resulting from USAID interventions
- Number of new jobs created as a result of USAID interventions

- 8.1** Improved conditions for a more competitive economy
- 8.2** Improved policies for environmental protection
- 8.3** Improved basic education through community and private sector participation

- 517-009 More Participatory, Representative and Accountable Democracy Achieved**

### **SO Level Indicator(s):**

- Expert panel assesses progress using representativeness and accountability indices
- The number of policies approved with civil society influence
- 9.1** More representative and effective electoral system with effective civil society participation
- 9.2** More democratic political system with effective civil society participation
- 9.3** Strengthened rule of law and respect for human rights
- 9.4** Enhanced public sector anti-corruption systems

- 517-010 Sustained Improvement in the Health of Vulnerable Populations in the Dominican Republic**

### **SO Level Indicator(s):**

- HIV seroprevalence rate
- Infant mortality rate
- Total fertility rate

- 10.1** Increased use of services and practices to prevent and mitigate HIV/AIDS in at risk population
- 10.2** Sustainable, effective reproductive health/family planning services provided by public and private sectors
- 10.3** Increased use of selected, effective child survival services
- 10.4** Increased efficiency and equity of basic health care services at the local level