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# Assessment of conditional transfer programs and aspects related to the financial system in Dominican Republic*

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Over the past fifty years, the Dominican Republic has shown outstanding economic performance: between 1960 and 2007, the country's GDP grew by an average of 5.3 percent, more than the average for Latin America as a whole (3.8 percent).

As the 2005 Human Development Report notes, this economic growth has not been accompanied by "deliberate policies to turn economic growth into social welfare" in a context in which "the progress made had an unequal impact, depending on region, gender and the person's income level" (ODH, 2005: 15).

* The complete document is available at the Capital Project: <www.proyectocapital.org>.

Poverty rates, which had been decreasing since the late 1980s, rose again during the crisis of 2002-2003 because of the impact of a significant financial crisis

One characteristic of inequality, and one of the most important factors in understanding its persistence, is the significant degree of informality in a labor market in which 56.7 percent of workers are informal. Three factors appear to have accentuated a dual dynamic in the Dominican economy, in which the sectors that contribute least to job creation are those that have grown the most: limited inter-sector market chains in the most dynamic sectors of the economy (duty-free zones and tourism), scant accumulation of human capital in certain sectors of society, combined with the inadequate effectiveness of public policies for alleviating structural weaknesses, and the impact of macroeconomic volatility and the crisis on employment and income distribution.

According to the categories proposed by Gosta Esping-Andersen, the Dominican Republic's social protection model is a liberal welfare regime in which access to social benefits from the state is subsidiary to the market, "restricted and selective for defining, by means-testing, who has the right to social guarantees and who, in contrast, is excluded from them" (Espina, A. 2002: 9).

One social policy tool is "Solidaridad" ("Solidarity"), the Dominican Republic's conditional transfer program; designed early in the last decade and in operation since 2004, it is the social policy tool for directing transfers toward the poorest population. The program's main goal is to break the inter-generational transmission of poverty, promoting and encouraging human capital investment in education and improving access to health and a balanced diet.

The program is managed by a group of institutions that intervene in the successive phases described below, with autonomy from the executive branch.

1. The Social Cabinet is the institution charged with coordinating the formulation, implementation and evaluation of social protection policies.
2. The Single System of Beneficiaries (Sistema Único de Beneficiarios, SIUBEN) is an institution that falls under the Social Cabinet; its purpose, in the social protection system, is to identify poor families and register them in a single system.
3. Solidaridad is the government of the Dominican Republic's conditional transfer program and the operational institution in the social protection system.
4. The Social Subsidy Administrator (Administradora de Subsidios Sociales, ADESS) is responsible for administering social subsidies granted by the Dominican government: it prepares the monthly unified list of beneficiaries and directly credits the transfer amounts of the various programs, using the Solidaridad debit card. It is also responsible for identifying the stores where the card can be used.

In recent years, especially in 2008, the number of beneficiaries of the Solidaridad program has increased considerably. Data show an increase of 400,000 new beneficiaries in 2008, which could reflect a response to the need to protect the most vulnerable sectors of the population from the international financial crisis, as other countries in the region did.

The nine types of transfers (conditional or non-conditional) protect some 800,000 beneficiaries; in 2010, the total transfer amount reached 8.8 billion pesos (some US$230 million).

There are 522,000 beneficiaries of the conditional transfer programs (65 percent of the total number), while fewer than 300,000 receive some type of non-conditional transfer.

All transfers (conditional or not) are made through an electronic transfer system managed by ADESS, called the Social Subsidy Payment System (*Sistema de Pago de los Subsidios Sociales*, SPSS). This system allows the electronic transfer of funds to a VISA debit card, which can be used in an extensive network of establishments throughout the country.

The debit card system (*Tarjeta Solidaridad*, or "Solidarity Card") allows payments to be made in specific establishments (which are part of the program) and can handle multiple subsidies (each subsidy has a sub-account or "drawer"). The implementation of this system of transfers and electronic payments involves various financial entities (*La Nacional de Ahorros y Préstamos -Alnap, La Asociación Cibao de Ahorros y Préstamos -Acap, La Asociación Popular de Ahorros y Préstamos - Apap and the Banco de Reservas*), as well as local companies related to Visa international, and Adess, which makes the electronic transfers. The system's operating cost is relatively low; Adess has estimated the average operating cost of the "Tarjeta Solidaridad" system at 21 pesos per beneficiary per month (slightly more than US$0.50).

The "Solidaridad" program is organized geographically through regional, provincial and "field" coordinators and local contact people. The system is designed as a cascade, with intermediate levels that send information from upper to lower levels (top-down) and consolidate information from lower levels to be sent to the upper level, according to the following model.

The program's financial management and the related payment system involve two major processes.

The first is the budget appropriation of the funds administered by Adess, in accordance with the criteria prioritized by Siuben and Solidaridad's operating policies.

The Solidaridad program aims to reduce all aspects of poverty (monetary and non-monetary) and reduce the transmission of poverty from one generation to the next and between social groups. In other words, it combines an approach aimed at reducing vertical inequalities with elements that address horizontal inequalities. To ensure that subsidies reach the poorest people, Siuben has used a combination of Proxy Means Testing and geographic targeting.

Proxy Means Testing is a statistical tool for targeting pro-poor public policies. In the case of the Dominican Republic, after the results of the 2002 Census and the 2004 Encovi were released, Siuben created a Standard of Living Index (*Índice de Calidad de Vida*, ICV) that includes 17 variables closely related to various aspects of poverty (housing, conditions of the household and its members).

The index (from 0 to 100) allows the population to be divided into four segments, also taking into consideration geographic factors (urban or rural poverty). Two categories of poverty (extreme poverty and moderate poverty) and two "non-poor" categories are created, using different weighting factors depending on the geographic area. The next Figure shows the classification of households according to this index.

| Livelihood Index | Urban areas | Rural areas |
|---|---|---|
| Extreme poor | 0 - 43,0 | 0 - 32,3 |
| Mildly poor | More than 43,0 - 58,5 | More than 32,3 - 52,5 |
| Not poor I | More than 75,8 - 100 | More than 73,9 - 100 |

In 2008, the "Solidaridad" program conducted a satisfaction survey among the program's beneficiaries to evaluate the program's operation.

Ninety percent of the beneficiaries said they knew the local contact person and that effectiveness (measured as the number of times the contact person had visited the beneficiary's home) was good ("several times," indicating various visits).

The users use the social supply network every month (95 percent), and in most cases, prices in the establishments apparently do not vary (71.4 percent) or seldom vary (14 percent), while some users have encountered higher prices when paying with the "Solidaridad" card (14.5 percent).

Regarding the program's health component, most beneficiaries received information about the referential Primary Care Unit (84 percent), and 94.2 percent said they had received care there.

Regarding the education component, 88.6 percent indicated they had enrolled their children in school (one of the conditions of the program).

Another poll, conducted by Gallup in 2007, showed that the beneficiaries understand the program's objectives, that "the Solidaridad-program reflects the real intention of the government to alleviate poverty" (98.1 percent) and that it "is a way of reaching the neediest segment of the population with social services" (98.2 percent).

Regarding coverage by financial services in the Dominican Republic, a recent study by the Latin American Federation of Banks (Federación Latinoamericana de Bancos) shows that the Dominican Republic is among the countries with low access to financial services, and that channels for providing services (coverage through branches and automatic tellers) in the Dominican Republic is slightly below the average for Latin America (between 6 and 7.38 per 100,000 inhabitants, compared to 7.66 to 8.45 for Latin America) for the number of branches and slightly above the average for automatic tellers (between 15.08 and 17.31 per 100,000 inhabitants, while the average for Latin America is 12.48 to 14.98).

In recent years, the literature about microcredit and an increasing number of studies of microsavings have shown that the poor do save, and that they usually do so under less-advantageous conditions because of lack of access to formal financial entities.

Access to formal financial entities (number of branches and automatic tellers per 100,000 inhabitants) is close to the average for Latin America. Geographic distribution is very unequal, however, and reflects the concentration of economic activities in certain regions of the country. The data appear to indicate that the cost of expansion to some more remote areas may not be profitable for commercial banks.

A study by Drexler, Fischer, Schoar (2010) of the impact of financial education compared to "rules of thumb" for some clients of the Adopem microcredit program yielded results that are relevant to this assessment. First, the two education programs (traditional financial education and "rules of thumb") have had an impact on small entrepreneurs, although the training based on simpler tools (rules of thumb) have had a greater impact on financial management of the business in the short term. Formal financial education programs appear to yield better results only in the long term and among those with more education. This suggests that, while education campaigns about saving are necessary, the use of very elaborate tools could have poorer-than-expected outcomes. Among the organizations with a more widespread presence, Adopem and Mude appear to have the experience and characteristics to contribute to the development of a financial education program (the former because of its experience in urban areas, and the latter because of its work in more remote areas).

Considering the constraints on formal access, there has been a series of positive experiences using alternative mechanisms for saving. One of the instruments most often used to overcome barriers to saving has been the use of mobile telephones for transactions. In Bolivia, the Ecofuturo fund has implemented a project of SMS savings reminders with modest results (an increase of 3 percent in the likelihood of reaching savings goals), while a similar project in the Philippines achieved better results (an increase of 10 percent in the likelihood). Penetration of mobile telephone use in the country is modest, with an upward trend. According to data from the 2007 Enhogar, 67.1 percent of Dominican households have at least one mobile telephone (up from 44.3 percent in 2005), with a noticeable difference between rural areas (54.8 percent) and the National District and Santo Domingo (75.5 percent).

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