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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Fifth Session
Rome, 6-8 September 2005

DOMINICAN REPUBLIC

PRESIDENT'S MEMORANDUM

**SOCIAL AND ECONOMIC DEVELOPMENT PROGRAMME FOR VULNERABLE
POPULATIONS IN THE BORDER PROVINCES (LOAN 595-DO)**

EXTENSION OF LOAN EFFECTIVENESS

I. BACKGROUND

1. At its Seventy-Seventh Session in December 2002, the Executive Board approved a loan of SDR 10.6 million (equivalent to approximately USD 14.0 million) to the Dominican Republic on ordinary terms to help finance the Social and Economic Development Programme for Vulnerable Populations in the Border Provinces. The loan agreement was signed on 12 June 2003. In response to requests from the Government of the Dominican Republic, IFAD has repeatedly extended the effectiveness date to allow the Dominican authorities to complete procedures to ratify the loan agreement and fulfil the other conditions for effectiveness. The last such extension, and the two-year limit for loan effectiveness, expired on 12 June 2005.

2. The programme will be financed over a six-year period and is structured around four components: human and social capital development; sustainable income generation; social infrastructure; and policy dialogue and institutional strengthening. It introduces the following main innovative features: (i) government support to Dominicans of Haitian origin, strengthening the citizenship rights of vulnerable populations through legal support, minimization of social conflict and an active communications strategy; (ii) empowering local grass-roots organizations, stimulating their participation as actors in the programme and giving them decision-making powers in local rural development efforts; (iii) a phased approach to poverty reduction, emphasizing citizens' rights, education and well-being as the entry point for economic development; and (iv) full support to a decentralization and local governance process.

3. **Conditions precedent to loan effectiveness.** Section 7.01 of the loan agreement sets forth the following conditions precedent to effectiveness:

- (a) a programme director will have been duly appointed in accordance with paragraph 5.1 of schedule 3 of the loan agreement;
- (b) the programme account and the special account will have been duly opened;
- (c) the loan agreement will have been duly signed and the signature and performance thereof by the borrower will have been duly authorized and ratified by all necessary administrative and governmental action;
- (d) a copy of the loan agreement will have been duly sent to the Fund, acceptable to the Fund in its form and substance, certified as authentic and completed by a competent representative of the borrower; and
- (e) a favourable legal opinion, in respect of the matters set forth in Section 7.02 of the loan agreement and in form and substance acceptable to the Fund, will have been delivered by the borrower to the Fund.

4. **Status of loan effectiveness.** As the loan agreement is still being discussed in parliament, all of the conditions precedent to loan effectiveness have yet to be fulfilled. The delay is mainly being caused by the critical state of the Dominican economy. The Government stopped the approval of external loans due to both the enlarged debt (a result of increasing oil prices) and the severe devaluation of the Dominican peso (by more than 100% in one year). The agreement with the International Monetary Fund called for a continuing halt on external credit approval by the Dominican Government and National Congress, accompanied by discussion of World Bank loans for supporting both the oil bill and the revaluation of the Dominican peso. The situation is improving and important loans, such as the loan for the Social and Economic Development Programme for Vulnerable Populations in the Border Provinces, will be considered again by the Dominican Congress. Once the loan agreement is submitted to and ratified by the National Congress, the other conditions for effectiveness will easily be met as they are under the control of the National Office of Planning, which is eager to launch the programme as soon as possible.

5. In accordance with IFAD regulations, a loan agreement is normally terminated if it does not become effective within two years of its signature, unless the Executive Board agrees to a further extension. Any such agreement will depend on there being a satisfactory justification for the delay, and good prospects that the conditions for loan effectiveness will be fulfilled within a reasonable period of time.

II. RECOMMENDATION

6. IFAD has received a formal request from the Government of the Dominican Republic to extend the loan effectiveness in light of the reasons set forth in paragraph 4 above. Given the key role the programme will play in reducing rural poverty in the Dominican Republic, it is recommended that the Executive Board extend the effectiveness date of Loan 595-DO for the Social and Economic Development Programme for Vulnerable Populations in the Border Provinces by six months to 12 December 2005 to allow sufficient time for the conditions for loan effectiveness to be fulfilled.