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Multi-dimensional constraints analysis in the Dominican Republic

This chapter describes the country's performance across well-being dimensions and the SDGs and identifies the key constraints to development. First, it outlines the history and context of the Dominican Republic's development and identifies a set of risks and trends that will impact its future development. Second, it presents performance across a range of well-being and SDG indicators. It then analyses the Dominican Republic across the five Ps of the 2030 Agenda: People, Prosperity, Partnerships, Peace and Institutions, and Planet.

Introduction

The recent history of the Dominican Republic is one of many socioeconomic achievements. The country has been one of the leading economies in the Latin American and Caribbean (LAC) region in terms of GDP growth, averaging a yearly rate of 5.1% between 1993 and 2021 (IMF, 2022^[1]). This led the Dominican Republic to reach the upper middle-income status in 2011 (following the World Bank classification), only eight years after suffering the severe banking crisis of 2003. Likewise, poverty significantly declined, and well-being improved in that period, with progress also on areas like access to public services, life satisfaction, and employment rates. Life expectancy has also improved significantly, from 67.8 years in 1990 to 70.5 years in 2000, 72.7 years in 2010, and 74.2 years in 2020 (relative to 80.6 years on average for OECD countries in 2020) (World Bank, 2022^[2]).

However, the impact of COVID-19 in the country revealed that the Dominican Republic was facing significant structural weaknesses already before the pandemic, and that previous progress had not been sufficiently inclusive and sustainable. The Dominican Republic is indeed a country undergoing “development in transition,” as defined in the *Latin American Economic Outlook 2019* (OECD et al., 2019^[3]). In this respect, before the pandemic the country was already facing various development traps in its transition towards greater levels of development. These were well reflected in the strategic priorities of the National Development Strategy (*Estrategia Nacional de Desarrollo 2030*, NDS 2030) which represents the common, long-term vision of development for the Dominican Republic. The multi-dimensional approach to development provided in this *Multi-Dimensional Country Review (MDCR) of the Dominican Republic* is needed to better understand the specific barriers to development facing the country, as well as their interactions and the best policy mixes to address them effectively.

This MDCR is being undertaken to support the country in its efforts to achieve greater levels of well-being for all and build a robust and inclusive recovery. This MDCR includes two main parts. The first one is this *Initial Assessment*, which builds on the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) to identify the main constraints to achieving inclusive sustainable development. In this respect, it identifies key constraints and the underlying development challenges that the Dominican Republic must address. The second part is an *In-depth Analysis* which focuses on specific policy areas, in particular: i) labour market formalisation; ii) financing for development; iii) digital transformation. In these three areas, the report examines main challenges and opportunities and provides policy recommendations to move from *Analysis to Action*. The analysis and recommendations are based on OECD expertise and experiences of other countries, as well as on dialogue with Dominican stakeholders, which took place in several bilateral meetings as well as in three thematic workshops held in Santo Domingo.

The *Initial Assessment* describes the Dominican Republic’s performance across well-being dimensions and the SDGs and identifies the key constraints to development. First, it outlines the history and context of the Dominican Republic’s development and identifies a set of risks and trends that will impact its future development. Second, it presents performance across a range of well-being and SDG indicators. It then analyses the Dominican Republic across the five Ps of the 2030 Agenda: People, Prosperity, Partnerships, Planet and Peace. Whenever relevant and subject to data availability, the Dominican Republic is compared with a set of benchmark economies in Latin America (Costa Rica, Chile, Colombia, Ecuador, Panama and Peru), in the OECD (Hungary, Korea, New Zealand, Portugal, Türkiye) and Asia (Indonesia and Thailand).

A brief history of the Dominican Republic’s development

The second half of the 20th century was filled with major events that marked the Dominican Republic’s development path. After three decades under Trujillo’s dictatorship, his death in 1961 gave way to a convoluted period that was marked by a *coup d’état* in 1963, a civil war in 1965 and the subsequent occupation by the United States that lasted between April 1965 and September 1966. The Constitution

approved in that year started a period known as the 4th Republic, which lasts until today and where new Constitutions have been approved in 1994, 2002, 2010 and 2015.

In economic terms, the 4th Republic started with a period of sustained growth, with an annual expansion of GDP of around 8% between 1966 and 1976. Economic development was mainly based in the production and exporting of primary commodities (Pozo et al., 2010^[4]). Throughout this period, and similar to most economies in LAC, the government was supporting a policy of “import substitutions” to encourage the industrialisation of the country, which gained impetus in the late 1960s. This included measures related to trade, exchange rates and public investment. The first free-trade zone (FTZ) of the country was created in 1969.

The Dominican Republic was affected by the wave of economic crises that hit various LAC economies during the 1980s. These were mainly characterised by high levels of public debt and unsustainable fiscal deficits, in a context of tight international financial conditions and high volatility. This gave way to a series of structural reforms in the 1990s, much in line with the predominant doctrine of the Washington Consensus, oriented towards the liberalisation of certain markets, opening up to the global economy and the privatisation of SOEs, among others. The structure of production was transformed, with a transition from an economy mainly based on agriculture to one based on services, and with areas like telecommunications, financial services and tourism, together with exports from free-trade zones, becoming core engines of economic growth. This declining role of agriculture was one of the drivers of a process of urbanisation that started to gain strength: in 1993, 56% of the population lived in urban areas and ten years later 64.6% did (81% in 2018). Some rural areas became pockets of poverty.

The early 2000s were marked by the banking crisis of 2003, which had a strong impact on the country's main macroeconomic and social indicators. The country signed a programme with the International Monetary Fund that supported the recovery in the subsequent years, linked to a package of structural reforms. The Conditional Cash Transfer programme “Programa Solidaridad” was created in this period, in 2005, to support vulnerable populations and then was transformed into the programme “Progresando con Solidaridad” in 2012. Since then, and until the impact of COVID-19, growth was strong and social progress was positive in many fronts, but with large gaps in different dimensions of well-being that the pandemic came to accentuate and that are the main subject of analysis of this *Initial Assessment*.

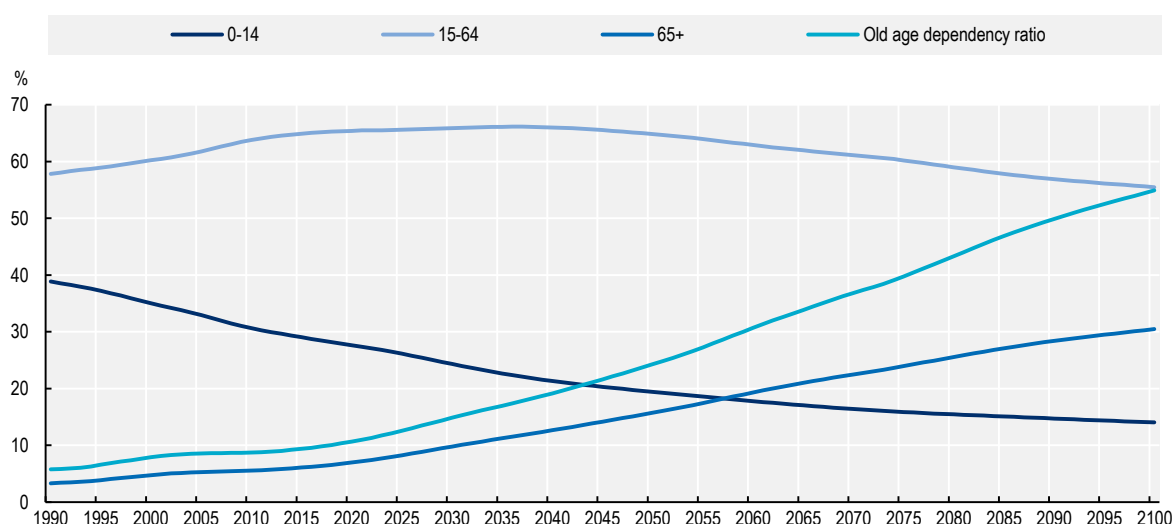
Looking ahead: Internal and external trends

In addition to the specific development challenges that are analysed in the following sections, there are a number of key trends with both immediate and long-term impact that cut across many dimensions of development and need to be considered in any future development strategy. This section briefly describes some of these key trends, namely population ageing, the rise of an urban middle-class, the digital transformation and climate change.

Population trends

The Dominican Republic is experiencing a process of population ageing, which is usual in most countries as they advance towards greater levels of development. This process is also linked to global advancements related to healthcare improvements and better nutrition patterns, among others. The old-age dependency ratio will have jumped from a level of around 11 in 2022 to around 25 by 2050 (meaning that there will be one person aged 65+ per each four people in working age) and to around 50 by 2090 (Figure 2.1).

Figure 2.1. Demographic trends in the Dominican Republic, 1990-2100



Note: Estimates for 2022-2100 are from the medium fertility variant scenario. Old-age dependency ratio, is the ratio of older dependents –people older than 64– to the working-age population–those ages 15-64. Data are shown as the proportion of dependents per 100 working-age population.

Source: Authors' elaboration based on (UNDESA, 2022^[5]).

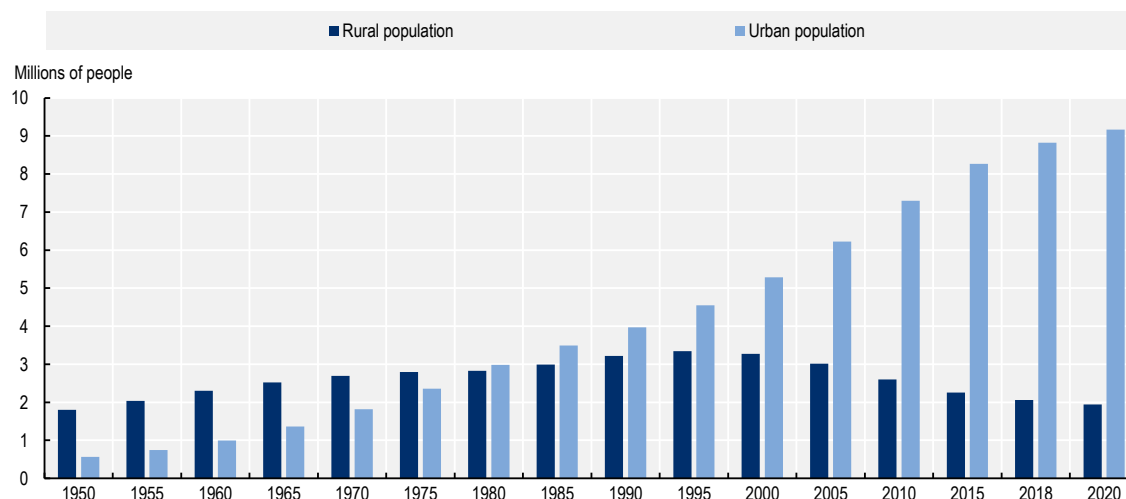
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These demographic trends have relevant implications for public policy and well-being. Labour markets will have to adapt, as the working-age population will shrink in relative terms and hence improving productivity will become central. Careers will tend to be longer, with implications in terms of re-skilling and up-skilling, which will demand innovative responses from education and training systems. Likewise, social protection systems will have to adapt, with an evident need to develop a strong old-age pension system and to advance towards a sustainable and adaptable healthcare system.

A growing urban middle-class

The Dominican Republic has been undergoing a process of rapid urbanisation. While in 1980 one in two Dominicans lived in urban areas, in 2020 around 84% of the population lived in cities, and by 2050 around 92% of the population will be settled in urban areas (Figure 2.2). This trend overlaps with the expansion of the middle-class, which in 2018 represented around one-third of the population, mostly living in urban areas. This middle-class is also expected to continue growing if current trends of economic expansion are sustained and the recovery from the COVID-19 pandemic is robust. The implications of these trends are numerous and will affect mainly the provision of good quality public services in cities. Public transport, health, education, water and electricity, among others, will have to be adapted to the rising demands of the middle-class but also to the increasing pressures of serving a large and densely concentrated population.

Figure 2.2. Evolution of the rural and urban population in the Dominican Republic from 1950 to 2020



Source: Authors' elaboration based on (UNDESA, 2022^[5]).

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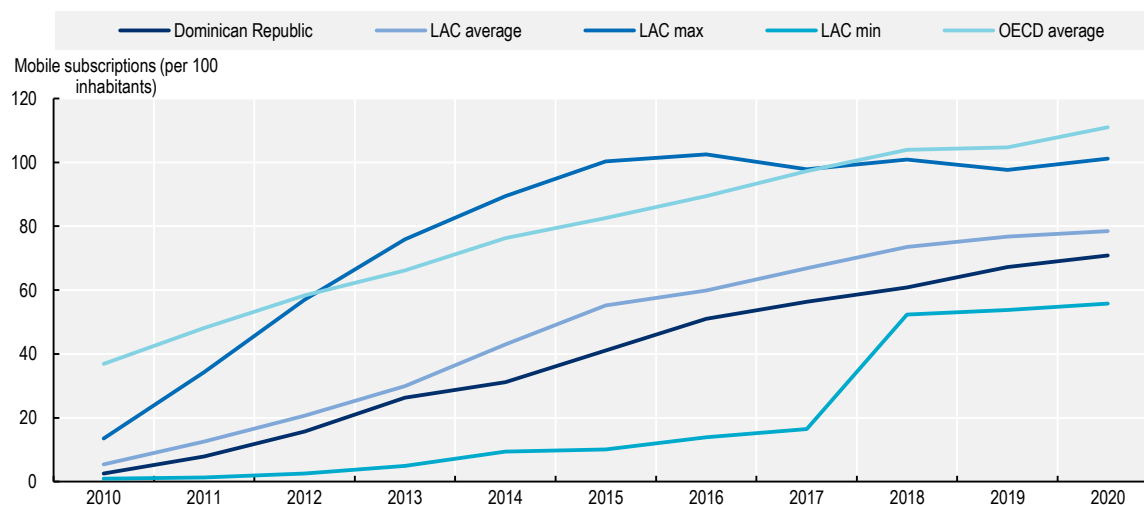
The digital transformation entails risks and opportunities

Technological progress has accelerated globally, and major shifts are underway that are radically transforming economies and societies. The current period is one of transition towards a digital economy and society. Artificial intelligence, big data analytics, block chain technologies, the Internet of Things and the radical transformation of information and communication technologies are some prominent examples of this trend and make up for what many have labelled as the “the “next production revolution” (OECD et al., 2020^[6]; OECD, 2017^[7]).

The digital transformation offers many opportunities for overcoming the main development traps in LAC countries and in the Dominican Republic. One of the key elements for this digital transformation to work for all is that access to quality internet connections is enhanced. In the Dominican Republic, 71% of citizens had a mobile broadband connection in 2020, slightly below LAC average but still well behind the OECD average (Figure 2.3).

Figure 2.3. Mobile broadband penetration

Active mobile-broadband subscriptions per 100 inhabitants



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, and Uruguay. OECD is a simple average of all 38 member countries.

Source: Authors' elaboration based on (ITU, 2021^[8]).

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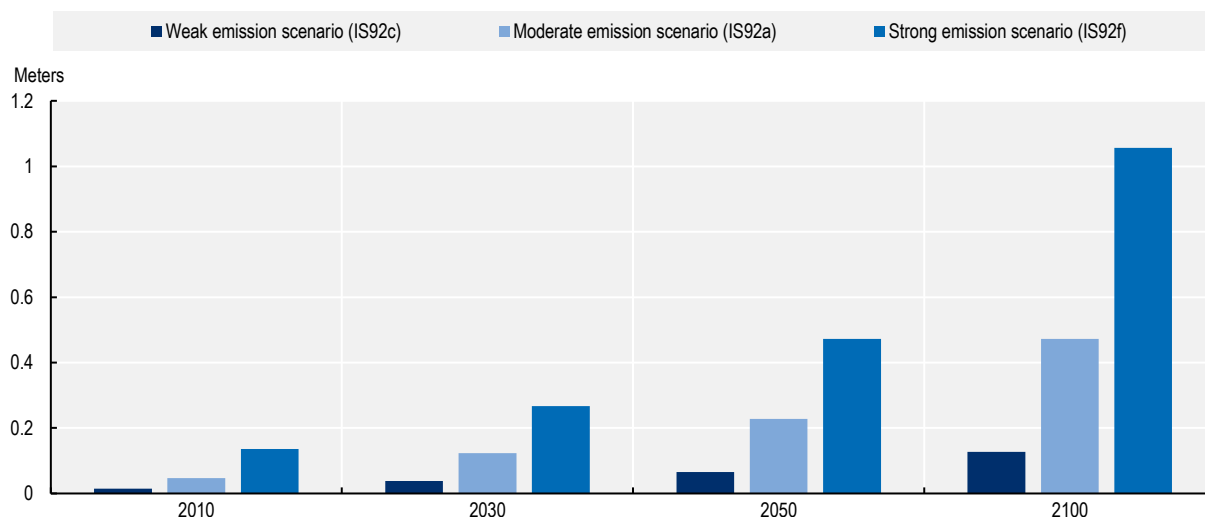
Climate change risks will become more pressing

Climate change mitigation and adaptation are becoming increasingly important in the Dominican Republic and in the Caribbean, given the vulnerability of this area to climate risks (OECD et al., 2022^[9]). Located in the centre of the Antillean Arc, the Dominican Republic shares the Caribbean island of Hispaniola with Haiti. Climate projections to 2050 predict an increase in average annual temperature of 1-2.5°C, a decrease in average annual precipitation by over 23% from 2010 levels and an increase in the number of consecutive “dry” days of 7.2% to 17.4%. It is most likely that the global average intensity of tropical storms will raise from 2% to 11% in 2100 (PLENITUD; Caribbean Community Climate Change Centre; Consejo Nacional para el Cambio Climático y Mecanismo de Desarrollo Limpio; Ministerio de Agricultura; UE, 2014^[10]).

The economic costs of climate change in the Dominican Republic are estimated to reach 86% of GDP by 2100 (Burke, Hsiang and Miguel, 2015^[11]). One of the effects of climate change is rising sea levels that create stress on coastal ecosystems. The sea-level projections estimate a 3 cm rise in sea level by 2030, a 6 cm by 2050 and a 12 cm by 2100 on a weak emission scenario. Alternatively, a strong emission scenario would involve a 26.73 cm rise in sea level by 2030, 47.27 cm by 2050 and 105.67 cm by 2100 (Figure 2.4).

Figure 2.4. Sea-level rise in the Dominican Republic, 2010-2100

Sea level projections based on three emission scenarios



Note: According to the first national communication, three emission scenarios are considered: one weak IS92c, one moderate IS92a and one strong IS92f. The base year is 1990.

Source: Authors' elaboration based on (PLENITUD; Caribbean Community Climate Change Centre; Consejo Nacional para el Cambio Climático y Mecanismo de Desarrollo Limpio; Ministerio de Agricultura; UE, 2014^[10]).

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Well-being and Sustainable Development Goals (SDG) Analysis

How's life in the Dominican Republic? Through the OECD well-being lens

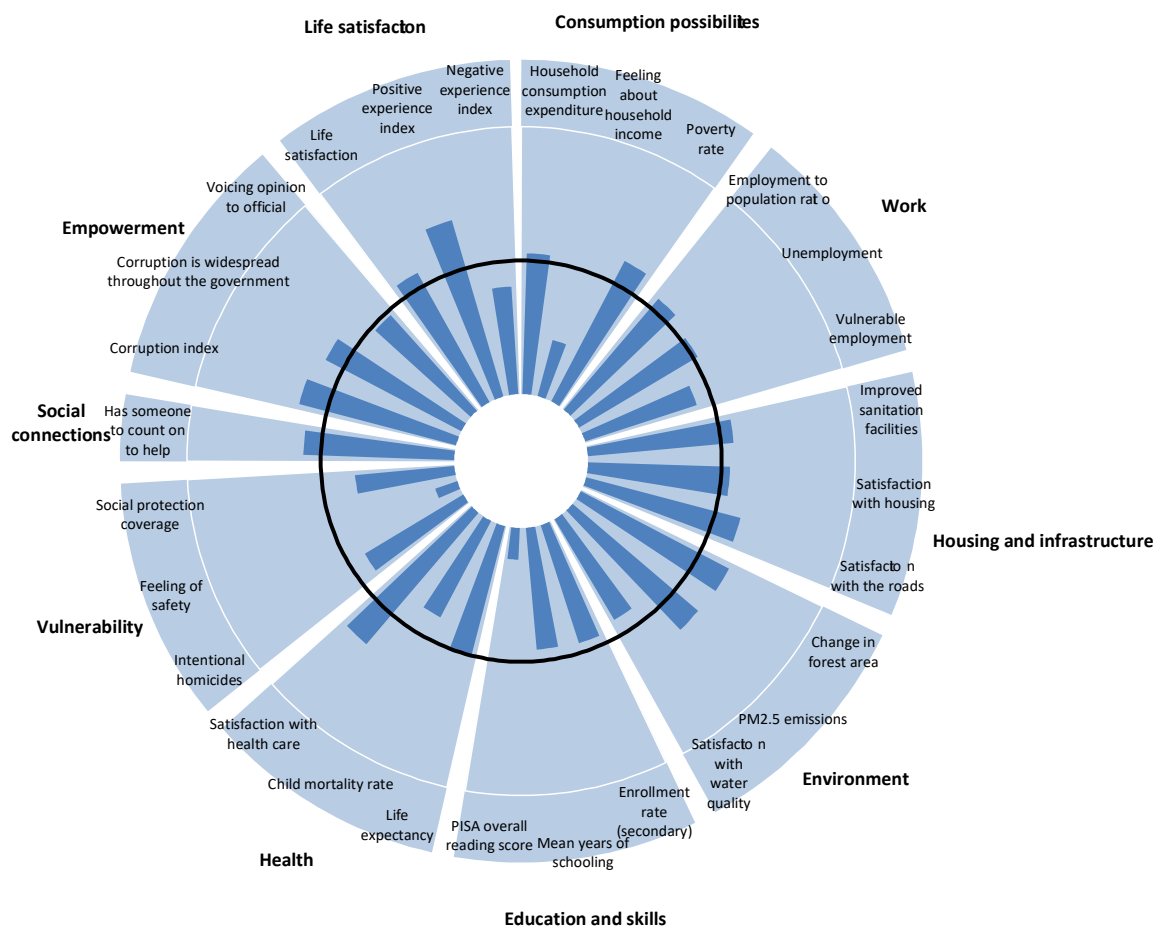
The well-being of citizens can be comprehensively assessed with the OECD's "How's Life?" toolbox. Well-being encompasses people's diverse experiences in all dimensions that matter to them, including households' material conditions (e.g. income, jobs and housing), but also their broader quality of life (e.g. health, education, environment, life satisfaction). Recognising the importance of how people themselves evaluate their lives, the OECD Framework for Measuring Well-Being and Progress uses a mix of objective and subjective indicators (OECD, 2017^[12]).

Using a well-being lens can help to identify trade-offs between different policy goals and reduce departmental silos. A growing number of countries in LAC and in the OECD and beyond are taking steps to embed well-being more deeply and systematically into policy processes (Durand and Exton, 2018^[13]; OECD, 2021^[14]). In LAC, countries like Bolivia, Colombia, Ecuador and Paraguay have drawn on well-being evidence to inform their National Development Strategies and performance frameworks. In the case of the Dominican Republic, increasing well-being is the superior objective around which the National Development Strategy 2030 (NDS 2030) *Estrategia Nacional de Desarrollo 2010-2030: un viaje de transformación hacia un país mejor* is built.

Compared to countries at a similar level of development, the Dominican Republic performs similar to them in many dimensions of well-being (Figure 2.5). Performance is stronger in areas like life satisfaction, for instance regarding satisfaction with healthcare, with roads and with housing. However, citizens feel less safe in the Dominican Republic than it would be expected by its level of development, and satisfaction with water quality is also below the expected value. Areas where the Dominican Republic underperforms are

education, both in terms of quantity (enrolment rates and mean years of schooling) and quality, as shown by low PISA scores. Health, social protection and quality of jobs are other areas where the country performs below what would be expected for its level of development.

Figure 2.5. Current and expected well-being outcomes for the Dominican Republic: Worldwide comparison



Note: The observed values falling inside the black circle indicate areas where the Dominican Republic performs poorly in terms of what might be expected from a country with a similar level of GDP per capita. Expected well-being values (the black circle) are calculated using bivariate regressions of various well-being outcomes on GDP, using a cross-country dataset of around 150 countries with a population over a million. All indicators are normalised in terms of standard deviations across the panel.

Source: Authors' elaboration based on (World Bank, 2022^[2]; Gallup, 2022^[15]; UNESCO, 2022^[16]; Transparency International, 2019^[17]; OECD, 2022^[18]; ILO, 2022^[19]).

Moving ahead on the SDGs

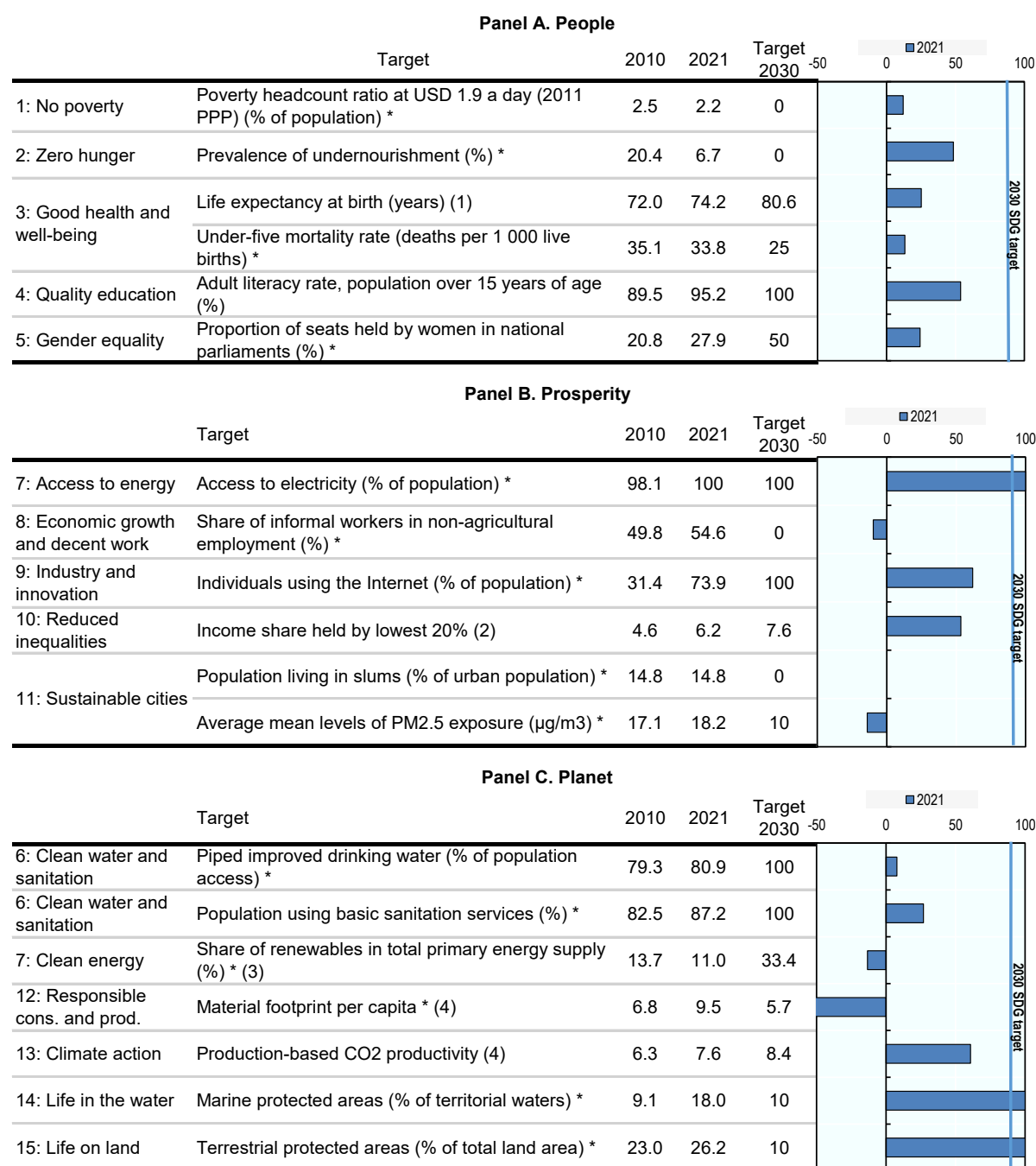
The SDGs consist of 17 goals and 169 targets with the ultimate objective of ending poverty, protecting the planet and ensuring prosperity and peace for all. They came into effect in January 2016 and provide guidelines for all countries up to 2030. The Dominican Republic has a solid commitment with the 2030 Agenda with a level of alignment of 91% between the SDGs and the national planning set in the National Development Strategy 2030, and the UN's voluntary national reporting (Gobierno de la República Dominicana, 2021^[20]).

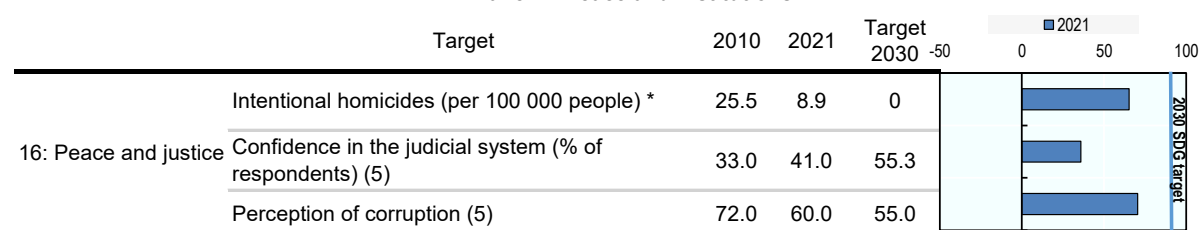
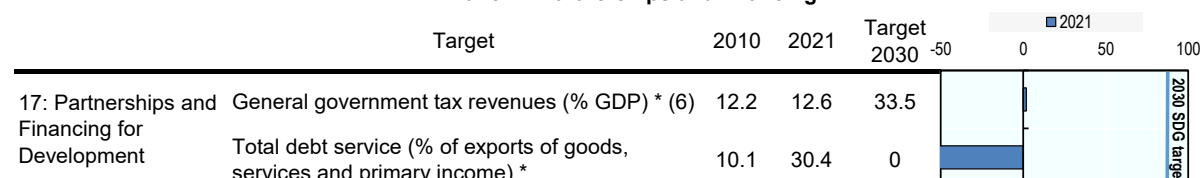
The Dominican Republic shows mixed results in its performance across the SDGs. Furthermore, progress towards SDGs has been severely affected by the impact of COVID-19 and the subsequent socioeconomic

crisis, as well as by a complex global context in the aftermath of the pandemic (OECD et al., 2022^[9]). To move forward, further progress is needed in various dimensions to advance towards more inclusive and sustainable development (Figure 2.6). Some of the greatest challenges ahead are gender equality, decent work, sustainable cities and clean energy.

Figure 2.6. Progress towards the Sustainable Development Goals (SDGs) in the Dominican Republic

Progress towards the 2030 targets by 2021 (relative to 2010 baseline)



Panel D. Peace and institutions**Panel E. Partnerships and financing**

Note: Progress is measured using data from 2021 or latest year available. Indicators marked with an asterisk (*) are official SDG's indicators for monitoring progress. Targets are as set by the Sustainable development goals when available (with baseline 2010). For the following indicators 2030 target were set equal to: (1) 2020 OECD average; (2) 2019 OECD average; (3) 2020 OECD average; (4) OECD 2030 targets calculated based on (OECD, 2019^[21]); (5) 2021 OECD average; (6) 2020 OECD average. Marine and terrestrial protected area baseline is 2016 instead of 2010. Production-based CO₂ productivity is GDP per unit of energy-related CO₂ emissions (2015 USD per kg).

Source: Authors' elaboration based on (World Bank, 2022^[2]; Gallup, 2022^[15]; UNESCO, 2022^[16]; IMF, 2022^[11]; ILO, 2022^[19]; ECLAC, 2022^[22]; Inter-Parliamentary Union, 2021^[23]; Gobierno de la República Dominicana, 2021^[20]; OECD, 2022^[24]; WHO/UNICEF, 2022^[25]) (IEA/OECD, 2021^[26]).

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People – Towards better lives for all

Prior to the impact of the COVID-19 pandemic, the Dominican Republic enjoyed one of the strongest growth rates in Latin America and the Caribbean (LAC) over a period of 25 years. Yet economic growth was not sufficiently inclusive: around one in four Dominicans remain below the poverty line. The COVID-19 pandemic had a negative impact on GDP in 2020, with a contraction of 6.7% (OECD et al., 2021^[27]). Despite the country's efforts to counter the effects of the crisis on most vulnerable groups, key social indicators were negatively affected. Poverty increased from 20.9% in 2019 to 23.4% in 2020 and up to 23.8% in 2021; while extreme poverty increased from 2.6% in 2019 to 3.5% in 2020, and decreased to 3.1% in 2021 (Ministerio de Economía, Planificación y Desarrollo, 2021^[28]).

Even before the pandemic, the expansionary cycle had a limited impact on reducing poverty and inequality, in part because growth did not sufficiently translate into quality jobs. In fact, the sectors largely driving economic growth showed falling labour shares. Low-skilled workers became increasingly concentrated in low-quality jobs and in sectors that showed low productivity growth, while labour informality remained high and persistent. Additionally, the gap widened between productivity and earnings.

This section examines the evolution of key social indicators that reflect efforts undertaken and challenges faced by the Dominican Republic in a bid to transform economic progress into inclusive and sustainable development. The first sub-section summarises the main achievements in relation to tackling poverty and inequality over past decades and identifies ongoing challenges. The second examines the level of social spending and the effects of taxes and transfers on income distribution and poverty alleviation. The third analyses the country's labour markets. The fourth, fifth and sixth sub-sections identify the main constraints that hinder expanding and improving education, health and social protection services.

Growth has not been sufficiently inclusive

The strong economic growth evident in most of the past 20 years in the Dominican Republic (before the COVID-19 pandemic, and with the main exception of the 2003 crisis) did not render the expected poverty reduction. Although economic expansion enhanced the living standards of citizens, including of those at the lower end of the income distribution, it did not result in significant poverty reduction. Over the 15 years following the domestic crisis of 2003, the rate of poverty declined only modestly. In 2019, more than 2 million people, representing one-fourth of the population, lived below the national poverty line. This level began to clearly decrease only after 2013, but poverty has been picking up in recent years, largely owing to the impact of the pandemic. In parallel, income inequalities are significant in the Dominican Republic: people in the top 20% of the income distribution hold more than ten times the share of income held by the bottom 20% (OECD, 2022^[29]).

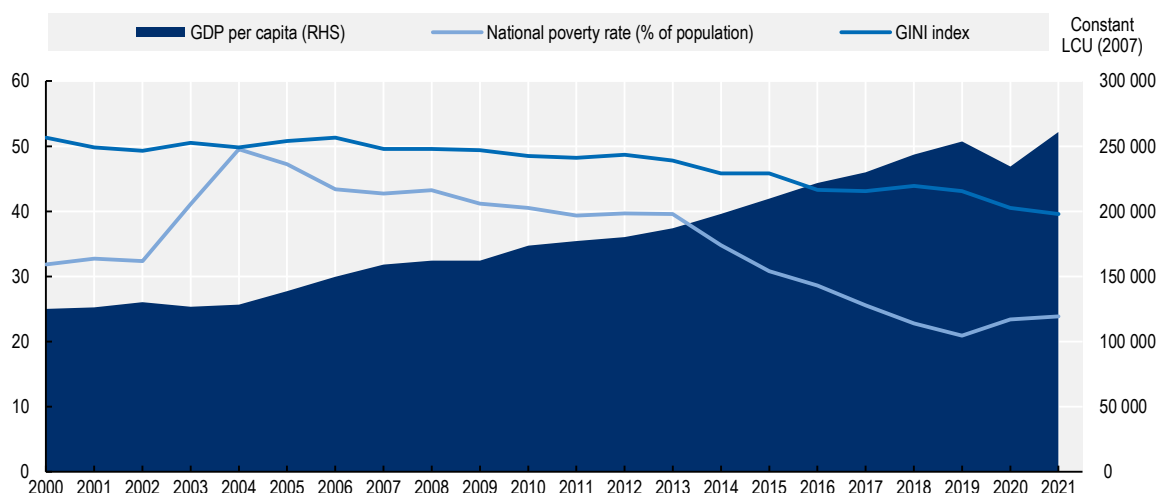
Poverty and inequality declined in the last two decades but remain important

The domestic crisis of 2003 had negative long-term and durable effects on poverty, inequality and well-being in the Dominican Republic. In the aftermath of the banking crisis, the economy recovered rapidly while poverty decreased at a significantly slower pace. During the early 2000s, approximately one-third of the population lived below the national monetary poverty line (Figure 2.7); the domestic financial crisis of 2003 escalated the poverty rate to almost 50%. Ten years later (by 2013), poverty had fallen by 10 percentage points to 39.6% of the population – still well above the earlier figure. The extreme poverty rate followed a similar path, having doubled from 7.9% in 2000 to 15.4% in 2004, after which it gradually decreased to 9.3% in 2013. Although positive, this poverty reduction was modest in contrast to the strong growth experienced by the Dominican economy during this period (Carneiro and Sirtaine, 2017^[30]).

The banking crisis also had long-lasting social effects, in part due to the lack of suitable fiscal stabilisers and counter-cyclical policies. In times of economic shocks, especially when monetary policy is constrained, automatic fiscal stabilisers and fiscal measures become particularly effective to reduce the long-term effects of a crisis (OECD, 2018^[31]). This requires a fiscal policy framework that creates sufficient fiscal space during upturns to support a stimulating fiscal policy response during downturns, including rapidly scaling up income support and active labour market programmes as needed – and mechanisms to scale them down quickly as conditions return to normal.

The impact of economic growth on poverty reduction gained momentum after 2013. Poverty fell sharply in 2014 to 34.8% and to 30.8% in 2015 (on par with levels prior to the 2003 crisis). By 2019, it hit a record low of 20.9%. It should be noted, however, that the National Labour Force Survey methodology was changed in 2016; as such, estimates from 2016 to 2021 are not perfectly comparable with previous figures (Figure 2.7).

Figure 2.7. Fast growth in income per capita versus slower decline of poverty and inequality



Note: Since 2016, the surveying methodology of the National Labour Force Survey changes to become the National Continuous Labour Force Survey, so poverty data may not be perfectly comparable before and after 2015. Estimates for GDP per capita from WEO April 2022, start after 2019, base year is 2007.

Source: Authors' elaboration based on (Ministerio de Economía, Planificación y Desarrollo, 2022^[32]; IMF, 2022^[11]).

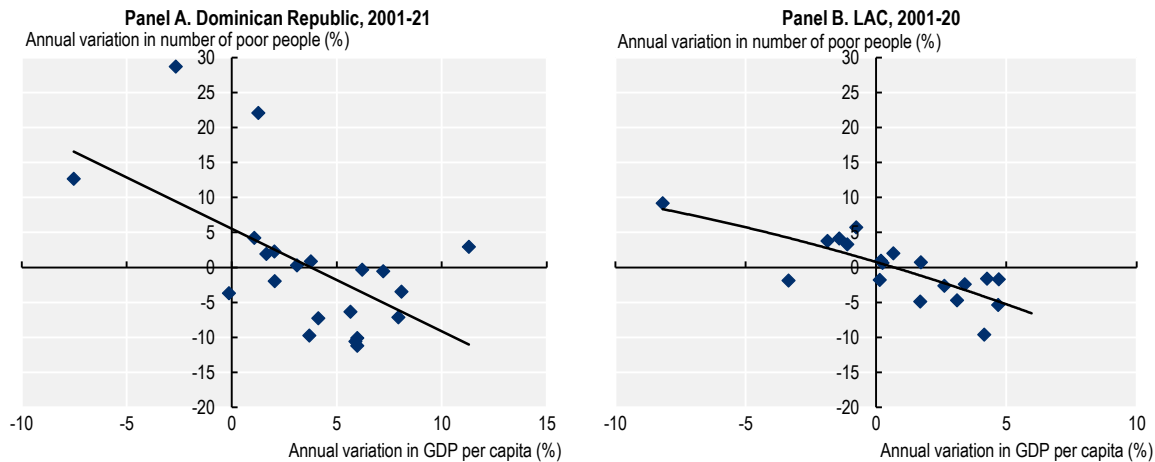
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In comparison to LAC, poverty in the Dominican Republic has been more sensitive to economic contraction than to growth, particularly between 2004-13. From 2000 to 2004, while the GDP per capita increased by 0.7%, more than 1.5 million people fell into poverty (poverty increased at a compound rate of 13.2%). During the subsequent period (2004-13), when GDP per capita increased at a compound annual growth rate of 4.3%, poverty declined by only 1.4% per year. On a positive note, this relationship has changed since 2014: while GDP per-capita growth increased to an average of 5.3% per year (2014-18), poverty declined, on average, at a higher rate of 9.2% annually (Figure 2.8).

At the aggregate LAC level, comparing the annual rate of change in the number of people living in poverty and the annual rate of change in per-capita GDP, poverty in LAC over the past 15 years has correlated closely with the business cycle (Figure 2.8). Between 2002 and 2008, when the region experienced vigorous growth of per-capita GDP of 3.2% per year, the number of poor people fell at a compound annual rate of 3.7%. Between 2014 and 2016, as GDP per capita contracted by 1.3% annually, the proportion of poor people increased by 4.8%.

Figure 2.8. Links between growth and poverty reduction are weaker in the Dominican Republic than in LAC

Variation in poverty and in per-capita GDP



Note: Poverty data for Dominican Republic is from National poverty lines, and data for LAC is from (ECLAC, 2022^[33]) based on data from Household Surveys Database (BADEHOG). For the GDP per capita data is from WEO April 2022, base year is 2007, and estimates start after 2019.

Source: Authors' elaboration based on (ECLAC, 2022^[22]) (Ministerio de Economía, Planificación y Desarrollo, 2022^[32]) (World Bank, 2022^[2]) (IMF, 2022^[1]).

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Addressing child and old-age poverty is one of the biggest challenges in terms of poverty reduction in the Dominican Republic. At present, children (0-14 years old) represent 27% of total population. Relative poverty among children in 2020 was 36.5%, when defining poverty as the share of the population in each age group whose average per-capita income is below the poverty and extreme poverty line. Against the level of 42.6% in 2000, this is a small reduction. Adult poverty varies by age group, ranging from 23% for those between 25-34 years down to 8.1% for the age group 55-64 and 8% for the elderly (65 years or more) (ECLAC, 2022^[34]). If the poverty line is taken as half the median household income of the total population, the rate of poverty is about 15% for youths (18-25) and adults (26-65); it climbs to 22% among children and 28% for the elderly – almost double the adult average (OECD, 2022^[35]). Notably, while children and elderly make up around one-third of the population of the Dominican Republic, they account for about half of the poor population. Considering different approaches to analyse the poverty situation among age groups confirms that children and the elderly people are particularly vulnerable – largely reflecting that they are not participating in labour market and have little or no perceived income. Clearly, these age groups could benefit most from social protection systems, public services and targeted programmes.

Income inequality also remained high during the almost 20 years of strong growth in the Dominican Republic, with upward economic mobility remaining relatively low. Overall, inequality fell, with the Gini index declining from 0.513 in 2000 to 0.396 in 2021 (a higher decline than the LAC average). Nevertheless, limited upward economic mobility means the disparities have become even more marked. Over the period 2004 to 2014, less than 7% of the population in the Dominican Republic moved up in the income ranks, in sharp contrast to 41% in the LAC region (Baez et al., 2014^[36]). The middle class, composed of individuals living in households with a daily per-capita income between USD 13-70 (PPP 2011), remained relatively stagnant at around 26% of the population between 2006 and 2013. However, after 2014 and as poverty

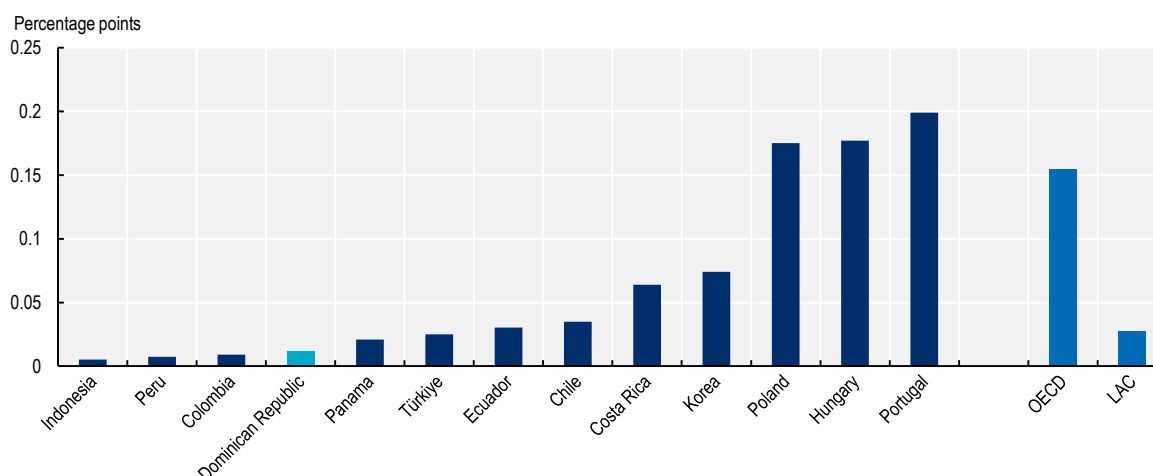
reduction accelerated, the middle class reached 42.4% of the population in 2019, before falling back to 37.1% in 2020 as the effects of COVID-19 continued to undermine progress (World Bank, 2022^[37]).

Almost half (46.9%) of Dominicans were part of the vulnerable middle class in 2020 (World Bank, 2022^[37]), defined as individuals living in households with a daily per-capita income between USD 5.5 -13 (PPP 2011). Some of these are at risk of falling into poverty owing to substantial vulnerabilities such as low labour income, insufficient skills, informal employment and poor access to quality public services (Ferreira et al., 2013^[38]).

Taxes and transfers have little power to reduce inequality and poverty


Taxes and transfers play only a modest role in shaping income distribution in the Dominican Republic. Direct and indirect taxes and transfers reduce the Gini index by less than 2 percentage points (Figure 2.9). Similarly, the poverty reduction incidence of direct transfers is modest. Households in the poorest decile receive transfers and indirect subsidies worth 10% of their market income, which is relatively low compared to most countries in LAC, OECD and benchmark economies (Aristy-Escuder et al., 2016^[39]).

Figure 2.9. Taxes and transfers play a modest role in shaping income distribution in the Dominican Republic



Note: Data displayed is the difference between income market Gini and disposable income (after taxes and transfers) Gini. The year of the data varies among countries from 2011 to 2021.

Source: Authors' elaboration based on (Commitment to Equity Institute Data Centre, 2022^[40]; OECD, 2022^[41]).

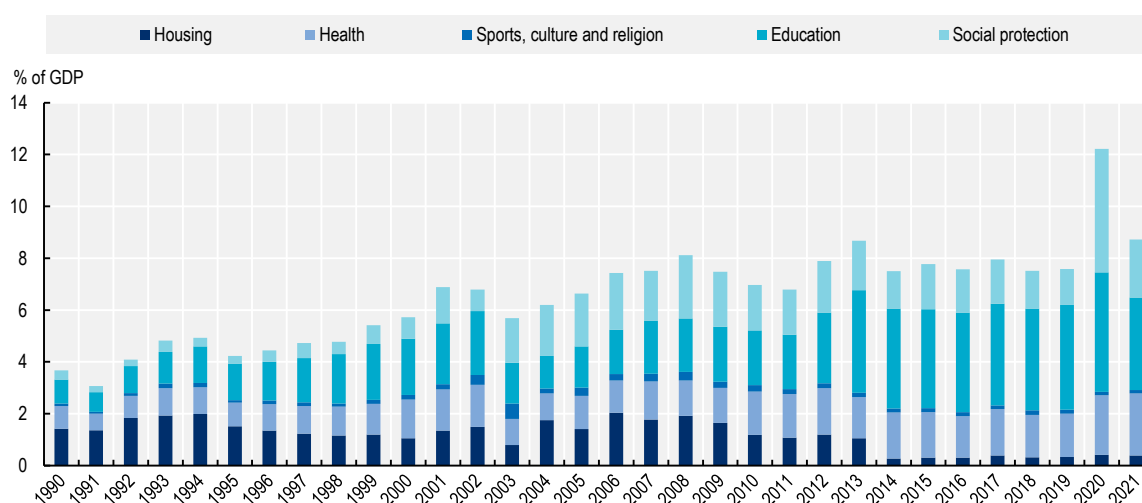
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Transfers have played a slightly progressive role, with the modest impact being partially related to low social spending in the Dominican Republic, which is considerably lower than the averages in LAC, OECD and benchmark economies. It should be noted that, in the context of the COVID-19 pandemic, the government has made extraordinary efforts to protect the most vulnerable populations (see Chapter 3 for more details). Although social spending has been gradually increasing in the last three decades, it has expanded at a very slow pace (Figure 2.10). In the 1990s, growth in social spending was mainly driven by education, health and social protection, while spending in housing remained constant with the largest share of expenditure. During the early 2000s, only social protection expenditure continued to expand, as the new conditional cash transfer was introduced. Spending composition changed significantly in 2013 with the *Pacto Nacional Para La Reforma Educativa* (National Pact for Educational Reform), which established a minimum annual education spending of 4% of GDP.

In 2020, due to the COVID-19 pandemic, expenditure on health and social protection increased significantly, from 1.7% in 2019 to 2.3% for health, and from 1.4% to 4.8% for social protection. Expenditure on health was maintained at 2.4% of GDP in 2021, but social protection expenditure dropped again to 2.2%. This drop can be explained by the fact that, although net expenditure increased from 2020 to 2021, GDP grew more than social expenditure in 2021 (Figure 2.10).

The Dominican government responded to the COVID-19 crisis with increases in the transfers of existing social programmes and the creation of new emergency measures. Regarding labour force, the Employee Solidarity Assistance Fund (FASE) was created to provide income support to formal sector workers at high risk of losing their jobs. Later, the Independent Worker Assistance Program (PA' TI) was created to provide financial help to self-employed workers (WTTO, 2022^[42]). To assist vulnerable households, the government created the Stay at Home Program (QEC), which targeted structurally poor or vulnerable households with Quality of Life Index (QLI) of 1, 2 and 3. These emergency programmes drove the increase in social spending from 7.6% of GDP in 2019 to 12.2% in 2020 and to 8.7% in 2021 (Figure 2.10).

Figure 2.10. Social spending in the Dominican Republic has increased particularly in the context of the COVID-19 pandemic



Source: Authors' elaboration based on (Ministerio de Hacienda: Dirección General de Presupuesto, 2022^[43]; IMF, 2022^[11]).

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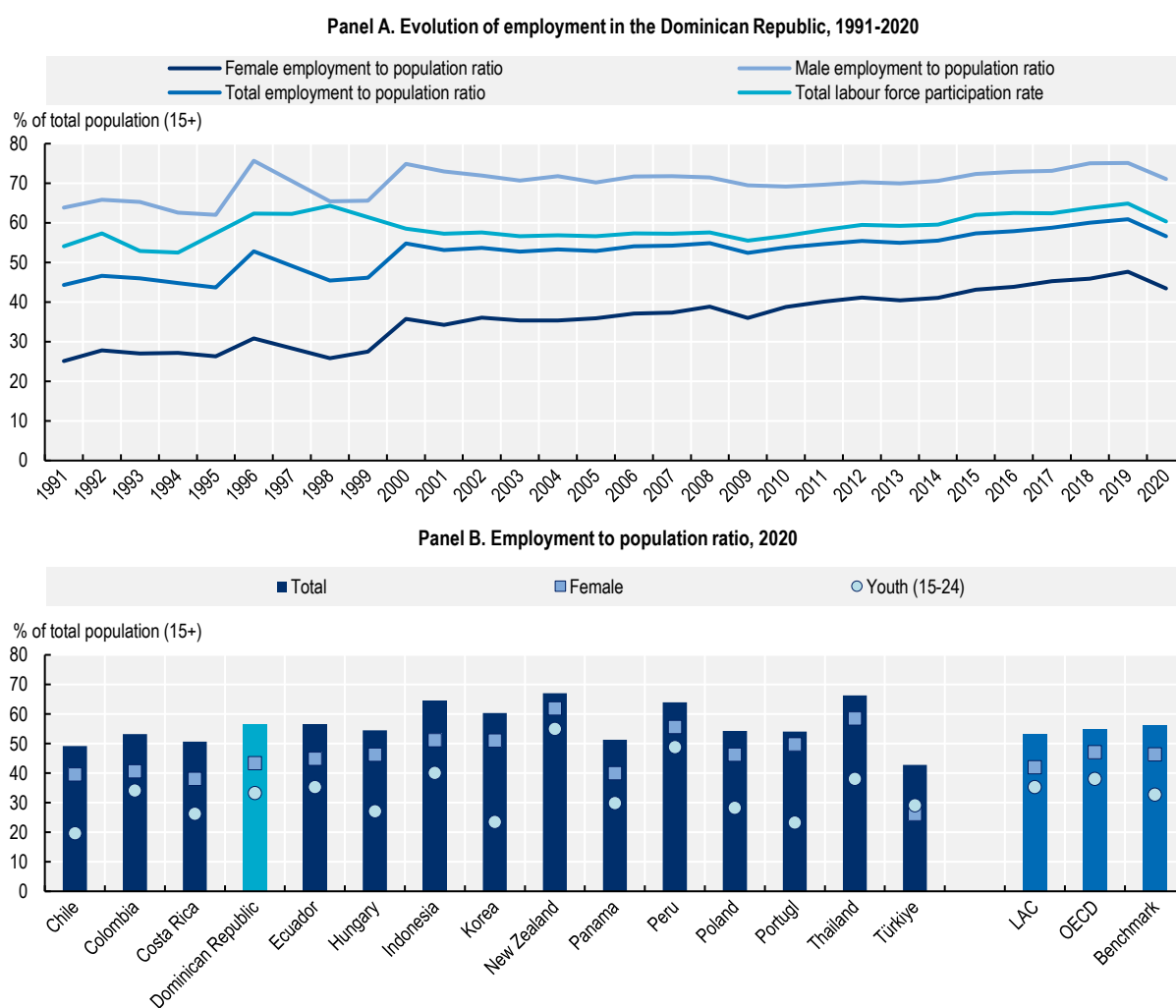
Growth did not translate into sufficient – and better – jobs

The coexistence of strong growth and modest social inclusion can be partly attributed to labour market falling short in channelling the benefits of growth to the population, which in turn contributed to making the effect of the 2003 crisis more durable. Labour force participation remained low, particularly for the poor, and unresponsive even as economic activity recovered. At the same time, while strong growth was accompanied by an increase in labour productivity, wages remained stagnant. Additionally, the sectors largely driving economic growth experienced falling labour shares, possibly due to “biased” technical change that increased productivity while lowering demand for labour (World Bank, 2017^[44]). Low-skilled workers became increasingly concentrated in low-quality jobs and in sectors that showed low productivity growth, while labour informality remained high and persistent.

Labour force participation is persistently low in the Dominican Republic

While labour force participation in the Dominican Republic has been expanding, still less than two-thirds of adults participate in the labour market. Overall, labour participation remained relatively stable during the past decades, at a lower level than in most LAC, OECD and benchmark economies. In 2019, participation reached 60.9% of the Dominican population (15+) active in the labour market, whether working or looking for work (Figure 2.11). Subsequently, it decreased to 56.7% in 2020. Total employment levels have been on par with the averages for LAC, OECD and benchmark economies since 2018, while female employment remains below OECD and benchmark averages, and youth employment is lower than LAC and OECD averages (World Bank, 2022^[2]).

Figure 2.11. Economic growth has only modestly translated into more jobs in the Dominican Republic



Note: The values for benchmark countries are a simple average.

Source: Authors' elaboration based on (World Bank, 2022^[2]).

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The low employment to population rate in the Dominican Republic is mainly explained by low female and youth participation. In 2020, only 43% of women aged 15+ were employed. This is partly the result of a high level of discriminatory social institutions and norms (OECD, 2022^[45]). Similarly, at 33%, youth labour force participation is low; only one in five young Dominicans has a formal job. If lower participation was a result of high levels of school enrolments or training, then it could be a driver of better employment opportunities in the future. Unfortunately, only a small part of the low participation rate reflects enrolments in education and training. One in five Dominicans aged 15 to 24 are not in employment or in education. It is important to highlight that female and youth participation in employment were particularly hit by the COVID-19 pandemic, with participation decreasing by 5 percentage points compared to 2019.

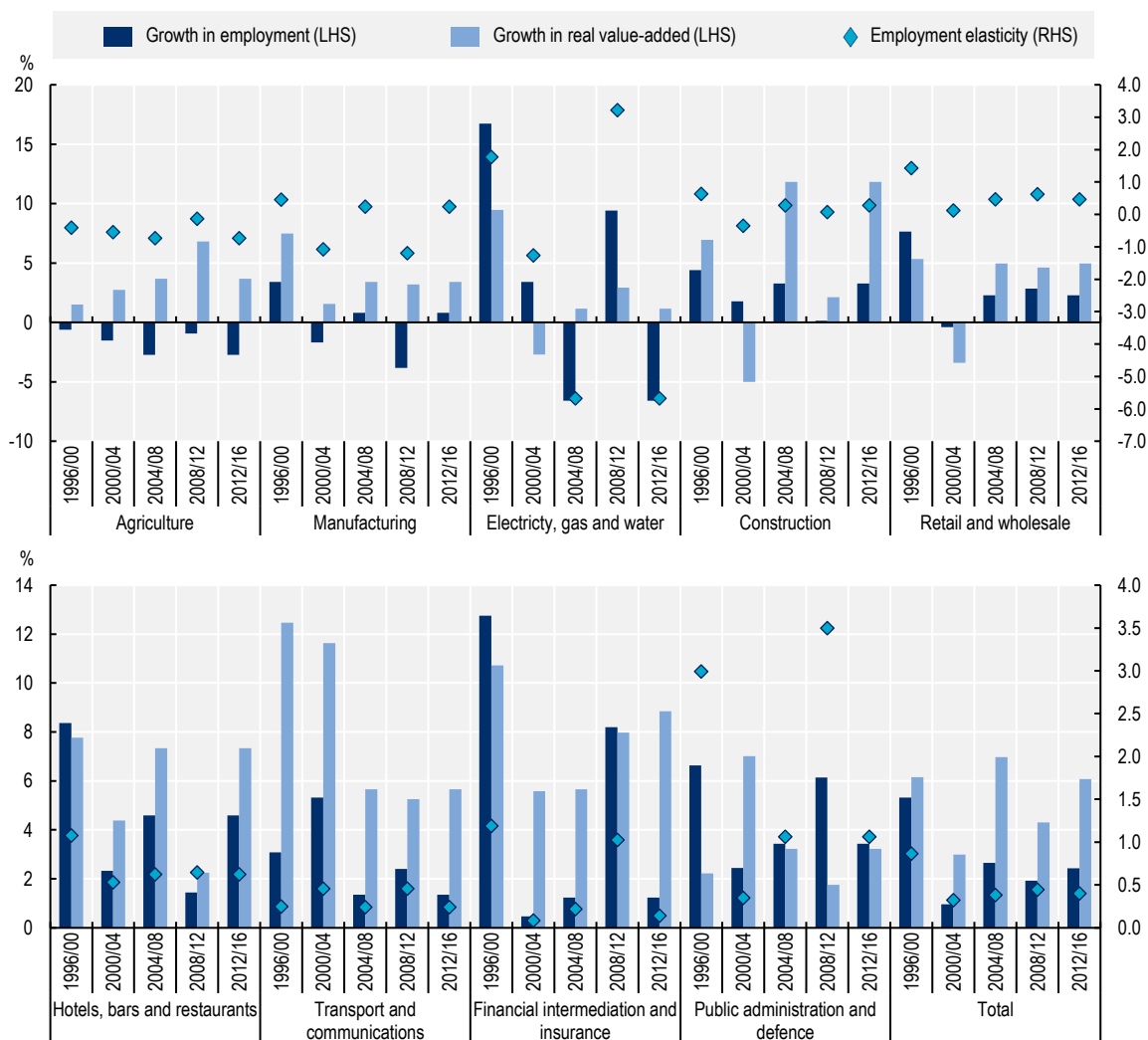
Besides low participation rates, the Dominican labour market is characterised by a large share of own-account workers. In 2018, almost 1.5 million own-account workers represented 37% of the employed population. Usually, own-account workers hold poor quality jobs with 96% making no contributions to the social security system (Central Bank of the Dominican Republic, 2017^[46]).

Economic growth did not lead to sizeable job creation

Behind the robust but only modestly pro-poor growth process, there is low creation of jobs and relatively low elasticity of employment to growth. While the aggregate elasticity of employment to growth from 2000-16 was 0.39, estimates have changed during different periods of growth (Figure 2.12), varying from 0.32 during 2000-04, when GDP grew at 2.9% annually, to 0.40 during 2012-16, when GDP grew at 5.6% annually.

Employment elasticity represents a convenient way to summarise the employment intensity of growth or the sensitivity of employment to output growth. It is a measure of the percentage change in employment associated with a 1 percentage-point change in economic growth. As such, it can indicate the ability of an economy to generate employment opportunities for its population – as a percentage of its growth process – and can be used to track sectoral potential for generating employment (Islam and Nazara, 2000^[47]). A positive employment elasticity of growth indicates that increased output is associated with increased employment. An elasticity lower than 1 indicates that output is growing more quickly than employment, signifying both increases in productivity and in employment.

Figure 2.12. Elasticity of employment to growth is relatively low in most sectors driving growth in the Dominican Republic



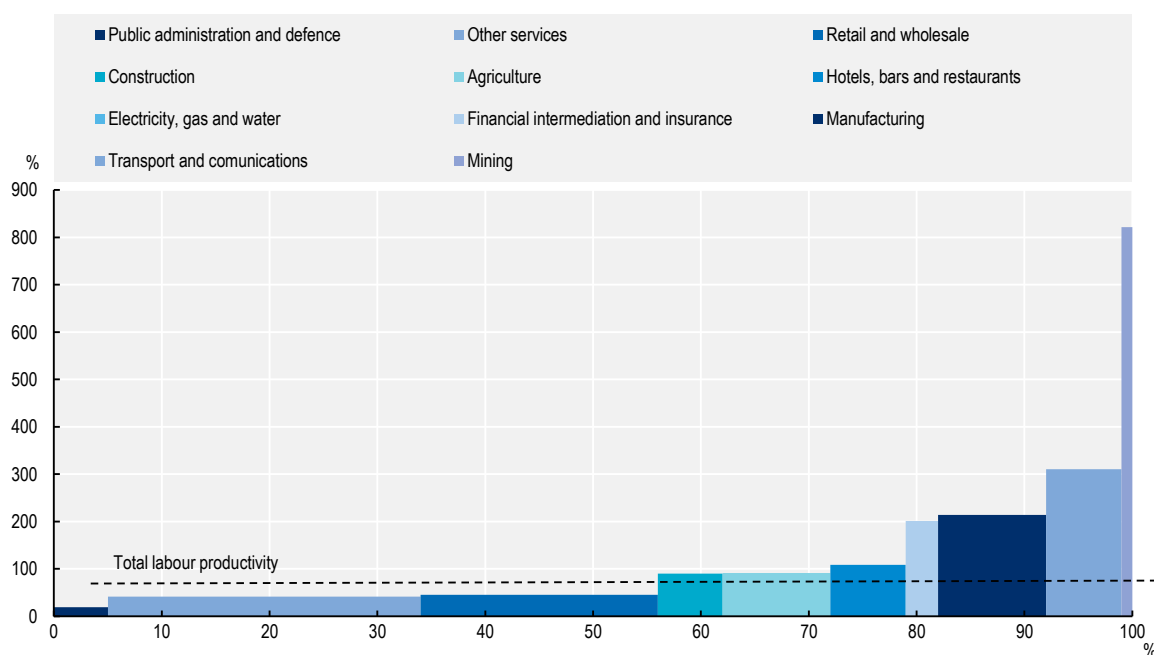
Source: Authors' calculations based on (Central Bank of the Dominican Republic, 2017^[46]).

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The buoyant sectors of the economy in the Dominican Republic have shown poor job-generation capacity. From 2008 to 2016, productivity gains in most of these sectors have been achieved while elasticity of job creation to economic growth has fallen or remained steady overall. Figure 2.12 shows growth in real gross value-added, employment and employment elasticity of growth across the sectors with the largest employment shares in the economy. Elasticity varies considerably across sectors ranging from construction to retail and wholesale, which experienced the most job-friendly growth. In contrast, electricity, gas and water sectors show workforce reductions during two of the five periods analysed. The services sectors (including hotels, bars and restaurants; retail and wholesale; and transport and communications) have generally been employment-intensive during the past decade. Yet, they show falling elasticity as fast employment growth was accompanied by steady productivity growth. Figure 2.13 shows the distribution of productivity and employment levels across economic sectors in the Dominican Republic.

Figure 2.13. Productivity and the distribution of labour in Dominican Republic, 2016

Relative value-added as a percentage of workers and employment by economic sectors (y axis: 100 = total labour productivity and x-axis: % of employment)



Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2017^[46]).

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Most new jobs created in the last decade are in the low productivity services sector. There are significant productivity gains to be realised through labour reallocations from less to more productive sectors as well as by endowing workers with better skills. In the Dominican Republic, as in many LAC countries, jobs are moving out of agriculture and manufacture into the services sector. While productivity increased in both sectors and employment fell by 11% in agriculture and 15% in manufacture between 2008-16, rescinding more than 120 000 jobs. In parallel, almost 70% of all new jobs were created in retail, wholesale and other services while sectors that drove strong growth – e.g. construction, transport and communication, hotels, bars and restaurants – created only 18% of new jobs. Retail and wholesale and other services employed the largest shares of the population while having the lowest productivity levels; although labour productivity in both sectors increased, it was still very low (below 50%) compared to overall labour productivity.

Box 2.1. Migration in the Dominican Republic

International migration – both emigration and immigration – are a significant feature in the Dominican Republic, offering substantial potential for development. Emigration has been consistently growing since 1990, from approximately 458 000 people to 1.6 million in 2020, with around 1.1 million emigrants (68.8% of total) living in the United States. Emigrants have been a particularly resourceful boon to the Dominican economy. In 1980, they remitted USD 183 million – a figure that remained relatively stable until 1990. In 1992, the amount remitted almost doubled to USD 347 million; by 2000, remittances were estimated to be nearly USD 2 billion. In 2019, they surpassed USD 7 billion, equivalent to 8.6% of GDP (World Bank, 2022^[2]); just two years later (2021), personal remittances of USD 10.7 billion accounted for 11.3% of GDP (UN Migration, 2022^[48]). In comparison, foreign direct investment (FDI) inflows were

at 3.4% of GDP in 2018, while official development assistance was at 0.2% of GNI in 2017 (World Bank, 2019^[49]). Remittances are thus an important financial flow.

The Dominican Republic also has a growing number of immigrants, with a sharp increase evident between 2010 and 2015 after the earthquake in Haiti. In 2017, there were over 500 000 estimated immigrants, primarily from Haiti (336 000, 67%) (World Bank, 2018^[50]). Immigration has continued increasing, reaching more than 600 000 in 2020 (UN Migration, 2022^[48]). The Dominican Republic is among several developing countries dealing with increasing immigration and integration challenges, with mixed results.

The role of migration is acknowledged in national development planning in the Dominican Republic, through the National Migration Council and the National Migration Institute. However, migration's development potential is not fully reflected in its policy framework. A study by the OECD Development Centre, based on empirical data collected in the Dominican Republic in 2014 and 2015, shed light on the complex relationship between migration and sectoral policies (OECD/CIECAS, 2017^[51]). It found that the various dimensions of migration – emigration, remittances, return migration and immigration – have both positive and negative effects on key sectors of the Dominican economy. Similarly, sectoral policies have indirect and sometimes unexpected impacts on migration and its role in development. Understanding these impacts is critical for developing coherent policies. For example, the analysis found that vocational training programmes may encourage citizens to emigrate – especially women and urban residents – by making them employable abroad. It also found that formal titles to land can help develop land markets while allowing households to use land as collateral, without fear of losing the land when they emigrate. In fact, having an official land title is positively linked to a household having an emigrant. Public policies also affect remittances. Households with a bank account were more likely to receive remittances. Yet almost two-thirds of households sampled in the OECD study were found to be unbanked and only a few had participated in a financial training programme in the past five years.

The 2017 OECD study shows that many sectoral policy makers do not yet sufficiently take migration into account in their areas of influence and some policies seem to be inadvertently contributing to emigration. Migration needs to be considered in the design, implementation, monitoring and evaluation of relevant sectoral development policies. In turn, a more coherent policy framework across ministries and at different levels of government would help to optimise migration.

Another study by the OECD Development Centre focuses specifically on immigration and three dimensions of its economic contribution to the Dominican Republic: labour markets, economic growth and public finance (OECD/ILO, 2018^[52]). It found that immigrants have higher labour force participation and employment rates than the native-born population and tend to replace native-born workers, particularly those with low skills. The study also found that immigrants contribute to economic growth: given the sectoral distribution of workers and their productivity, immigrants are estimated to contribute between 3.8% and 5.3% of the value added in the Dominican Republic, compared to their share in the population at 4.2%. In 2007 (the latest year for which data were available), immigrants made a positive and larger net fiscal contribution than the native-born population, reflecting that they paid more in indirect taxes and benefited less from public expenditures on social security, social assistance and education. The limited impact of immigration on the economy means that the Dominican Republic is not fully leveraging its potential for development. A lack of integration can cause problems with social cohesion in the Dominican Republic and hamper the way immigrants contribute to development. Priorities should therefore be given to policies that invest in migrant integration.

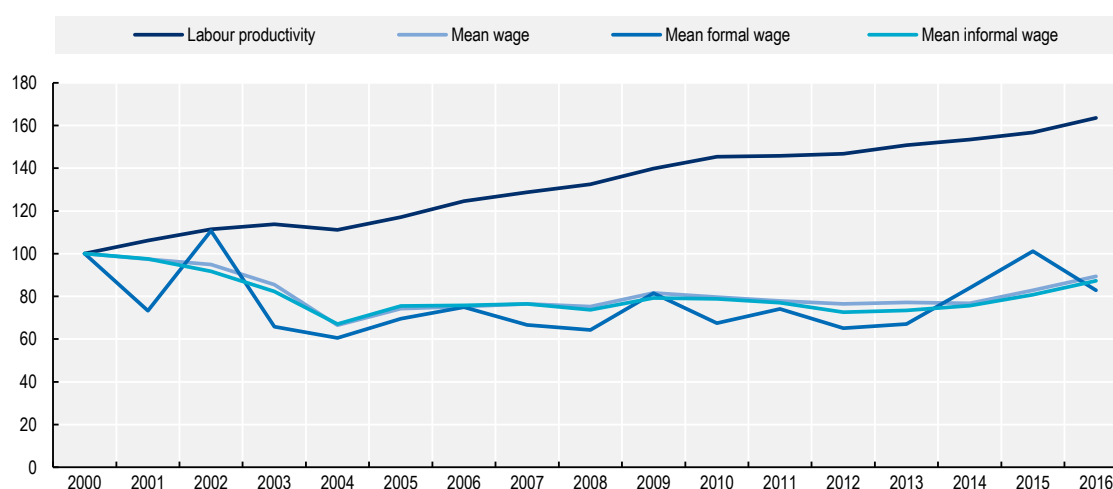
Sources: (World Bank, 2022^[2]; World Bank, 2019^[49]; OECD/CIECAS, 2017^[51]; OECD/ILO, 2018^[52]; UN Migration, 2022^[48]).

Productivity and wages have decoupled

Aggregate labour productivity growth in the Dominican Republic decoupled from real average compensation growth in a period of analysis spanning 2000-16. The robust – but only modestly inclusive – growth was largely fuelled by fast-growing labour productivity. Aggregate labour productivity grew by 68% from 1996 to 2016 but presumably only part of the benefits of these productivity gains were translated to workers. Overall, increasing productivity did not appear to raise real wages for the average worker, as illustrated by three measures of real labour compensation: average national wage, average formal national wage and average national informal wage (Figure 2.14).

Figure 2.14. Labour productivity growth decoupling from growth in wages in the Dominican Republic, 2000-16

Index 2000 = 100



Note: Labour productivity is the annual value-added per hour worked.

Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2017^[46]).

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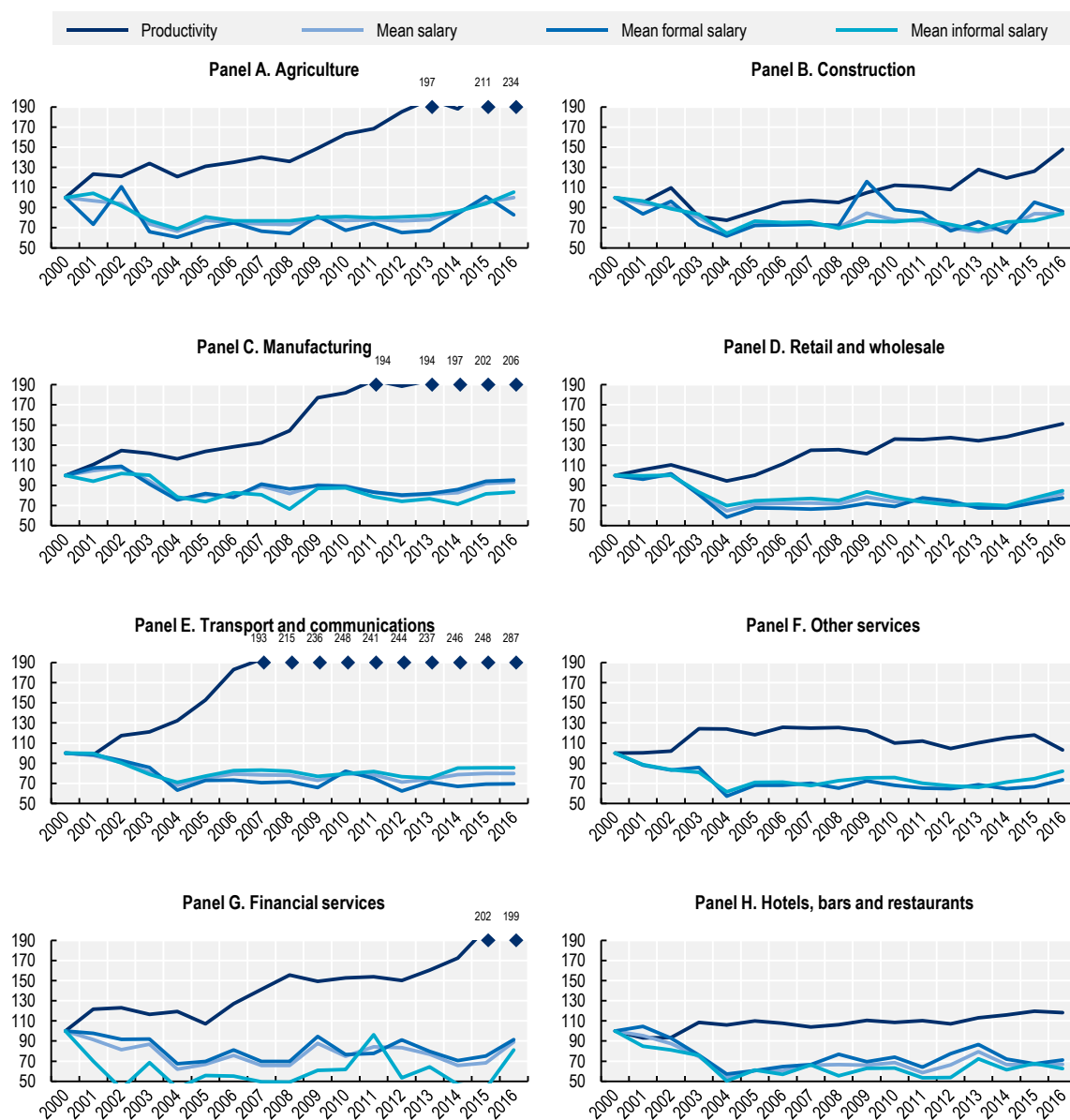
At the sector level, productivity and wages followed the aggregate trend. It should be noted that sectoral categories aggregate medium and small enterprises (MSMEs) as well as large business that have different levels of productivity and wages. Labour productivity growth in all sectors decoupled from real average compensation growth. In agriculture, manufacturing, transport and communications, as well as in financial services, productivity and wages followed very different paths compared to the other sectors (Figure 2.15). In fact, productivity rapidly spiked while wages decreased, suggesting that firms failed to compensate workers for gains in productivity. In contrast, productivity grew at a slower pace in construction, retail and wholesale, hotels, bars and restaurants, and other services. Both patterns suggest that a role exists for public policies to ensure productivity gains are better shared in some industries while not eroding competitiveness in others.

The sectoral analysis also reveals that labour productivity grew less in sectors with higher job creation capacity, concentration of informality and unskilled workers. Employment in construction, retail and wholesale, hotels, bars and restaurants, and other services accounted for 64% of the labour force of the Dominican Republic. Labour productivity growth in most of these sectors was less dynamic than in the rest of the economy. In fact, in the hotel, bars and restaurant sector, productivity gains account for less than

20% in 16 years. This confirms that poor and vulnerable workers were relatively more clustered in low-skilled, lower productivity economic activities (World Bank, 2017^[44]).

Figure 2.15. Labour productivity growth decoupling from wage growth at sector level, 2000-16

Index 2000 = 100



Note: Labour productivity is the annual value-added per hour worked. The diamonds are values that outstand the scale of the graph and correspond to the productivity series.

Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2017^[46]).

Labour market institutions can be strengthened in the Dominican Republic

Many Dominican workers have few alternative employment options and low bargaining power. With less than 10% of the workers unionised, collective bargaining and trade union coverage is low (OECD/ILO, 2018^[52]). Moreover, informal and self-employed workers have almost no scope to organise and bargain collectively. Strong power imbalances that favour employers over workers tend to put downward pressure on labour demand and wages; effective policies can help restore the balance and improve both equity and efficiency (OECD, 2018^[31]).

Collective bargaining and social dialogue can complement government efforts to make labour markets more inclusive. They can also be useful institutions to help companies respond to demographic and technological changes by allowing them to adjust wages, working time and work organisation as well as adapt tasks to new needs in a more flexible and pragmatic manner than through labour regulation (while remaining fair). In some OECD countries, social partners play a significant role in providing active support to workers who have lost their jobs and in anticipating skills needs (OECD, 2018^[31]).

At present, the system of minimum wage in the Dominican Republic is complex, with several wage levels depending on different criteria. The National Salary Committee (*Comité Nacional de Salarios*, CNS), which is part of the Ministry of Labour, is in charge of fixing the minimum wages through meetings organised with employers and employees of the sector concerned (Chapter 3). This complex minimum wage system offers flexibility to tailor the evolution of the minimum wage to the conditions in each sector. However, more complex minimum wage matrices are more difficult to communicate, enforce and monitor, and require higher institutional capacity on the part of the state. In fact, they require that members of a minimum wage board understand the characteristics of all the sectors, firms and regions. Thus, systems that are overly complex, as is the case in the Dominican Republic, tend to lose their effectiveness (World Bank, 2017^[44]).

While the minimum wage sets a floor informed by technical criteria, it should be distinguished from collective bargaining, which can be used to set wages above an existing floor. In the long run, strengthening collective bargaining at the firm or sector level would make the current complex matrix unnecessary. As working conditions would be negotiated between workers and firms and/or sectors, salaries would better reflect productivity changes, thus guaranteeing that both workers and firms profit from them.

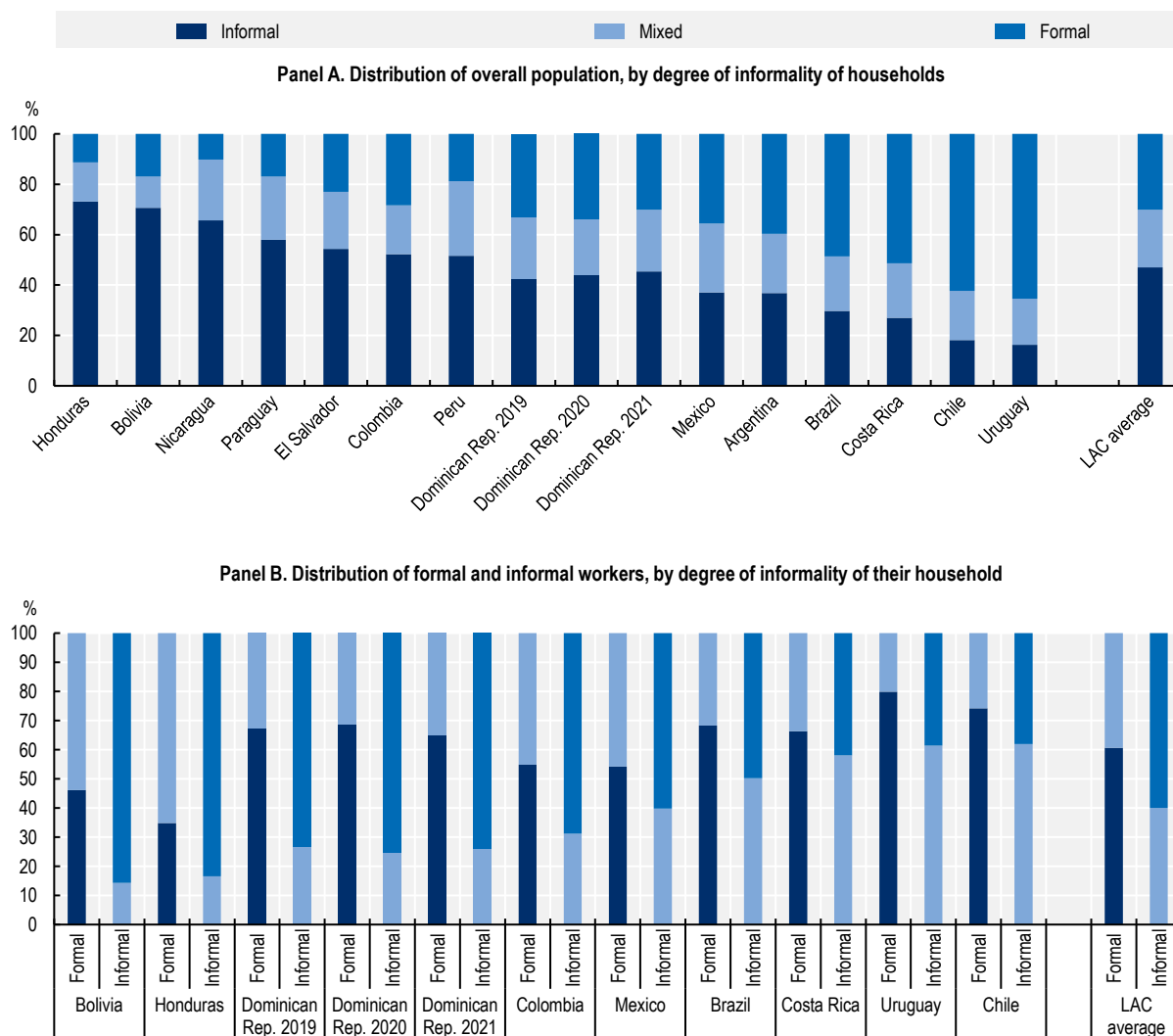
A large share of jobs are still informal

Labour informality has remained almost stagnant at around half of the country's jobs for the past two decades. Informal work, by definition, leaves workers without the right to a pension, health insurance and the general entitlements of the formal sectors (this report uses this definition). In 2021, the informal employment rate reached 59% (up from 55.3% in 2019) and 45.4% of the population lived in households where all workers were employed in informal jobs (Figure 2.16).

Informality is one of the main obstacles to making the labour market in the Dominican Republic more inclusive. The incidence of informality is much higher for workers from poor and vulnerable households, youth, and the less educated, perpetuating the vicious cycle of inequality and low productivity (see Chapter 3 for more details).

Moreover, inequalities in the labour market start early. Young workers from poor or vulnerable families are more likely to hold informal jobs than those from the middle class. In turn, youth from these households leave school earlier than their peers in better-off households. At age 15, nine of ten youth living in poor households are in school; at age 30, seven of ten are informal workers or inactive. In vulnerable households, six of ten young people are informally employed or inactive. Remarkable differences are observed among consolidated, middle-class households: at age 15, nine of ten youth are in school; at age 30, seven of ten have formal jobs. This suggests that a certain degree of labour market segmentation exists in Dominican Republic, making the transition from school to work a particularly relevant stage in young people's careers and futures (OECD/CAF/ECLAC, 2018^[53]) (Chapter 3).

Figure 2.16. Informality in the Dominican Republic is high and affects the most vulnerable households



Note: Estimates for selected LAC countries correspond to 2018 or the closest available year. The LAC average is the unweighted average of the 14 LAC countries studied. To ensure microdata comparability and availability, estimates for the Dominican Republic use the ENCFT data for the third quarter of 2019, 2020 and 2021.

Source: Authors' elaboration based on (OECD, forthcoming^[54]), using the *Key Indicators of Informality based on Individuals and their Household* (KIbIH) database.

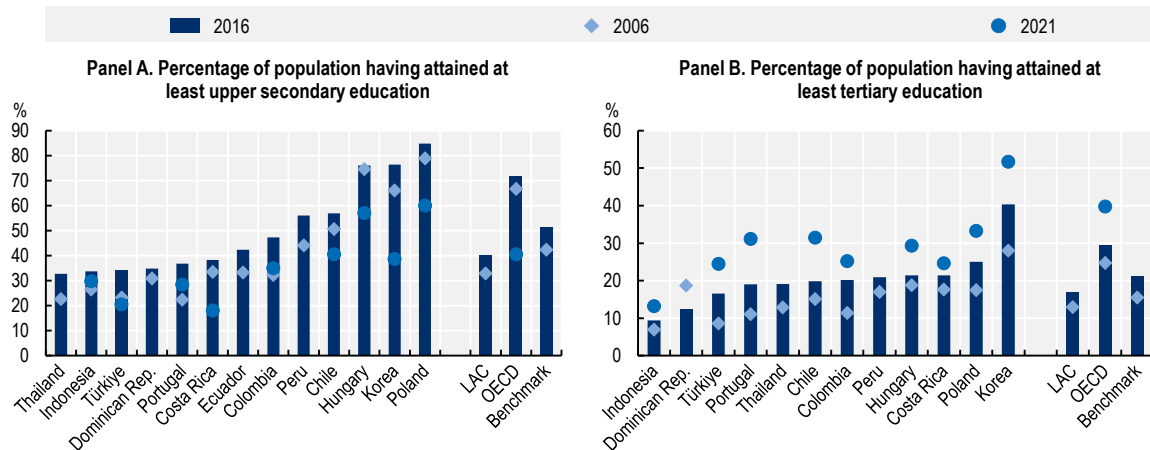
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Education outcomes have improved mostly in terms of access, but quality remains a challenge

Despite progress, educational attainment in the Dominican Republic is low in international comparison (Figure 2.17). Although coverage has expanded over the last decade – especially in pre-primary and secondary education – the country lags behind benchmark economies. Only 34% of the population aged 25-64 had completed secondary education in 2016, in contrast with the OECD average of 71% (OECD, 2018^[55]). Moreover, only 12% of this population had attained a higher education degree. In 2016 (the latest internationally comparable data available), the mean years of schooling of the population 25 years and

older in the Dominican Republic was 9, compared to 9.8 years for benchmark economies in 2020¹ (UNESCO, 2022^[16]). The gross graduation ratio from first degree programmes in tertiary education remained low at 31.4% in 2017.

Figure 2.17. Educational attainment in the Dominican Republic remains low despite some improvements



Note: For tertiary education in 2006, values for Costa Rica and Chile are from 2007, from 2008 for Poland, and from 2009 for Hungary and Korea; for 2016, values are from 2015 for Dominican Republic, Chile, Peru, and Korea. For upper secondary education in 2006, values are from 2007 for Dominican Republic, Costa Rica, Ecuador and Chile, 2008 for Poland, 2009 for Hungary and Korea, and 2010 for Panama. For upper secondary education in 2016, values are from 2015 for Dominican Republic, Chile, Korea and Peru. Data not available for Panama after 2010. The values in 2021 are from 2020 for Chile.

Source: Authors' elaboration based on (OECD, 2022^[18]; UNESCO, 2022^[16]).

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Learning outcomes in the Dominican Republic remain insufficient and the gap with respect to LAC, OECD and benchmark economies is large and has persisted across time, directly impacting the well-being of the population. Moreover, the COVID-19 pandemic caused prolonged school closures. Over the period March 2020 to May 2021, schools in the Dominican Republic remained closed for 33 weeks, higher than the LAC average of 26 weeks (OECD et al., 2021^[27]). This has negative consequences for children and adolescents such as falling enrolment rates, learning loss, increasing risk of malnutrition, increasing risk of domestic violence and affectations on mental health (Azevedo et al., 2020^[56]; Busso and Camacho, 2021^[57]). As closures continued during 2020, the Dominican Republic managed to implement distance learning solutions such as: digital content for teachers, parents and students that was published through the website of the Ministry of Education; distribution of physical learning material; use of social media, radio and television to disseminate educational content; and delivery of electronic devices (IDB, 2020^[58]). To move forward, the country must increase efforts to collect data to diagnose the content lost in the learning process and quantify these losses. This is fundamental to design appropriate interventions that target these losses globally and identify the most-affected students. Also, strategies should be developed to locate and try to reintegrate students who dropped out (Näslund-Hadley and Ortiz, 2022^[59]). Evidence shows that the survival rate² to the last grade of primary education sharply decreased from 85.2% in 2019 to 56.2% in 2020 (UNESCO, 2022^[16]).

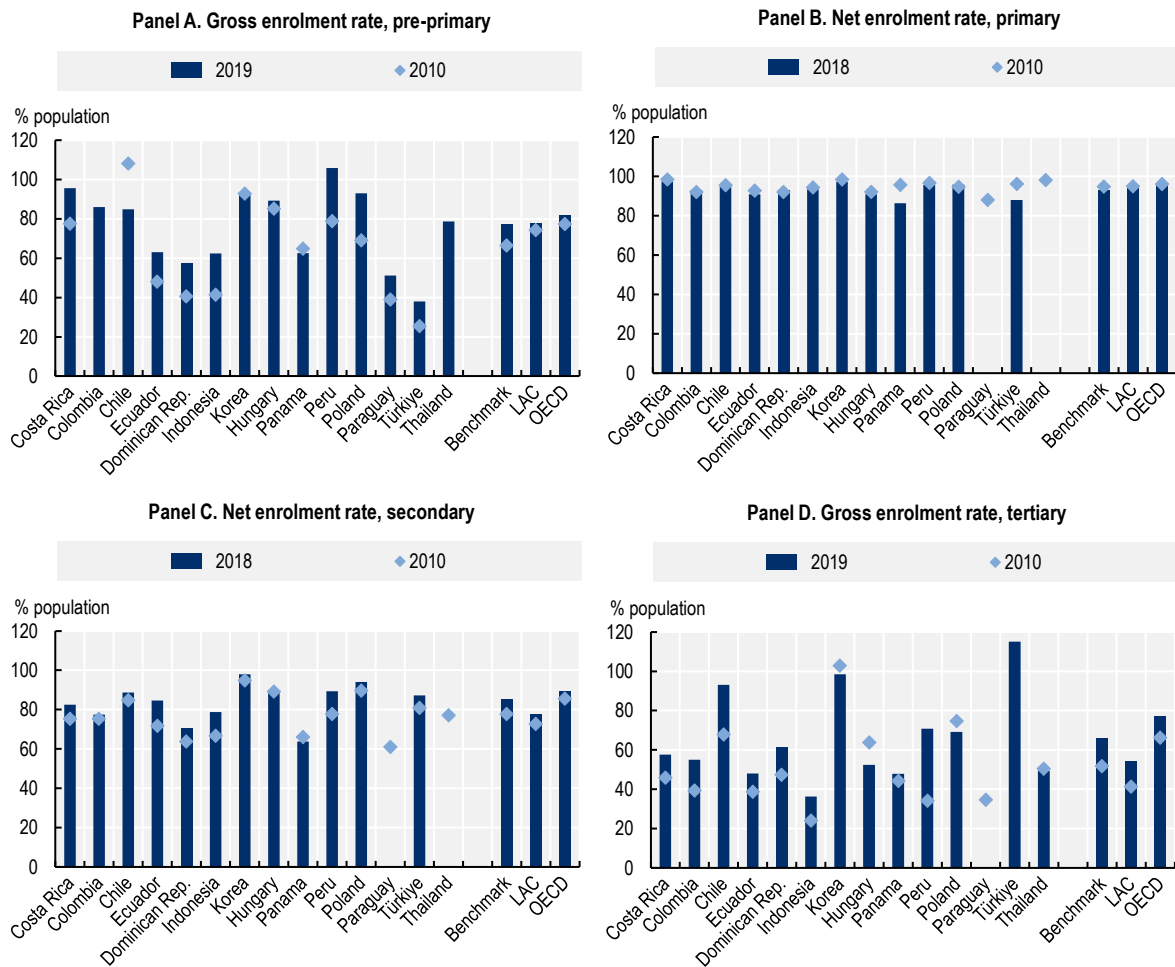
School enrolment and student retention are low for some levels of education

Education in the Dominican Republic is compulsory and free from pre-school to secondary school. The system is structured into three main blocks. Initial education covers all pre-primary education, yet only pre-school (age 5) is compulsory. Primary education consists of a 6-year cycle (corresponding to Level 1 of the International Standard Classification of Education [ISCED]). Secondary education also consists of a 6-year cycle (corresponding to ISCED Levels 2 and 3).

In terms of coverage, despite improvements in the past decade, enrolment rates across all education levels remain below LAC, OECD and benchmark economies. Similar to other LAC economies, while almost all primary age students attend school, the Dominican Republic exhibits low enrolment rates for pre-primary (57%), secondary (71%) and tertiary (61%) education (Figure 2.18).

Most of the recent progress has been made in pre-primary education, although coverage is still low. Since 2014, pre-primary education has been free when provided in public schools, which led to a relatively high pre-school enrolment rate. The gross enrolment rate in initial education was 47.9% in 2015, up from 35.1% in 2007, sharply below rates of over 93% in primary education (World Bank, 2022^[2]). International evidence has shown that quality preschool and early child development programmes can have a significant impact on future school performance and, ultimately, on earnings, with the highest impact on children from low-income families (World Bank, 2018^[50]). In terms of enrolment, secondary and tertiary education also remain key challenges for education progress. Since 2014, enrolment rates in secondary education increased by 7 percentage points up to 70.6%. In line with other countries in the region, the Dominican Republic shows a rapid increase in access to tertiary education; although the enrolment rate of 61.2% surpasses the LAC average, it remains low compared to OECD and benchmark economies.

Figure 2.18. Enrolment rates remain low for some levels of education in the Dominican Republic



Note: Certain values are from different years, as follows. For pre-primary enrolment, 2010 data for Korea are from 2013; 2019 data are from 2020 for Colombia and Paraguay, and from 2018 for Indonesia. For primary enrolment in 2010, data are from 2011 for Costa Rica and from 2009 for Türkiye; for 2018, data are from 2017 for Chile, Korea, Hungary, Panama, Poland and Türkiye while older values for Paraguay (2012) and Thailand (2009) were not included. For secondary enrolment in 2010, data are from 2011 for Costa Rica; values for 2018 are from 2017 for Chile, Korea, Hungary and Panama. For tertiary enrolment in 2010, values are from 2011 for Costa Rica, from 2008 for Ecuador and from 2006 for Peru; values for 2019 are from 2016 for Panama and Thailand, from 2017 for Peru, and from 2018 for Indonesia. Gross enrolment rates were used when net enrolment data was not available.

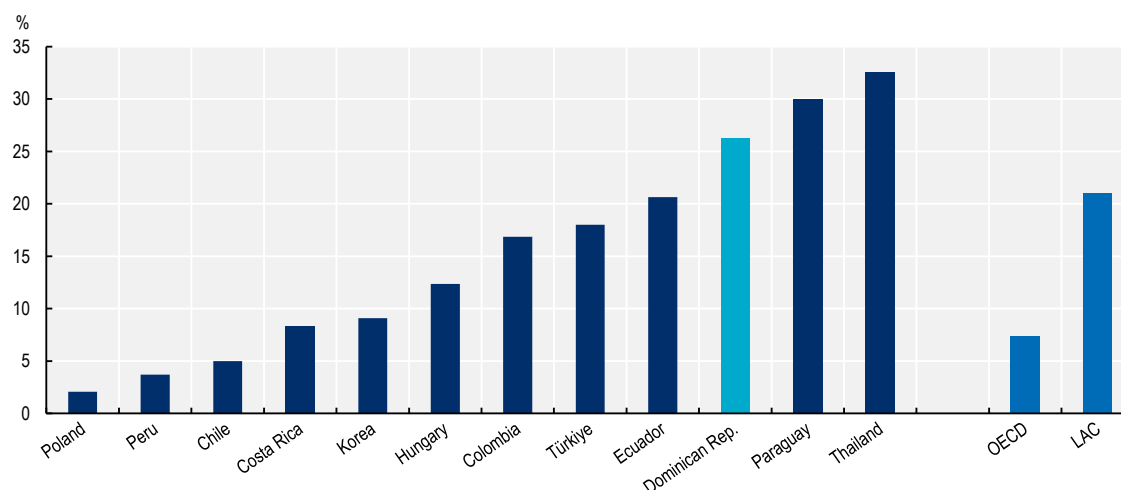
Source: Authors' elaboration based on (World Bank, 2022_[2]).

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Although enrolment rates have improved in the Dominican Republic, few students graduate from secondary education, which undermines strong skills acquisition. For the basic education programme, of every 100 students who begin school in first grade, only 75 complete fourth grade, 63 complete sixth grade, and 52 complete the programme on time (World Bank, 2018_[50]). Dropping out of school before completing secondary education truncates the path towards higher education, exacerbates inequalities and reduces the skill base of the labour force. More than 10% of lower secondary school students drop out of school every year and drop-out rates have increased since 2009. The rate of repetition in lower secondary had been decreasing – from 8.2% in 2015 to 2.9% in 2019 – but significantly increased again to 9.4% in 2020. In that year, more than 25% of secondary students were out of the school system before completing their studies (Figure 2.19), a trend that has remained unchanged for the past ten years and that places the

country above most benchmark economies. This rate increased sharply to 32% in 2021 (UNESCO, 2022^[16]), evidencing some of the negative effects the COVID-19 pandemic has on school attendance.

Figure 2.19. Out-of-school upper secondary school age youth, 2020



Note: Data corresponds to 2020 or latest year available. OECD (2018) and LAC (2019) are simple averages. Number of youth of official upper secondary school age who are not enrolled in upper secondary school expressed as a percentage of the population of official upper secondary school age.

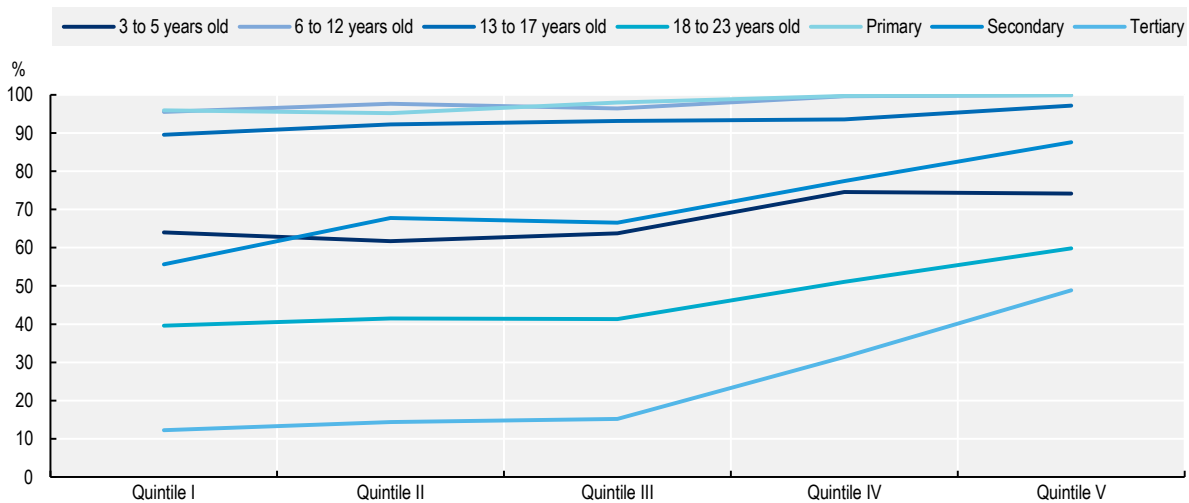
Source: Authors' elaboration based on (UNESCO, 2022^[16]).

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Education and skills can play a major role in tackling inequality

For all levels of education and age groups, education enrolment in the Dominican Republic is higher for students in higher income households than for those from lower income households (Figure 2.20). Differences are particularly wide for pre-primary and tertiary education. In 2016, 74% of children aged 3-5 years in households from the top income quintile were attending an educational institution, compared to 64% of children in the lowest quintile. The smallest difference is in primary school (ages 6-12), with only 4 percentage points difference between the top and bottom income quintiles and net enrolment rates being very high (100%) for the top quintile. A large net enrolment gap exists for secondary education between adolescents from the lowest quintile (56%) and the highest quintile (88%). This evidences that students from the lowest income quintile are more susceptible to lag behind, drop out or remain out of school when they reach secondary education. Consequently, the gap widens at tertiary education at which point only 12% of youth from the lower income quintile enrol compared to 49% from the top quintile. The enrolment rate for the age group 18-23 is much higher than that for tertiary education, meaning youth in this age group are enrolled at secondary or non-tertiary education. The enrolment gap at this age group is 20 percentage points, being 40% for students in the lowest quintile versus 60% in the top quintile. In parallel, enrolment rates are higher among children living in cities than in rural areas. The low coverage and significant differences in pre-primary, secondary and tertiary education enrolment prevent the country from advancing towards equal education opportunities for all children, in particular for low-income households.

Figure 2.20. Enrolment by income quintiles and ages, 2016



Source: Authors' elaboration based on (CEDLAS/World Bank, 2022^[60]).

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Wide territorial disparities are evident in terms of educational coverage and attainment. On average, citizens of the Santo Domingo Capital District attain 8.9 years of education; in contrast, people living in Baoruco, Elías Piña and Pedernales attain five years of education or less. Except for primary education, the urban/rural coverage gap has persisted over a long time. Gaps are especially large in pre-primary and tertiary education, although they have been progressively narrowed. For example, in San Pedro de Macorís, more than 56% of children of age 5 or younger attend school, while only 19% do so in Pedernales. Likewise, more than 71% of the tertiary education population in Santo Domingo Capital District is enrolled in the education system compared to only 31% in El Seibo.

Access to education in the Dominican Republic is mainly equal across gender. Differences in enrolment rates between females and males are visible only at upper secondary and tertiary education. In 2019, the gender parity index (GPI) in pre-primary, primary and lower secondary education was 1.0, revealing enrolment parity. At upper secondary and tertiary education, however, enrolment of females was higher reflected in GPIs of 1.2 and 1.4,³ respectively (World Bank, 2022^[61]).

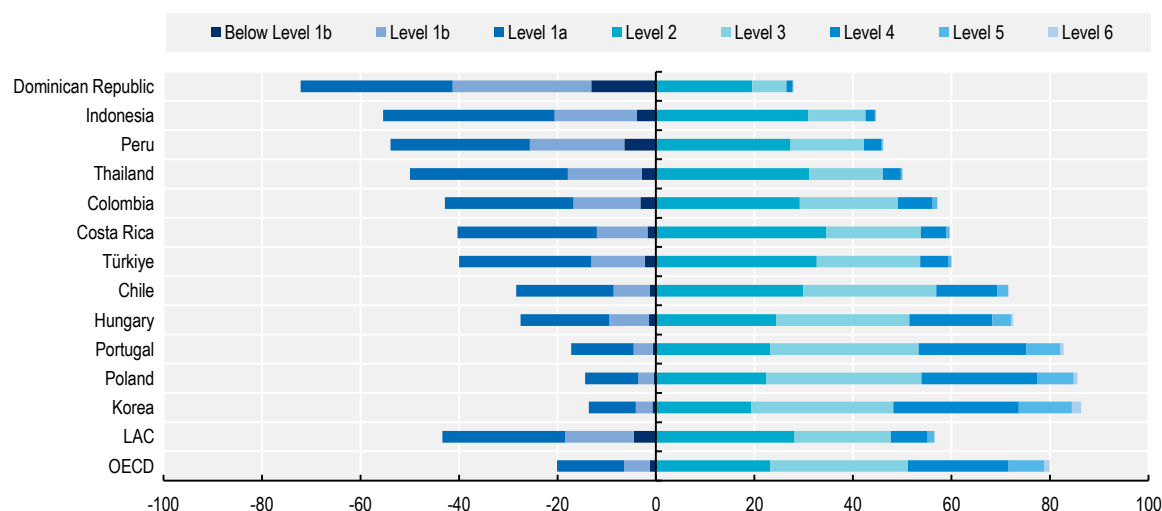
Low education quality is a major obstacle for inclusiveness

The Dominican Republic faces great challenges to improve learning outcomes in both primary and secondary schooling. Recent expansion in education spending (4% of GDP annually) will take some years to produce better outcomes. The increase in access in the past two decades has not been accompanied by parallel improvements in quality, which impedes students from advancing to higher stages of education.

The overall quality of the education system is insufficient. Among more than 70 countries participating in the OECD's Programme for International Student Assessment (PISA) in 2018, the Dominican Republic was the lowest performer in mathematics and science, and the second-lowest performer in reading (after the Philippines) (OECD, 2019^[62]). As much as 75% of young Dominican students enrolled in high school did not acquire basic-level proficiency in all three subjects (i.e. performed below Level 2, the baseline level of skills needed to fully participate in society). In particular, 79.1% of students performed below Level 2 in the reading test, a much poorer result than the average of 53.3% for LAC countries participating in the PISA test and significantly below the 22.6% average in OECD countries (Figure 2.21). This presents a major challenge for countries transitioning into knowledge-based economies in which citizens need to


innovate, adapt and leverage advanced skills. In terms of pertinence for the Dominican Republic, the matching between skills demand and supply is still poor.

Figure 2.21. Student proficiency in reading in PISA 2018



Note: Countries and economies are ranked in descending order of the percentage of students at Levels 2, 3, 4, 5 and 6. LAC is simple average (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Peru, Trinidad and Tobago and Uruguay).

Source: Authors' elaboration based on (OECD, 2019^[62]).

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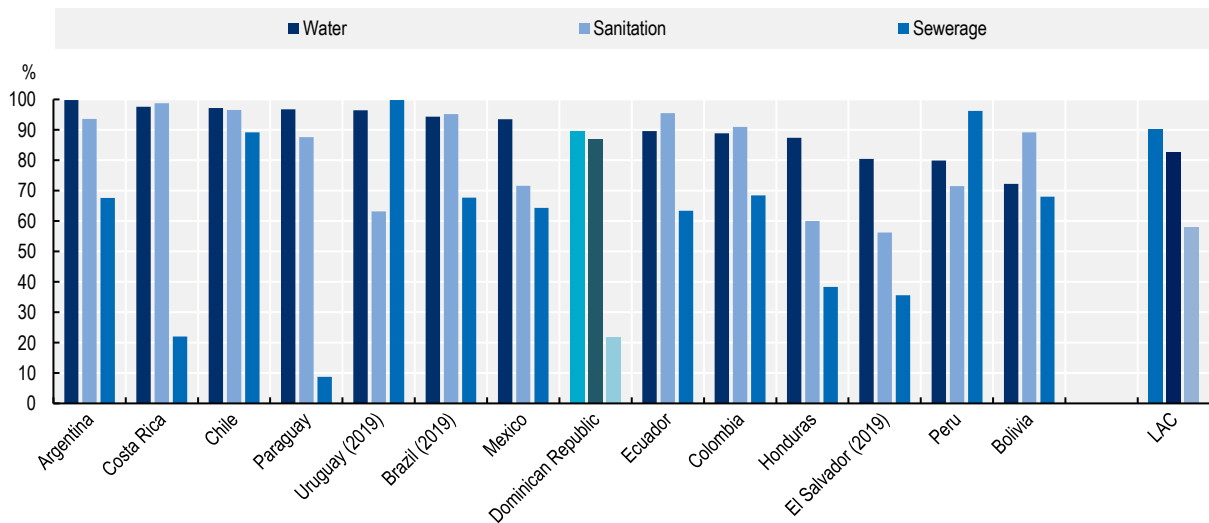
Electricity, water and sanitation services are insufficient

The Dominican Republic has advanced in providing households with electricity, water and sanitation services, yet these systems face numerous challenges. Electricity access has improved the most, now covering 100% of those living in urban and rural areas. Provision of the electrical service, however, remains caught in a vicious cycle of regular blackouts, high operating costs, large losses, and low bill collection rates, while a system of direct and indirect subsidies that add an excessive fiscal burden to the government budget. As a result, many consumers have opted to pay high costs to ensure alternative self-generated electricity (World Bank, 2014^[63]).

These inefficiencies were addressed in the *Pacto Nacional para la Reforma del Sector Eléctrico en la República Dominicana (2021-2030)* signed in February 2021. The pact aims to build an efficient, competitive and sustainable electric system, including a responsible environmental vision. Some of the goals are to reduce energy losses to 15% in six years, increase the standards and supervision of the quality of the service and the measuring appliances, and gradually decrease subsidies to reach a maximum rate of 12% in 2023. The high inflation post-COVID-19 context forced the government to pause future increases in electricity rates and start conversations to reevaluate the goals of the pact (Presidencia de la República Dominicana, 2021^[64]).

In terms of water and sanitation, significant advances have been made in the last 20 years but access is still not universal. At national level, on average 90% of the population has access to safe water and 87% to sanitation facilities. Conversely, sewerage coverage still lags, with only 22% of the population having access – far below the LAC average of 58% (Figure 2.22). For the rural population, the shares drop to 76% for safe water, 66% for sanitation and 3% for sewerage. The country shows a high mortality rate attributed to unsafe water, unsafe sanitation and lack of hygiene with 2.2 deaths per 100 000 inhabitants in 2016, well above average rates for LAC (1.8 deaths), OECD average (0.4 deaths) and all benchmark economies except those in Southeast Asia (World Bank, 2022^[2]).

Figure 2.22. Water, sanitation and sewerage access, 2020



Note: LAC is a simple average of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Mexico, Paraguay, Peru and Uruguay.

Source: Authors' elaboration based on (CEDLAS/World Bank, 2022^[60]).

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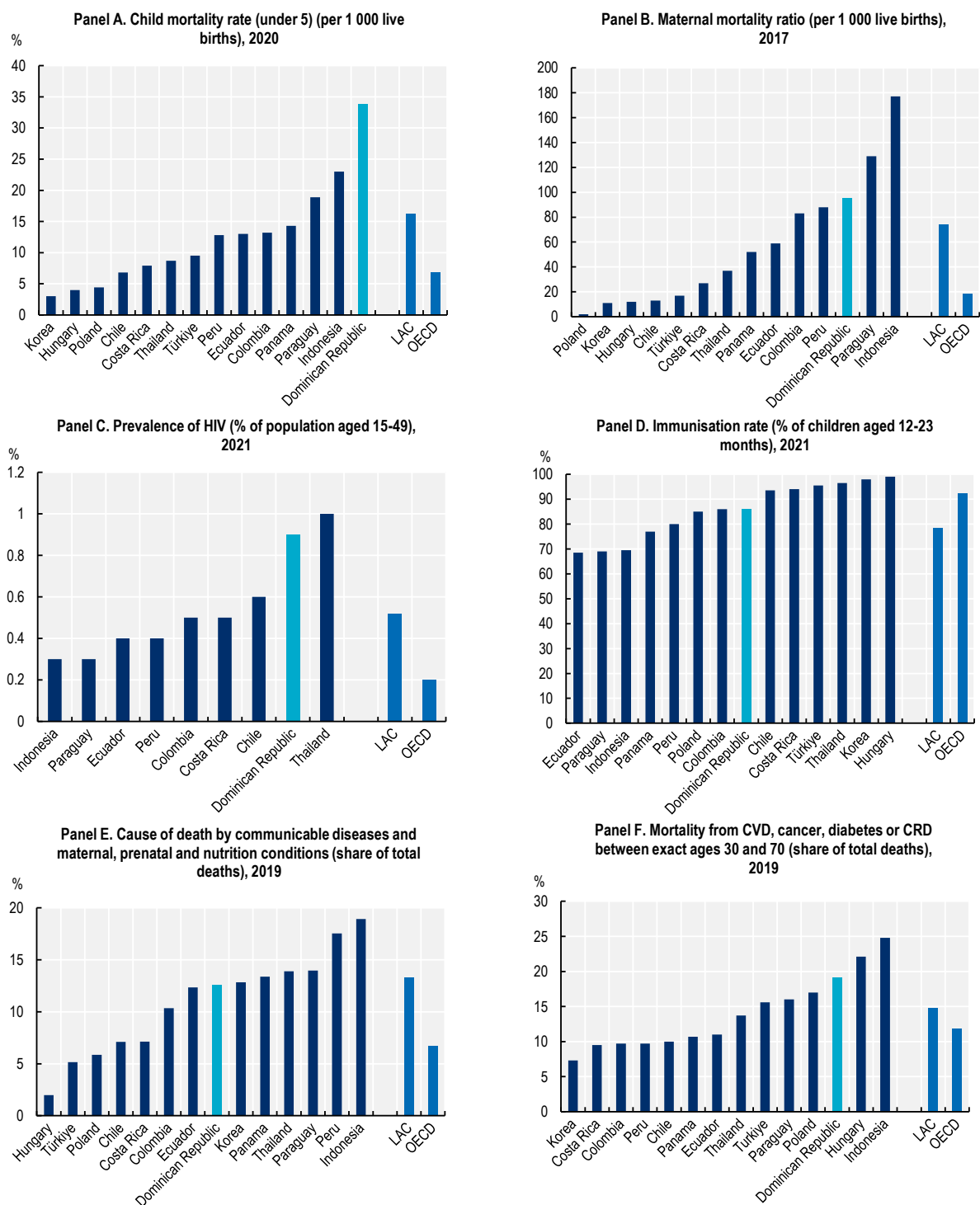
Inequalities persist beyond rural and urban zones, present also in sub-national regions of the Dominican Republic. Access to water and sanitation and electricity infrastructure is unequal across territories. The largest disparities can be observed in water and sanitation services, partially because they lag in terms of coverage. A difference of 50 percentage points is evident across sub-national regions between the highest and lowest coverage of both water and sanitation infrastructure.

Access to good quality health remains unequal

While the impacts of COVID-19 showed some of the weaknesses of the health system in the Dominican Republic, it also served as an opportunity to identify areas for improvement. For instance, measures were adopted in 2020 to include 2 million citizens into the subsidised regime of the National Health Service (SENASA), among which were those whose jobs had been suspended in the context of the pandemic and who were initially protected by temporary programmes. This involved moving from a coverage of around 7.9 million people in December 2019 (76% of the population) to 9.65 million in December 2020 (92%) and 9.9 million in July 2021 (93%) (CISS, 2022^[65]).

The quality of care and health outcomes of the Dominican Republic are low. The country faces a double burden of high maternal, neonatal and child mortality rates, and an increasing share of non-communicable diseases, including cardiovascular disease (CVD), cancer, diabetes and chronic renal diseases (CRD) (Figure 2.23). Poor improvements in outcome indicators leave the country well behind the averages for LAC and benchmark economies. Special attention should be placed on under-five mortality rate (35% per 1 000 live births), which more than doubles the LAC average (16%) and triples that of all benchmark economies (11%).

Figure 2.23. The quality of care and health outcomes of the Dominican Republic is insufficient



Notes: The immunisation rate is the average of the immunisation rate of measles and of diphtheria, pertussis and tetanus (DPT). Values of the prevalence of human immunodeficiency virus (HIV) for the OECD do not include Belgium, Canada, Finland, Iceland, Israel, Korea, Rep., Latvia, Poland, Sweden, Switzerland, Türkiye, United Kingdom and United States.

Source: Authors' elaboration based on (World Bank, 2022^[2]).

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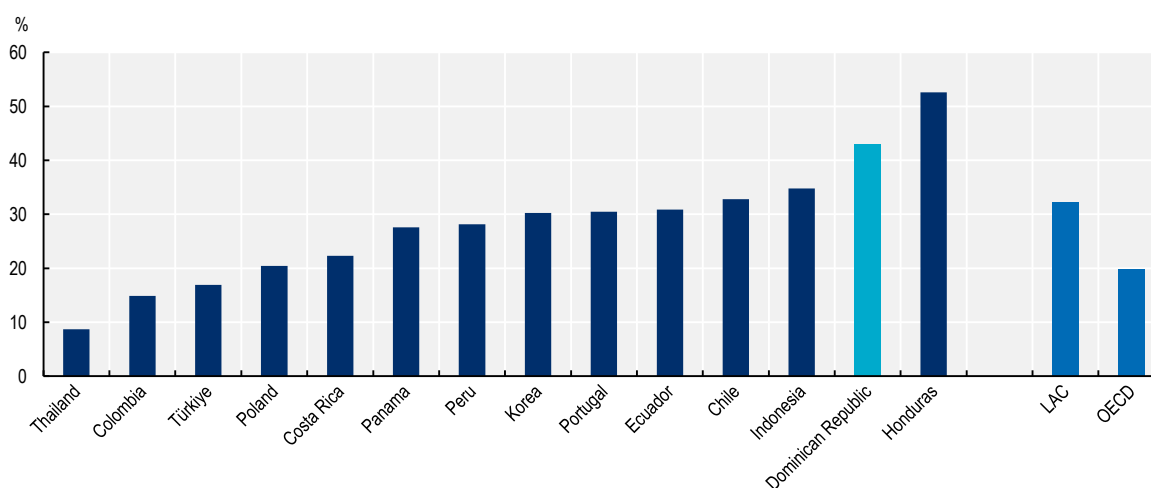
Large gaps persist between coverage and the quality of services provided across health systems in the Dominican Republic. Analysing the extent to which health services translate into improved health outcomes is one common way to assess the quality of the health service. Trends in maternal and child mortality, as well as in premature deaths (deaths under age 75 that could potentially be avoided, given effective and timely healthcare) serve as indicators for a combination of access and quality of health services. Almost 13% of total deaths in the Dominican Republic are attributed to communicable diseases – double the OECD average (7%). Likewise, 19.1% of deaths among people aged 30 to 70 are attributed to CVD, cancer, diabetes or CRD, which is significantly higher than averages for LAC (14.8%) and OECD (11.8%).

The poor quality of public services is reflected in the large share of the population using private facilities, especially among the higher income quintiles (World Bank, 2018^[50]). Almost 66% of Dominicans used public facilities for outpatient consultations in 2015, while only 50% used the inpatient services. These shares are significantly lower than in other upper middle-income LAC countries such as Costa Rica (80%) and Panama (70%) (World Bank, 2018^[50]).

Despite recent efforts, the Dominican Republic falls short on achieving universal health coverage. In the past decade, the country has especially advanced in terms of population coverage and access to basic health services (e.g. immunisation, family planning, prenatal care, skilled attendance at birth, and improved water and sanitation). Yet population coverage remains insufficient, public spending on health is low and out-of-pocket payments are high (Figure 2.24). As a result, citizens – especially those in the poorest quintiles – find it difficult to receive needed health services without facing financial hardship (World Bank, 2015^[66]).


Figure 2.24. Individuals assume a relatively large share of total health expenditures in the Dominican Republic

Out-of-pocket expenditure (% of current health expenditure), 2019



Note: The LAC average is a simple average of 33 countries for which data is available. The OECD average is a simple average for 38 member countries.

Source: Authors' elaboration based on (World Bank, 2022^[2]).

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Individuals in the Dominican Republic assume a relatively large share of total health expenditures. In 2019, they paid 43% of health expenditures out of their own pockets, more than double the 20% recommended by the World Health Organization and also higher than the averages for LAC (32.2%) and OECD countries

(19.8%) (Figure 2.24). Moreover, health expenditures have been increasing and accounted for 14% of the poverty gap in 2016. In 2018, 8.2% of the Dominican population was spending more than 10% of household consumption or income on out-of-pocket health care expenditure. Lower out-of-pocket expenditure on health reduces the risks of catastrophic or impoverishing health spending while higher public spending is associated with higher financial protection (WHO, 2016^[67]; WHO, 2017^[68]). This indicator reflects the extent to which public health systems offer protection to citizens. High out-of-pocket payments are of great concern as they may force low-income households to cut back in relevant areas such as food and education or fall into deeper poverty levels when faced with large exogenous health shocks (WHO, 2017^[68]).

The social protection system is fragmented, limiting the efficiency of service delivery

Despite recent improvements, social protection coverage is low in the Dominican Republic compared to the rest of LAC. In 2016, only 38.5% of the economically active population contributed to a pension system (Figure 2.25) Low coverage is strongly related to the high prevalence of labour informality, which affects more than half of Dominican workers (Chapter 3).

In terms of pensions in the Dominican Republic, two systems co-exist – the old defined benefit system and a new defined contribution system – both with very low coverage. Overall, the pension system is a contributory scheme. Since the pension reform of 2001, it is based on individual capitalisation accounts. All workers, both public and private, and their employers must contribute to their respective capitalisation accounts and must pay an insurance premium for disability and survivor coverage. In parallel, the old defined benefit scheme still offers old-age insurance coverage to a closed group of affiliates aged 45 or older at the time that the law went into effect. This group encompasses both public employees and a limited segment of formal workers in the private sector (OECD/IDB/The World Bank, 2014^[69]). Public-sector workers who opted not to join the individual account system remain in the old social insurance system for public-sector workers.

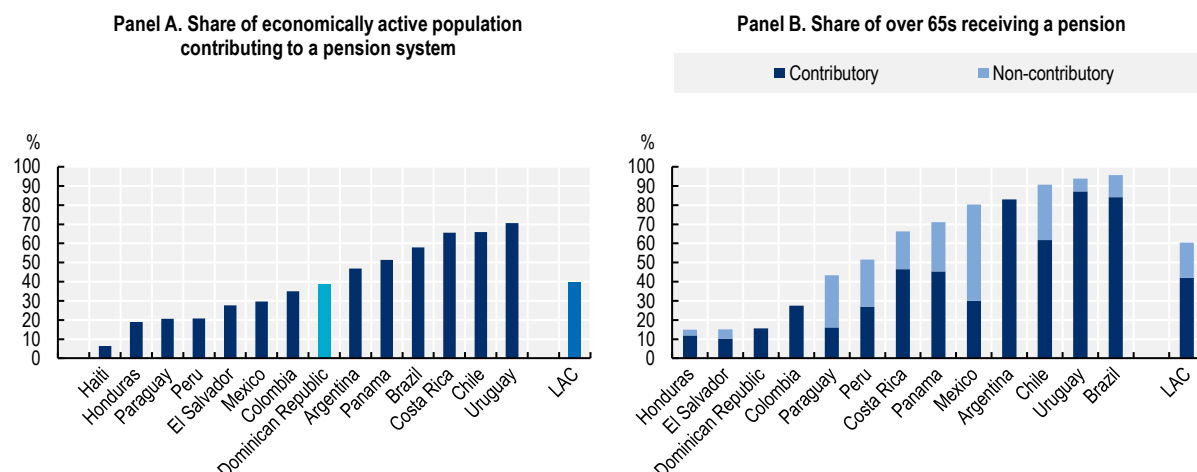
New labour-market participants must enter into the mandatory scheme of the new Dominican Pension System, including those affiliated to the previous schemes who were 45 years old or younger when the reform went into effect. Workers contribute 2.87% while employers contribute 7.1% of base wages for old age, disability and survivors' insurance. Of this amount, 8 percentage points are allocated to individual capitalisation accounts. Disability and survivor insurance premiums are established by law up to a maximum of 1% of the contributory wages. In turn, administrative fees are established by law up to a maximum of 0.5% of wages, although the pension fund management companies also charge up to 30% of the returns on investments above a certain threshold. A charge of 0.07% applies to finance the Superintendent of Pensions' operating costs and a contribution of 0.4% goes to the Social Solidarity Fund. Benefits can be drawn as programmed retirement or annuities indexed to the consumer price (OECD/IDB/The World Bank, 2014^[69]). The retirement age for both women and men is 60 years old.

Concurrently, the old pay-as-you-go social system for private-sector workers was closed to new entrants in 2003 and is being phased out. It still covers two groups: private-sector workers who were aged 45 or older in 2003 and chose to remain in this system; and private-sector pensioners who began receiving their pensions before June 2003.

Subsidies to individual accounts for self-employed, informal and other vulnerable workers have not yet been implemented. The 2001 social security law introduced a social assistance for old-age and disability, as well as a survivor pension; so far, however, this scheme has not been fulfilled. As a result, coverage remains low and old-age poverty high.

Figure 2.25. Pension coverage is low in the Dominican Republic

2016 or latest year available



Notes: Panel B shows the ratio of the total number of pension beneficiaries (contributory or non-contributory) over the total population of individuals aged 65 and over. Contributory beneficiaries include those receiving old age, disability, and widows' pensions. Data for Brazil, Chile and Panama is from 2015; from 2012 for Haiti.

Source: Authors' elaboration based on (IDB, 2018^[70]).

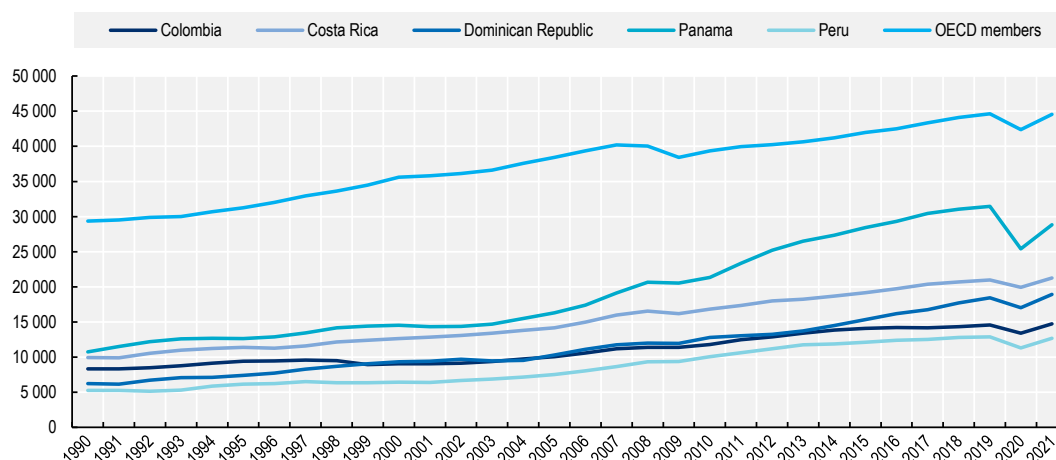
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Prosperity: Structural reforms to boost inclusive growth

Growth has been strong, but the labour productivity gap relative to high-income countries is still large


Since the early 1990s, the Dominican Republic has experienced a period of stable growth, which has allowed the country to reduce its living standards gap relative to high-income countries (Figure 2.26). On average, real GDP grew by 5.1% between 1993 and 2021, raising GDP per-capita from 6.6% to 13% of US GDP per capita. Structural reforms and stabilisation policies facilitated strong growth performance during the 1990s and 2000s. Together with the proximity to North American markets, this helped attract FDI in the manufacturing and tourism sectors. Investment became the fastest-growing component of domestic demand, contributing to 16.6% of GDP in 1991 and 30% in 2021. The COVID-19 pandemic triggered a decline of GDP per capita by 7.5% in 2020 which was followed by a rebound of 11.3% in 2021 (IMF, 2022^[1]).

Figure 2.26. Growth in the Dominican Republic has been strong since the early 1990s



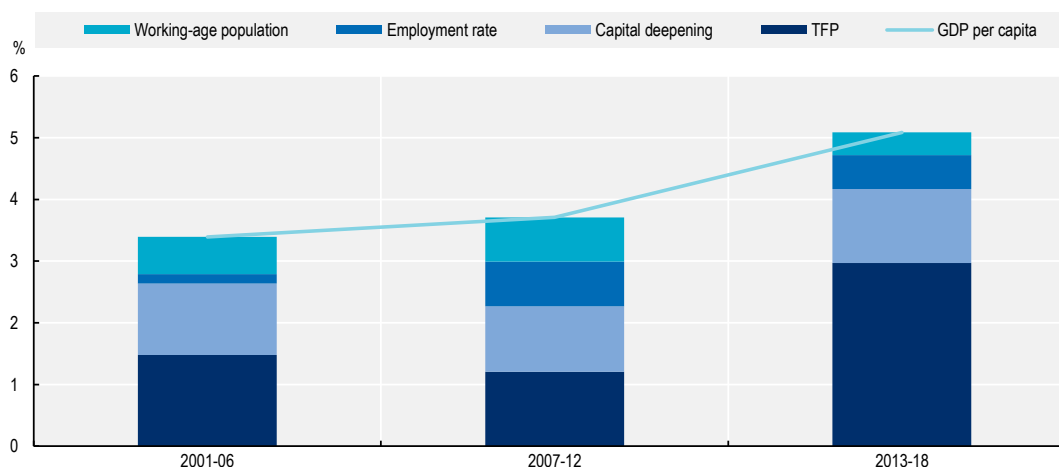
Note: The graph shows real GDP per capita in USD PPP of 2017.

Source: Authors' elaboration based on (World Bank, 2022^[2]).

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Strong capital accumulation and increases in total factor productivity (TFP) led to a considerable surge in output per worker, raising the average living standards of the Dominican population. TFP growth and capital deepening accounted for more than 50% of real GDP per-capita growth during the last two decades (Figure 2.27). The rise in employment rates, as well as an increase of the working age population relative to total population, have contributed 0.8 percentage points to real GDP per-capita growth between 2013 and 2018. However, the demographic dividend is shrinking. Population projections indicate that the rise in working age population will slow significantly and will not contribute to further GDP per-capita growth. To maintain current growth rates, structural reforms are needed to increase labour productivity and employment rates.

Figure 2.27. Real GDP per-capita growth was mainly driven by TFP growth and capital deepening



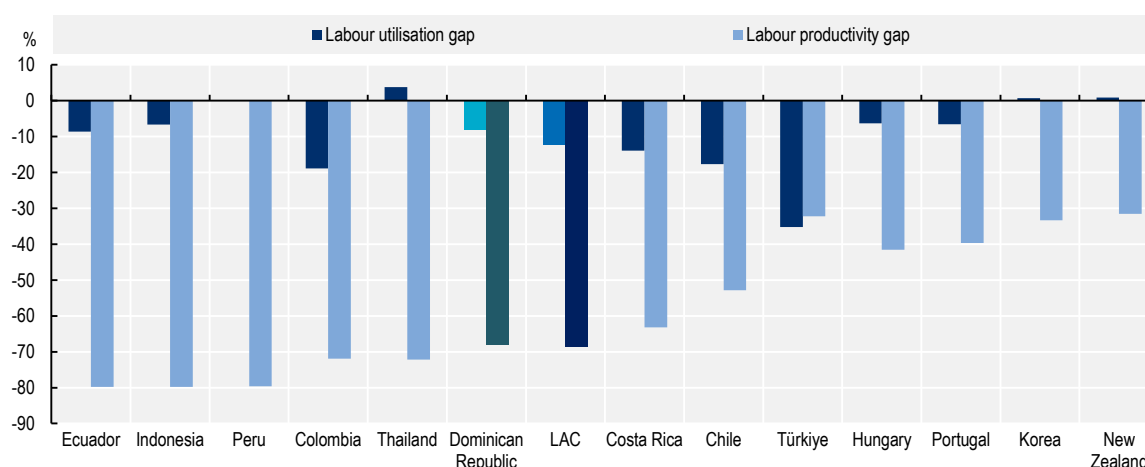
Note: The figure shows the decomposition of real GDP per-capita growth into its components (TFP growth, capital deepening, the growth of the employment rate and the growth of the working age population relative to total population) for three different sub-periods. The figure shows average annual growth rates for six-year periods.

Source: Authors' calculations based on (IMF, 2019^[71]; Central Bank of the Dominican Republic, 2022^[72]).

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Despite considerable improvements since the early 1990s, labour productivity is still far behind the average levels of high-income countries (Figure 2.28). Moreover, a labour utilisation gap persists, mainly due to the low labour force participation of women, which stood at only 43% in 2020 (compared to 71% for men) (World Bank, 2022^[2]). Policies that increase labour force participation and formal employment of women could aid structural reforms aiming to bolster productivity growth. But, so far, the benefits of economic growth have not been equally shared among the population: wages have lagged behind productivity growth, inequality remains high, and poverty still affects around one-fourth of the population (see section on “People”). Recent improvements in real wages and poverty reduction have helped marginally. To ensure that productivity gains are shared, and economic growth is more inclusive, further policy action is needed.

Figure 2.28. The labour productivity gap with respect to high-income countries remains large



Note: Compared to the simple average of the 17 OECD countries. Since the decomposition is multiplicative, the sum of the percentage difference in labour resource utilisation and labour productivity does not equate to the GDP per-capita difference. Labour productivity is measured as GDP per employee. Labour resource utilisation is measured as employment as a share of population.

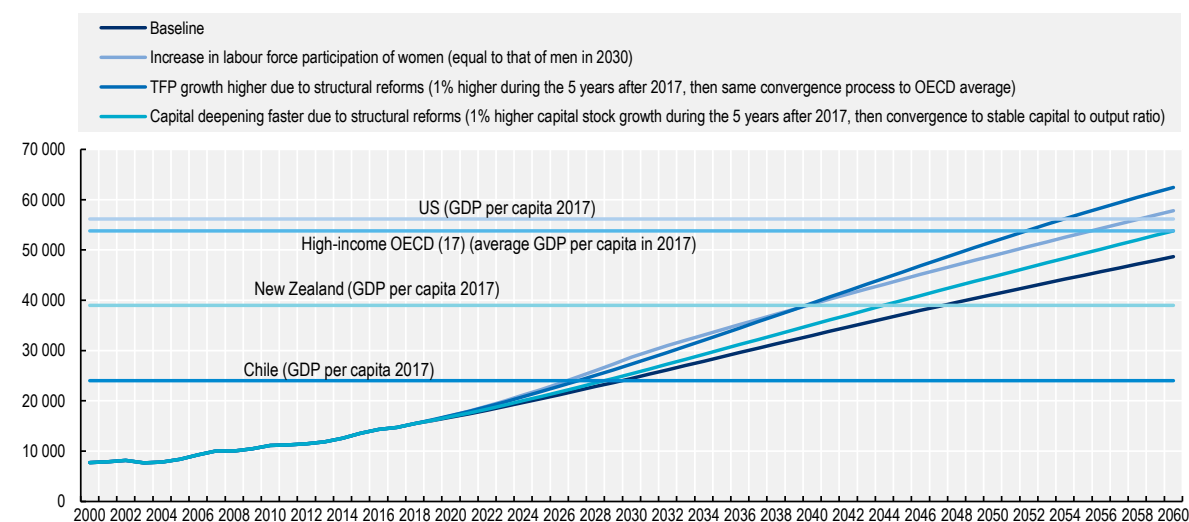
Source: Authors' calculations based on (Feenstra, Inklaar and Timmer, 2015^[73]).

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At the current pace of reforms, a simple growth model shows that the Dominican Republic would not reach average living standards currently enjoyed by OECD high-income countries until 2060 (Figure 2.29). However, structural reforms that add one percentage point to the growth of TFP or capital per worker during the next ten years would allow the Dominican Republic to obtain the current average living standards of OECD high-income countries by 2053. Similarly, matching the labour force participation of women to that of men by 2030 would boost GDP per-capita growth by around 1.5% per year until 2030. This would enable the Dominican Republic to achieve the current average living standards of high-income countries by 2055.

Figure 2.29. Additional structural reforms are needed to support the Dominican Republic to reach higher living standards

Long-term growth scenarios for the Dominican Republic (in real GDP per-capita in USD PPP of 2011)



Note: The long-term growth scenarios build on simplified assumptions for the convergence of TFP growth and capital per output ratios taken from the OECD long-term model (Guillemette and Turner, 2018^[74]).

Source: Authors' calculations based on (Feenstra, Inklaar and Timmer, 2015^[73]).

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Among the structural reforms that would boost productivity and inclusive growth in the Dominican Republic, reducing barriers to entrepreneurship, creating a level playing field and increasing competition in domestic markets have significant potential for generating additional GDP per-capita growth (Table 2.1). High administrative burden and anti-competitive regulations favouring incumbents complicate the entry and growth of young, innovative firms. This leads to low innovation outcomes, low productivity, higher prices of goods and services, and a lack of high-quality jobs in domestic markets. Underdevelopment of domestic capital markets also hinders productivity growth (see Chapter 4). Barriers to finance, such as high lending rates, are particularly detrimental for small and young firms.

Increasing government effectiveness and reducing corruption could raise the quality of public services, and public trust in them, and achieve significant growth impacts (see section on “Peace and Institutions”).

Table 2.1. Structural reforms to boost inclusive growth

Estimated impact of selected reforms on growth of real GDP per capita

Structural reform	Additional annual growth rate (over a 10-year horizon)
Reducing barriers to entrepreneurship, creating a level playing field and increasing competition in domestic markets (e.g. by cutting administrative burden, limiting anti-competitive effects of regulation and strengthening the role of the competition agency)	0.8%
Improving the functioning of domestic capital markets (e.g. improving co-ordination between the treasury and the Central Bank when issuing public debt; improving co-ordination among supervision authorities; and increasing competition among banks and other financial institutions)	0.6%
Improving government effectiveness (e.g. by undertaking systematic audits and evaluations; reducing duplication of government agencies; and improving management of state-owned	0.4%

enterprises)	
Reducing corruption (e.g. by improving procurement laws and whistle-blower procedures)	0.2%
All of the above	2.0%

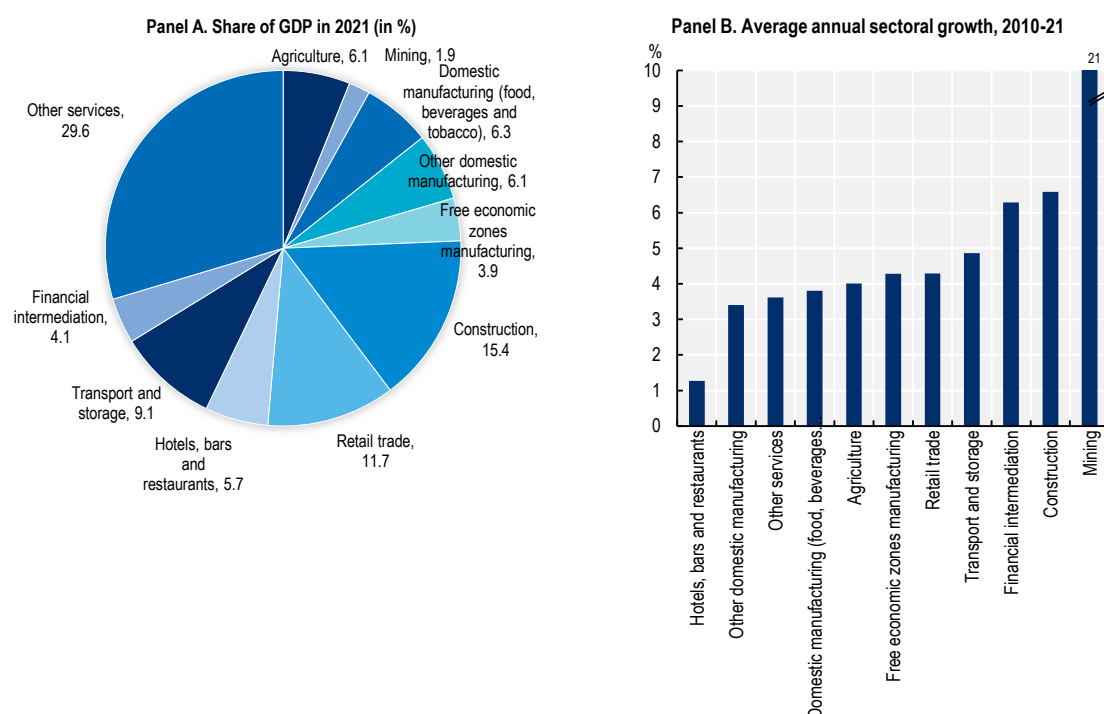
Note: These estimates were obtained on the basis of three sources. i) A numerical indicator of the Dominican Republic's policy stance in each policy area, taken from OECD/World Bank Product Market Regulation indicators, the World Bank's World Governance Indicators and World Development Indicators. ii) A simulated policy shock to the indicator, defined as moving the Dominican Republic to the average of the six regional peers Chile, Colombia, Costa Rica, Ecuador, Panama and Peru. iii) The OECD quantification framework, which provides an estimate of the impact of changes in the indicator on long-term output growth with a time horizon of ten years (Égert and Gal, 2017^[75]). These quantifications are subject to uncertainty, both about their size and about the time horizon of their materialisation.

Source: Authors' calculations.


Growth performance has been uneven across different sectors of the economy

Since 2010, mining, construction, financial intermediation, and transport and storage have been the fastest-growing sectors of the economy. Due to large FDI in gold and silver mining, the mining sector has been growing around 21% per year, but only accounts for 1.9% of GDP (Figure 2.30). It is also the least labour-intensive sector in the economy. Domestic manufacturing accounts for 12.4% of GDP and around 6.5% of total employment and has been growing slightly slower than manufacturing in free economic zones. Agriculture accounts for 6% of GDP and 8% of total employment, and construction for 15% and 9%, respectively.

Figure 2.30. GDP growth since 2010 was mainly driven by services sectors and mining



Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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Among services, tourism is the most dynamic sector, followed by financial intermediation. Travel and tourism accounted for around 5.4% of GDP, over 39% of total exports and around 5% of total employment.

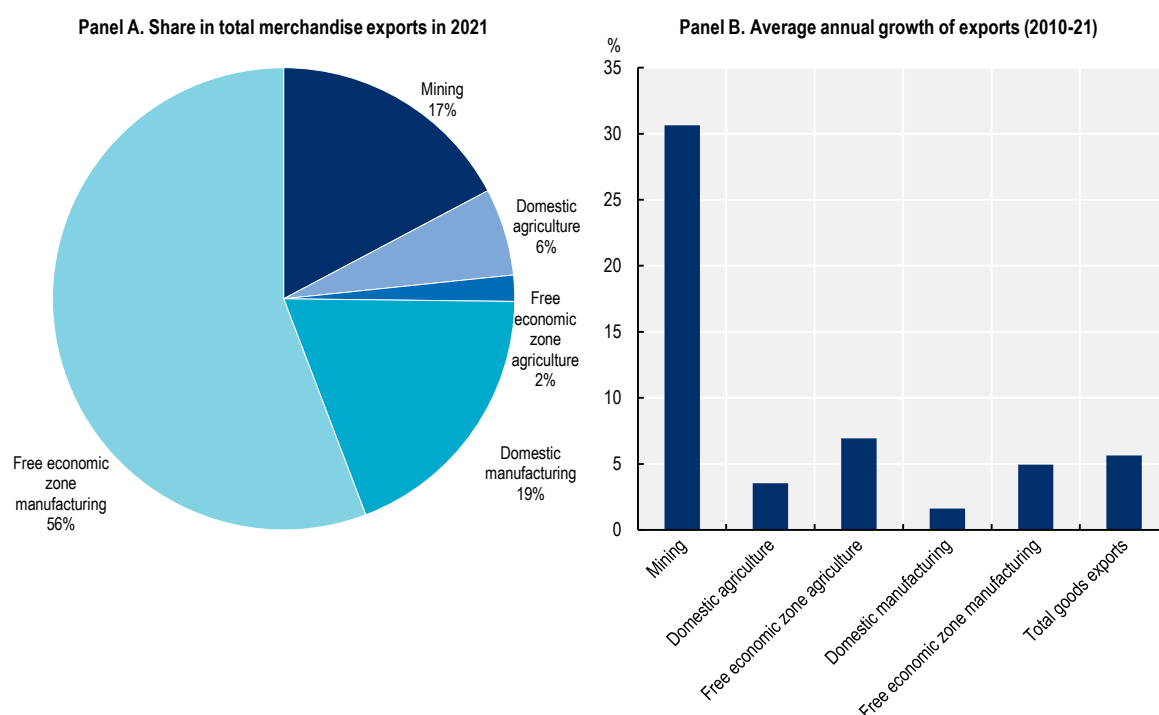
Including indirect links with other sectors of the economy, such as construction, food manufacturing and transport, tourism accounted for 11.8% of GDP and 16.7% of total employment in 2021 (World Bank, 2018^[50]). Besides natural endowments and the proximity to North American markets, low wage costs, broad tax and tariff exemptions, and preferential access to electricity distribution are additional reasons for strong foreign investments and growth of the sector. As all-inclusive tourism dominates the sector (around 75% of all visitors), linkages with the domestic agricultural and food sectors are still low. Developing non-all-inclusive tourism could change this, as well as creating a more level playing field for all firms (World Bank, 2018^[50]). In addition, the degradation of natural endowments is an important challenge for the sector (see section on “Planet”).

During the 1990s, a series of structural reforms stimulated FDI and growth in the Dominican Republic. These included liberalisation of foreign exchange transactions, elimination of price controls and foreign investment restrictions, establishment of new trade agreements and strong tax incentives. These FDI inflows were concentrated in free economic zones. In those, broad tax and tariff exemptions, proximity to North-American markets and preferential market access (due to the Multi-Fiber Agreement) prompted investments in textile, wearing apparel and other low-skilled manufacturing industries. Natural endowment, with beaches and the proximity to the United States and Canada, led to strong FDI in the tourism sector, which has been one of the fastest-growing sectors since the 1990s.

The ratio of goods and services exports to GDP fell from 23.1% in 2019 to 18.3% in 2021 due to COVID-19, and it returned to 21.8% in 2022 (World Bank, 2022^[2]). Services exports, including tourism, accounted for around 45% of total exports before the pandemic. In 2020, this share dropped to 31%, but rebounded to 39% in 2021. In 2019, tourism accounted for 38.4% of total exports of goods and services. Due to the COVID-19 pandemic, this share declined to 19.3% in 2020 before recovering slightly to 28.9% in 2021 (although the level of total exports is still considerably lower than before the pandemic) (World Bank, 2018^[50]; WTTC, 2022^[76]).

Merchandise exports are highly driven by manufacturing in free economic zones. With an average annual growth of 5% since 2010, these represented 56% of total merchandise exports in 2021 (Figure 2.31). The mining sector is also relevant, representing 17% of total merchandise exports in 2021. This is partly driven by large inflows of FDI, particularly in gold and silver mining, which supported an annual growth of 30.6% of mining exports between 2010 and 2021. Compared to free economic zones, exports from the domestic manufacturing sector are less dynamic and represent a total of 19% of total merchandise exports. They are comprised mainly of food manufacturing, including sugar, rum or manufactured coffee, but also some chemical, metal and plastic products. Exports of domestic agricultural products, such as bananas, cacao and vegetables, have seen a slow growth since 2010 (World Bank, 2018^[50]; World Bank, 2022^[2]).

Figure 2.31. Merchandise exports are dominated by free economic zones and mining

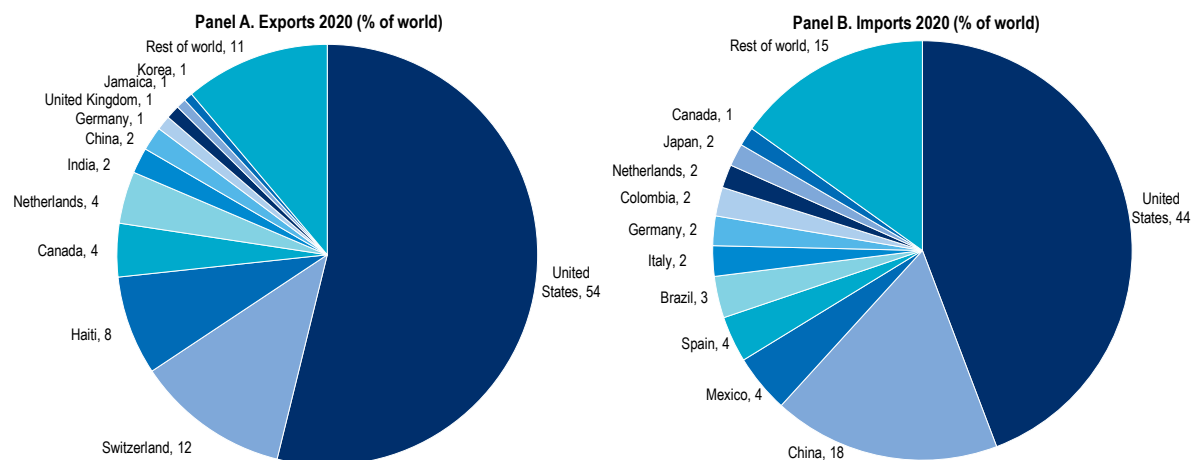


Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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In terms of trading partners, the concentration of Dominican exports is very high. The United States, Switzerland and Haiti account for 73% of total merchandise exports (Figure 2.32). The United States is not only the main export and import partner, but, together with Canada, it is also the main source country for FDI and tourist arrivals. Most firms in free economic zones produce for the North American market and source a large share of their inputs abroad. Export concentration among domestic firms is somewhat lower than in free economic zones, but the United States is also an important destination for domestic agricultural and food products. In recent years, Haiti has gained prominence, particularly for food, metal and textile products (World Bank, 2018^[50]). This strong dependence on single export markets poses a risk to the domestic economy. During the US subprime crisis, for example, the Dominican Republic's exports significantly decreased, which negatively affected the current account and economic growth. Similarly, strong dependence on fuel imports for transport and electricity generation, which accounts for almost 16% of total imports, poses a substantial risk for macroeconomic stability. Building up renewable energy sources could help mitigate this (see section on "Planet").

Figure 2.32. The diversification in terms of export partners is relatively low in the Dominican Republic

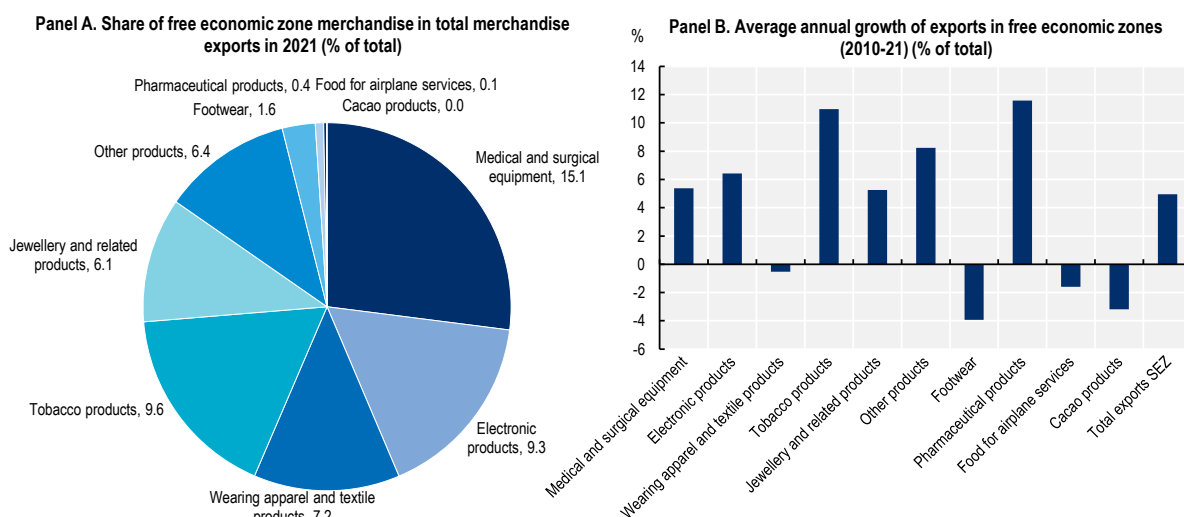


Source: Authors' elaboration based on (WITS, 2022^[77]).

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In terms of product diversification, technology and value-added content of exports, there is a strong duality between domestic firms and firms in free economic zones. Since the early 2000s, the free economic zones underwent a structural shift toward medium- and high-skilled manufacturing – largely due to the end of the Multi-Fiber Agreement in 2005 and increasing international competition in the textile and apparel industries. In 2021, shares of total merchandise exports had shifted to medical and surgical equipment (15.1% of total merchandise exports and 27% of free economic zones exports), manufactured tobacco products (9.6% and 17.2%) and electronic products (9.3% and 16.6%). Pharmaceutical exports grew over 11.6% per year between 2010 and 2021 (Figure 2.33). In contrast, the export of textiles and wearing apparel declined and accounts for 7.2% of merchandise exports and 12.8% of free economic zones exports in 2021. Exports from firms outside of free economic zones are dominated by products that are resource-oriented or of low technology content, such as agricultural, food and mining products (OECD/UN, 2020^[78]).

Figure 2.33. Exports of free economic zones are shifting towards medium-high skilled manufacturing



Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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Changes in the production structure of free economic zones have led to significant changes in employment and skill demands. Textile and wearing apparel industries, for example, are labour-intensive and employ many low-skilled female workers. Their share of total exports from free economic zones declined from 24.9% in 2012 to 12.4% in 2021. In contrast, the emerging industries such as medical equipment and surgical equipment or electronic products are much less labour-intensive and require a higher level of skills. This partly explains the decline in workers as a share of total exports, from 39.6 in 2002 to 25.5 in 2021. As a positive effect, the emergence of medium-high-skill manufacturing is correlated with a steady increase of the average wage (World Bank, 2018^[50]; Consejo Nacional de Zonas Francas de Exportación, 2021^[79]).

However, the overall growth of the free economic zones can compensate for the relatively lower demand for labour, which is why employment continues to increase. After having fuelled economic growth during the 1980s and 1990s, employment in free economic zones declined from 189 853 employees in 2004 to 112 618 in 2009, following the expiration of the Multi-Fiber Agreement and due to increased international competition in the textile and apparel industry. Since then, employment has steadily increased to 183 232 in 2021 (Consejo Nacional de Zonas Francas de Exportación, 2021^[79]).

Linkages with domestic firms outside of free economic zones have also been transformed in recent years. This is due to the higher technology intensity of emerging industries in free economic zones, low-quality domestic products, and broad tariff and tax exemptions for firms inside the zones. Firms producing medical and surgical or electronical equipment source less than 3% of their inputs domestically (World Bank, 2017^[80]). On the other hand, local expenditures of free economic zones, which is seen as an indicator of the linkages between the free trade zone sector and the local economy, have increased since 2002, also relative to total exports generated.

Structural reforms to create a level playing field and make growth more inclusive

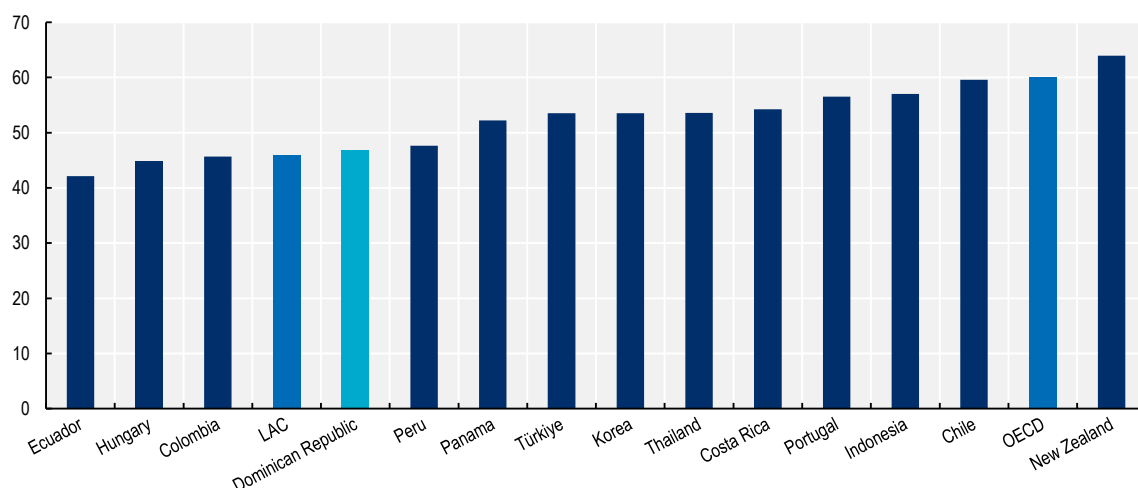
An uneven playing field exists between different economic sectors and firms. This has resulted in a misallocation of scarce domestic resources, impeding stronger productivity and job growth. When market distortions prevent capital and labour from flowing to more productive and innovative sectors or firms,

where new and better-paying jobs could be created, aggregate productivity and job growth are low (Brandt, Van Biesebroeck and Zhang, 2012^[81]; Criscuolo, Gal and Menon, 2014^[82]; Criscuolo and Timmis, 2017^[83]; Hsieh and Klenow, 2009^[84]). Lack of opportunities in domestic labour markets is one main reason for the emigration of young and educated Dominicans to the United States (World Bank, 2018^[50]).

Market concentration in the Dominican Republic is above the regional average (Figure 2.34), and this concerns particularly food processing industries, fuel production, constructions materials, telecommunication, ports and domestic transport, and the electricity sector as well as the financial sector (DGII, 2018^[85]; World Bank, 2018^[50]). Concentration may be taking place only in specific subsectors and not in the sector as a whole. Notwithstanding this, as low competition leads to lower product quality and higher prices – and many of these highly concentrated sectors are inputs for other sectors of the economy – the higher production costs for domestic firms decrease their competitiveness in international markets. In turn, higher prices for food and other consumption goods disproportionately hurt poorer households, which spend a larger share of their income on these products.


Figure 2.34. Domestic competition can be improved in the Dominican Republic

Domestic competition, 2019 (0 low, 100 is high)



Note: This indicator is based on surveys among business leaders who answered to the following question: In your country, how do you characterise corporate activity? [1 = dominated by a few business groups; 7 = spread among many firms]. OECD/LAC/EU averages are simple averages. The LAC average includes Argentina, Bolivia, Brazil, Barbados, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Haiti, Jamaica, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Trinidad and Tobago, Uruguay and Venezuela.

Source: Authors' elaboration based on (World Economic Forum, 2019^[86]).

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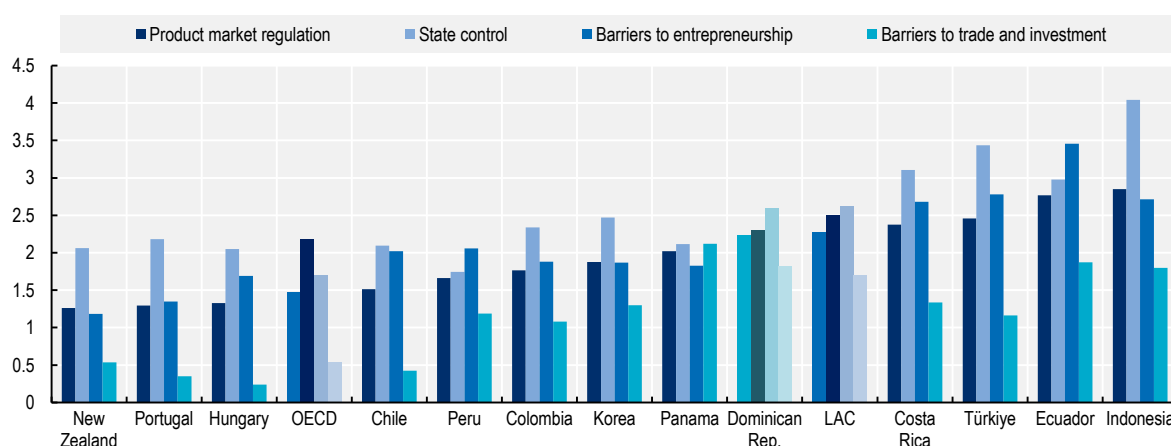
Several factors could explain the high market concentration in many sectors. Firstly, the competition agency's capacity to enforce competition law is relatively weak. Many services sectors, such as finance, insurance, utilities and telecommunications, are excluded from the competition law. Instead, they are supervised by specific agencies for which competition regulation is not always the main focus. The competition agency can investigate the abuse of market power, but it has no authority to intervene *ex-ante* or *ex-post* in mergers and acquisitions that lead to excessive market power. Moreover, the tools the agency can apply to enforce the competition law are limited. For sanctions to break up highly concentrated markets (anti-trust measures), in which there are no whistle-blower provisions, for example, there is no specific prosecutor specialised in competition enforcement. The ordinary, often slow, judicial procedures complicate investigations of suspect

firms. In addition, when competition does impede regulation, the agency has only a consulting function; it cannot force a governmental agency to act upon its recommendations.

Secondly, some regulations in the Dominican Republic could complicate the entry of young and innovative firms in domestic markets. This reduces competition and incentives for incumbent firms to innovate, adopt new technologies, increase product quality and lower prices. Relative to other countries in the region, the Dominican Republic has high barriers to entrepreneurship, according to the OECD product market regulation indicator (Figure 2.35). Complicated regulatory procedures and licence and permit systems make administrative duties burdensome for new market entrants and small firms. Moreover, regulatory protection of incumbents and entry barriers in network and services sectors are high. The time to prepare tax declarations is among the longest in the region, as special tax regimes are not harmonised within the tax code (World Bank, 2019^[49]). Efforts to simplify administrative procedures should be strengthened to facilitate firm entry. Reductions in regulatory protection of incumbents and harmonisation, as well as the simplification of the tax code, should complement this.


Figure 2.35. Barriers to entrepreneurship in the Dominican Republic can be further alleviated

Product market regulation



Note: This graph presents the most recent data that is comparable to the data of the Dominican Republic from 2014: 2013 data for New Zealand, Portugal, Hungary, Chile, Peru, Türkiye, and Indonesia; 2014 data for Colombia and Costa Rica; 2016 data for Panama and Ecuador.

Source: Authors' elaboration based on (OECD/World Bank, 2022^[87]).

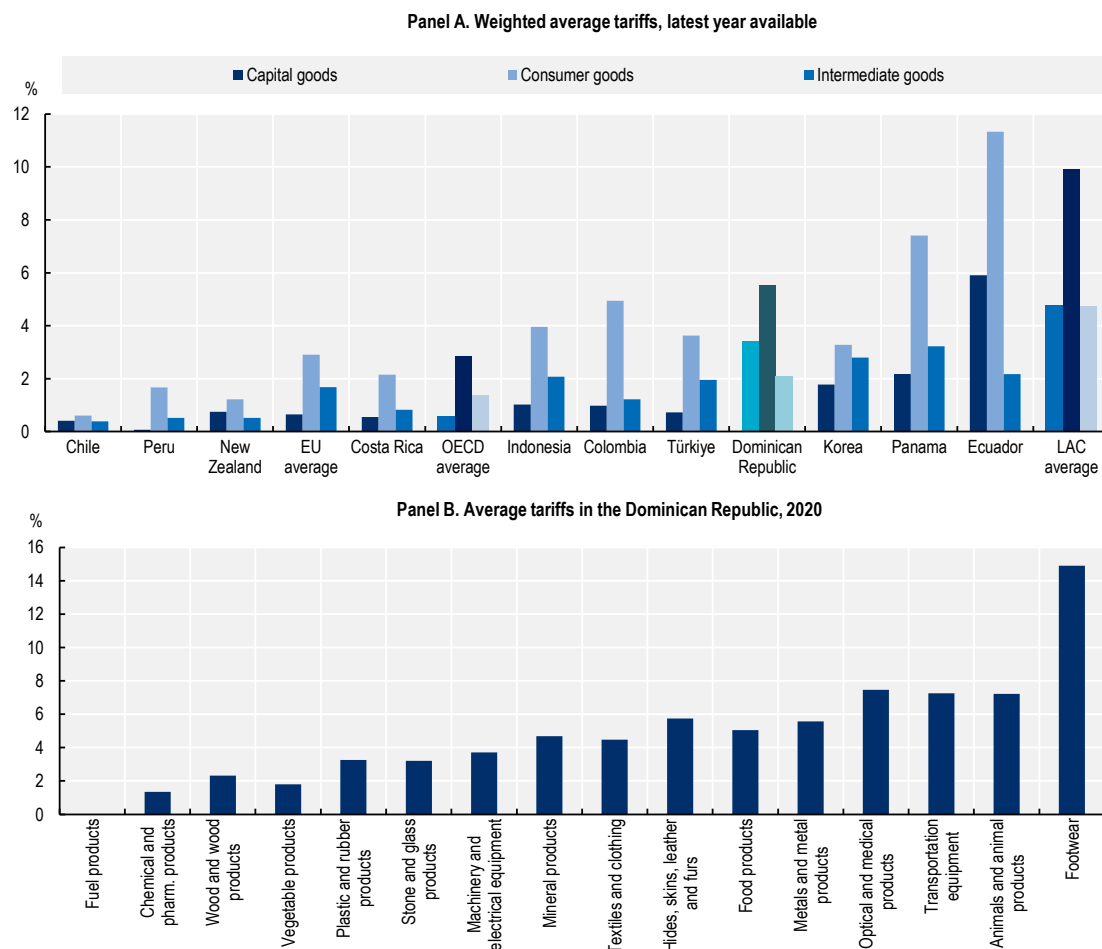
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Thirdly, although the Dominican Republic has established several trade agreements since the 1990s, tariffs and services trade restrictions can still be lowered further, as suggested by international comparisons (Figure 2.36, Figure 2.37). High tariffs on consumer goods, such as footwear, textile and food products, contribute to low competition and high domestic prices in these sectors (DGII, 2018^[85]). Reducing these import barriers would result in increased competition, forcing domestic companies to address inefficiencies and upgrade their production processes to advanced technologies which eventually lowers product prices and increases quality (Amiti and Khandelwal, 2013^[88]; De Loecker et al., 2016^[89]). Price reductions in consumer goods would increase the purchasing power of poorer households, as they spend a relatively larger share of their income on these products.

Tariffs on capital goods can still be lowered such as in transport equipment, optical and medical products, metal products and machinery, and electronical equipment (Figure 2.36). Lowering these tariffs, with a view towards aligning them with the zero rates faced by firms in free economic zones and tourism, would improve the sourcing options for capital goods for domestic firms, lower their production costs and may make

technological improvements to production processes more financially accessible (Amiti and Konings, 2007^[90]). Price reductions due to lower services trade restrictions would also lower costs and increase quality of services inputs.

Figure 2.36. Tariffs for consumer and capital goods are relatively high in the Dominican Republic



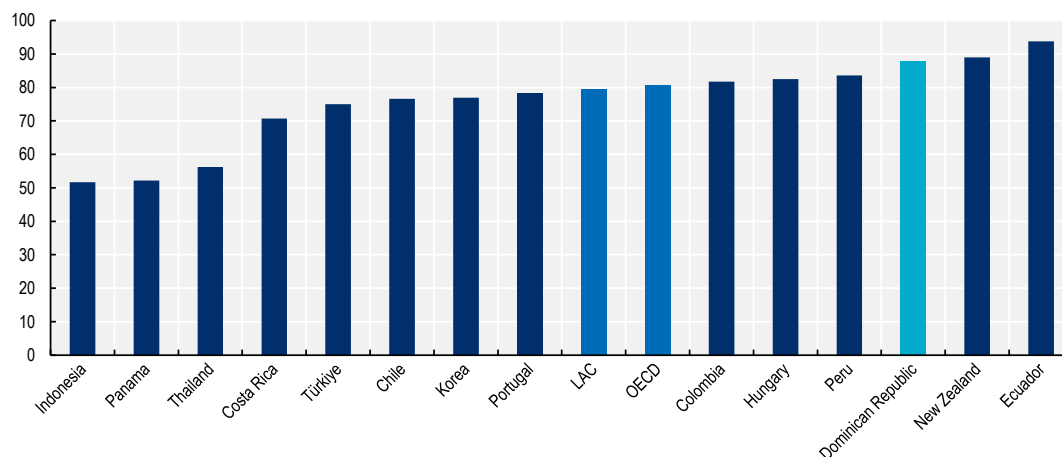
Note: The first figure shows the weighted average tariffs in percentage from the latest year available. OECD/LAC/EU averages are simple averages. The LAC average includes Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, French Polynesia, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Uruguay. The second figure shows the weighted average tariffs in percentage in 2020.

Source: Authors' elaboration based on (WITS, 2022^[77]).

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Figure 2.37. Service trade restrictions are high in the Dominican Republic

Services Trade Restrictiveness Index, 2018 (0 - low barriers to entry, 100 - high barriers to entry)



Note: OECD/LAC/EU averages are simple averages. The LAC average includes Argentina, Bolivia, Brazil, Barbados, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Haiti, Jamaica, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Trinidad and Tobago, Uruguay, and Venezuela.

Source: Authors' elaboration based on (World Economic Forum, 2019^[86]).

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Some special tax regimes provide broad tax exemptions to specific sectors and firms. This can distort the allocation of scarce domestic resources. Firms in these zones enjoy exceptions from multiple costs, including: corporate income tax; local taxes; tariffs on intermediate inputs and capital goods; taxes on assets; and value added tax (VAT). Special tax regimes for tourism and border zones are less generous, but exempt firms from paying corporate income tax, tariffs for inputs and capital goods, property tax, and VAT.⁴

Firms in free economic zones and tourism also have access to cheaper and more reliable electricity supply than domestic firms. This is due to their ability to negotiate direct contracts with electricity producers and circumvent the public distribution network. These firms also benefit from specific large-scale public infrastructure projects and receive publicly subsidised credit when located in border provinces (World Bank, 2018^[50]).

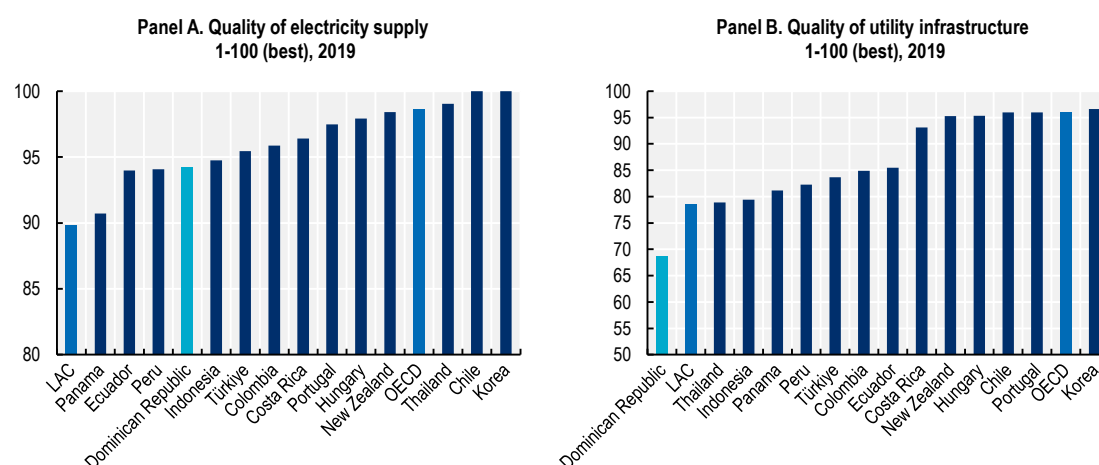
To create a more level playing field and stimulate job creation in the domestic economy, the government should seek to harmonise and rationalise the different special tax regimes – gradually aligning the tax burden faced by firms inside and outside of these regimes.

For tourism, the absence of tax incentives during the 1990s has not harmed the development of the sector (Daude, et al., 2014^[91]). But to increase connectivity between free economic zones, the tourism sector and the domestic economy, capital good and input tariffs for domestic firms should be aligned with the zero rates paid under special tax regimes. If all firms benefit from the same tax and tariff structure, as well as equal access to quality infrastructure, the tourism sector can help generate business opportunities – from leisure services to restaurants and transportation – for both rural and urban populations.

Institutional and market deficiencies, which increase production costs and reduce competitiveness of small, young firms, further contribute to an uneven playing field between various firms and sectors. Shallow capital markets and high financing costs are a major obstacle to firm entry and firm growth (see section on “Partnerships”).

Low quality public infrastructure leads to higher costs, especially for electricity and other utilities (Figure 2.38). The electricity sector suffers from a distorted incentive structure and management of state-owned distribution companies can be improved. Despite considerable annual public transfers, the electricity sector is burdensome on firms (World Bank, 2018^[50]). They are obliged to pay higher prices for often unreliable supply: power outages are frequent and lengthy compared to other countries in the region (World Bank, 2018^[50]). The public water and waste management system is also highly deficient, posing a considerable risk to public health and the future of the tourism industry and other related sectors (see section on “Planet”). Although the quality of ground transport, port and shipping has improved somewhat in recent years, high concentration in these sectors has led to high prices. This has negatively affected production costs economy-wide and reduced the Dominican Republic’s participation in global value chains (World Bank, 2018^[50]).

Figure 2.38. The quality of public infrastructure can be improved in the Dominican Republic



Note: OECD/LAC/EU averages are simple averages. The LAC average includes Argentina, Bolivia, Brazil, Barbados, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Haiti, Jamaica, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Trinidad and Tobago, Uruguay and Venezuela.

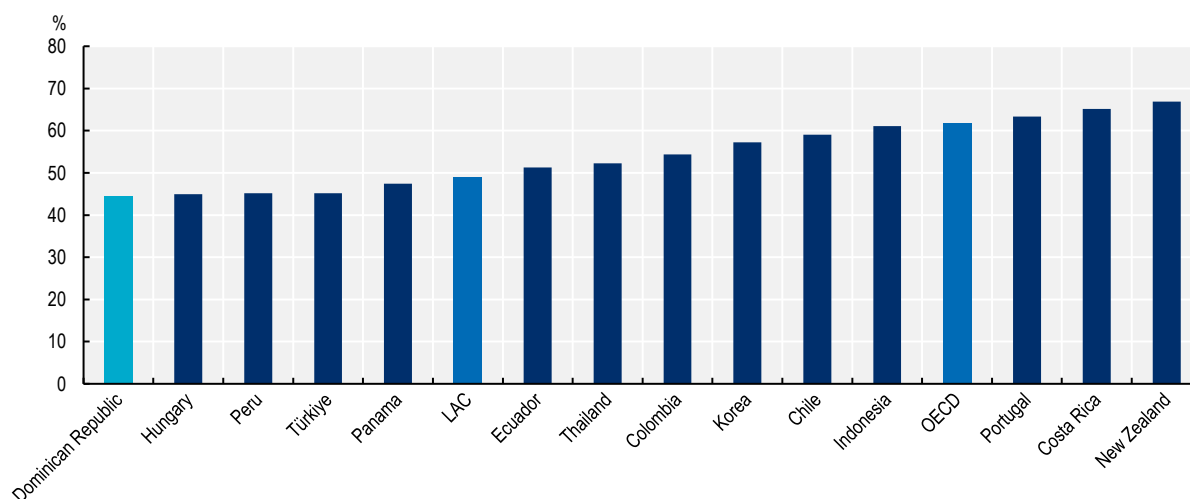
Source: Authors’ elaboration based on (World Economic Forum, 2019^[86]).

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Recent increases in educational spending (around 4.6% of GDP in 2020) (World Bank, 2022^[2]) have resulted in rising access to education, but the quality of education remains low (see section on “People”). For domestic firms, it is increasingly difficult to recruit employees with desirable skills (Figure 2.39). Many high skilled graduates emigrate to the United States or are attracted by companies in free economic zones (World Bank, 2018^[50]). This hinders domestic investment and firm growth. Increasing the quality of education will help create a more dynamic domestic economy. Improving co-ordination between the private sector and universities (or other professional training institutions) will also benefit. The alignment of curricula with private sector skill demands, as well as co-ordinated vocational and educational training programmes, can help reduce the existing skill mismatch (Chapter 3).

Figure 2.39. Skill mismatch in the Dominican Republic labour market is relatively high

Skills of graduates matching the skill requirements of business



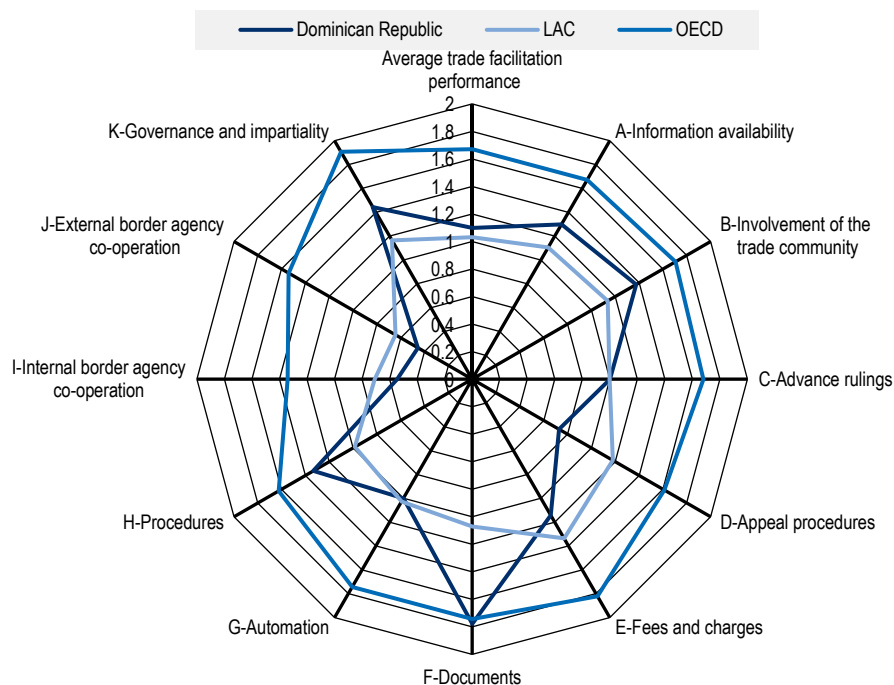
Note: This indicator is based on surveys among business leaders who answered to the following two questions: “In your country, to what extent do graduating students from secondary education possess the skills needed by businesses?” and “In your country, to what extent do graduating students from university possess the skills needed by businesses?” In each case, the answer ranges from 1 [not at all] to 7 [to a great extent]. OECD/LAC/EU averages are simple averages. The LAC average includes Argentina, Bolivia, Brazil, Barbados, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Haiti, Jamaica, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Trinidad and Tobago, Uruguay and Venezuela.

Source: Authors’ elaboration based on (World Economic Forum, 2019^[86]).

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Besides the lack of incentives to innovate due to insufficient competition across multiple markets, regulatory and institutional capacities can also play a role in improving the quality of domestic products. Since the 2000s, agricultural and food exports have increased from 14% to 23% of merchandise exports in 2021, employing more than 50% of the rural population. Quality of these products, however, has decreased in recent years, mainly due to the weak domestic system of product quality testing and a lack of co-ordination among firms (World Bank, 2018^[50]; OECD/UN, 2020^[78]; World Bank, 2022^[2]). The number of import rejections due to non-compliance with US and EU product standards is higher than for other countries in the region. Main reasons cited include contamination with pesticides, salmonella and other harmful organisms (Grundke and Moser, 2019^[92]). Consequently, Dominican fruits and vegetables are subject to more frequent and stringent inspections at EU and US borders, which poses a considerable risk to all firms in the sector. To remedy this, information sharing and co-ordination between firms is essential for streamlining the domestic product quality testing system. This should include: increased co-ordination of border and quality testing agencies – including both domestic agencies and agencies in major export markets; product standard harmonisation; improved co-operation with international standard-setting institutions; capacity building; more efficient testing laboratories; and the introduction of pre-export quality tests (Figure 2.40).

Figure 2.40. Improving trade facilitation measures in the Dominican Republic would boost integration of domestic firms into world markets



Source: Authors' elaboration based on (OECD, 2019^[93]).

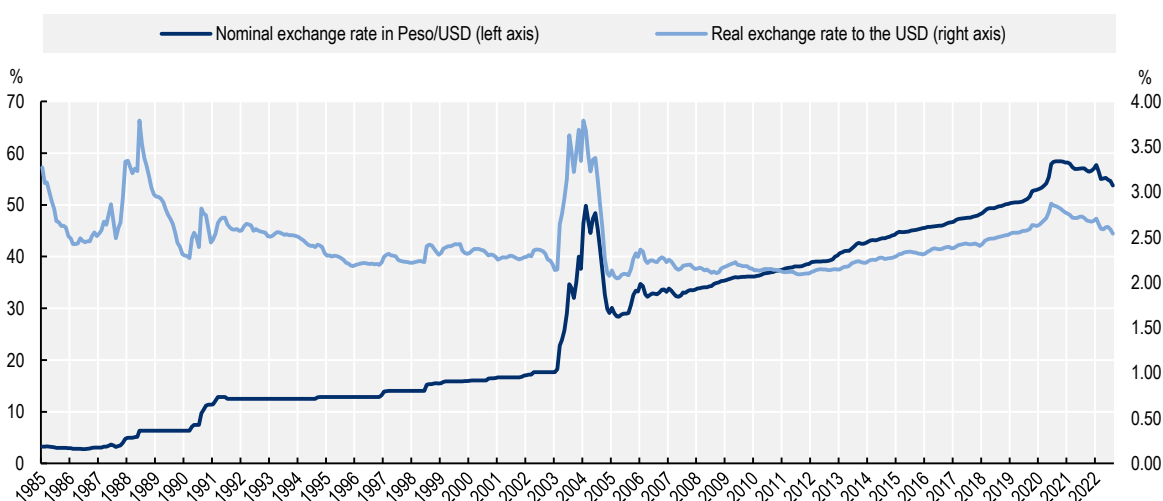
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Partnerships – Financing inclusive development

Macroeconomic stability is key for investment and for sustainable and inclusive growth


Since the 1990s, macroeconomic stability has encouraged a steady inflow of foreign direct investment (FDI) and impressive growth performance for the Dominican economy. The Central Bank successfully stabilised inflation in the 1990s. Due to financial sector reforms, liberalisation of foreign exchange rate transactions, large inflows of FDI, low oil prices, and increasing exports, the exchange rate remained relatively stable until the early 2000s (Figure 2.41).

Figure 2.41. Evolution of nominal and real exchange rate



Note: The real exchange rate to the USD reflects the nominal exchange rate peso/USD adjusted for inflation differentials between United States and the Dominican Republic.

Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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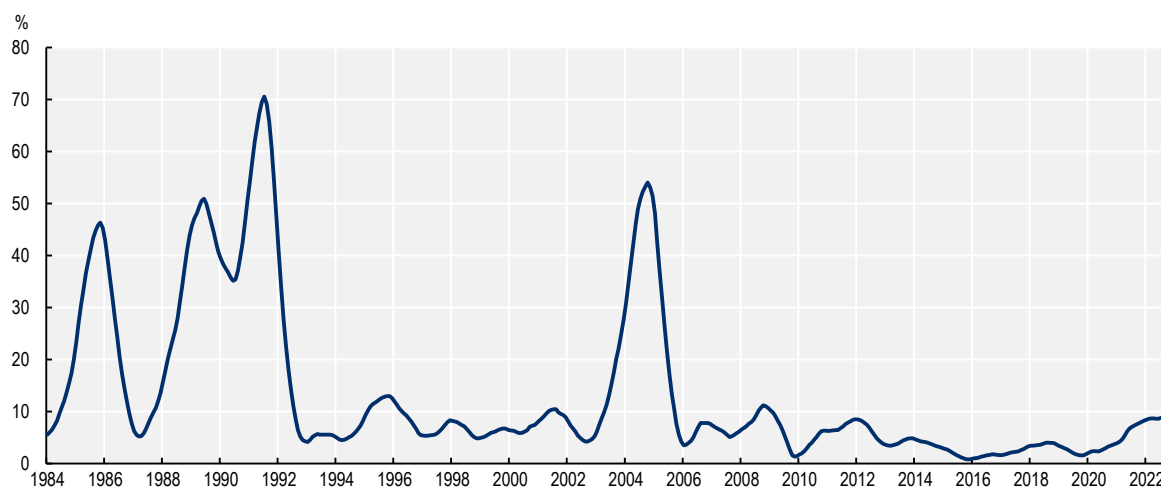
After a severe banking crisis in 2003 – involving the collapse of three major banks, which comprised 26% of the financial sector's assets – capital flight caused currency to sharply depreciate. Private banks were bailed out (with around 20.3% of GDP); the Central Bank took over bad assets and monetised deposits to stop the bank and currency run. To sterilise the sudden increase of the monetary base, the Central Bank issued debt securities at relatively high interest rates. This debt increased twelve-fold until the end of 2003 (to around 12% of GDP) and high-interest rate payments led to a persistent quasi-fiscal deficit that has since complicated the management of monetary and fiscal policy.

Although efforts to recapitalise the Central Bank slowly reduced the quasi-fiscal deficit and debt until 2012, a weakly designed recapitalisation law and poor co-ordination between the treasury and the Central Bank were not able to sufficiently improve the situation. However, there have been improvements in recent years. In 2021, Central Bank deficit stood at 1.3% and debt at 13.6% of GDP. Although the Central Bank has managed to increase the average maturity of its debt, decreasing the risk of debt rollover and sudden increases in the monetary base, the quality of its assets can be improved. Around 34% of Central Bank assets are illiquid payment obligations from the government without interest payments. Approximately 8% are government recapitalisation bonds, which effectively pay below market rates and are difficult to liquidate in financial markets (Central Bank of the Dominican Republic, 2021^[94]). As a weak balance sheet can compromise the effectiveness of monetary policy, efforts to recapitalise the Central Bank should be strengthened by revising the Central Bank recapitalisation law (Swiston et al., 2014^[95]). Moreover, the uncoordinated issuance of public debt by two different actors has detrimental effects on domestic capital market development and is further discussed in the section on capital markets (OECD, 2012^[96]). However, coordination between both institutions has been improved in recent years (Chapter 4).

From 2003 to 2007, several IMF programmes provided fiscal support and helped rebuilding foreign exchange reserves of the Central Bank. The programme was successful in stabilising the macro-economic environment, inflation was significantly reduced and the exchange rate stabilised. From 2005 to 2012, the IMF supported the Central Bank in the transition towards an inflation targeting regime. Moreover, the programme included reforms of the financial sector, such as increasing capital requirements of banks, improving supervision and introducing a legal framework for risk-prevention, which have considerably

improved financial sector stability (IMF, 2018^[97]). Ongoing efforts to improve the macro-prudential policy framework and to include the supervision of large non-bank institutions are welcome and should be strengthened.

Figure 2.42. Inflation in the Dominican Republic had been contained, before rising again in the post-COVID-19 context



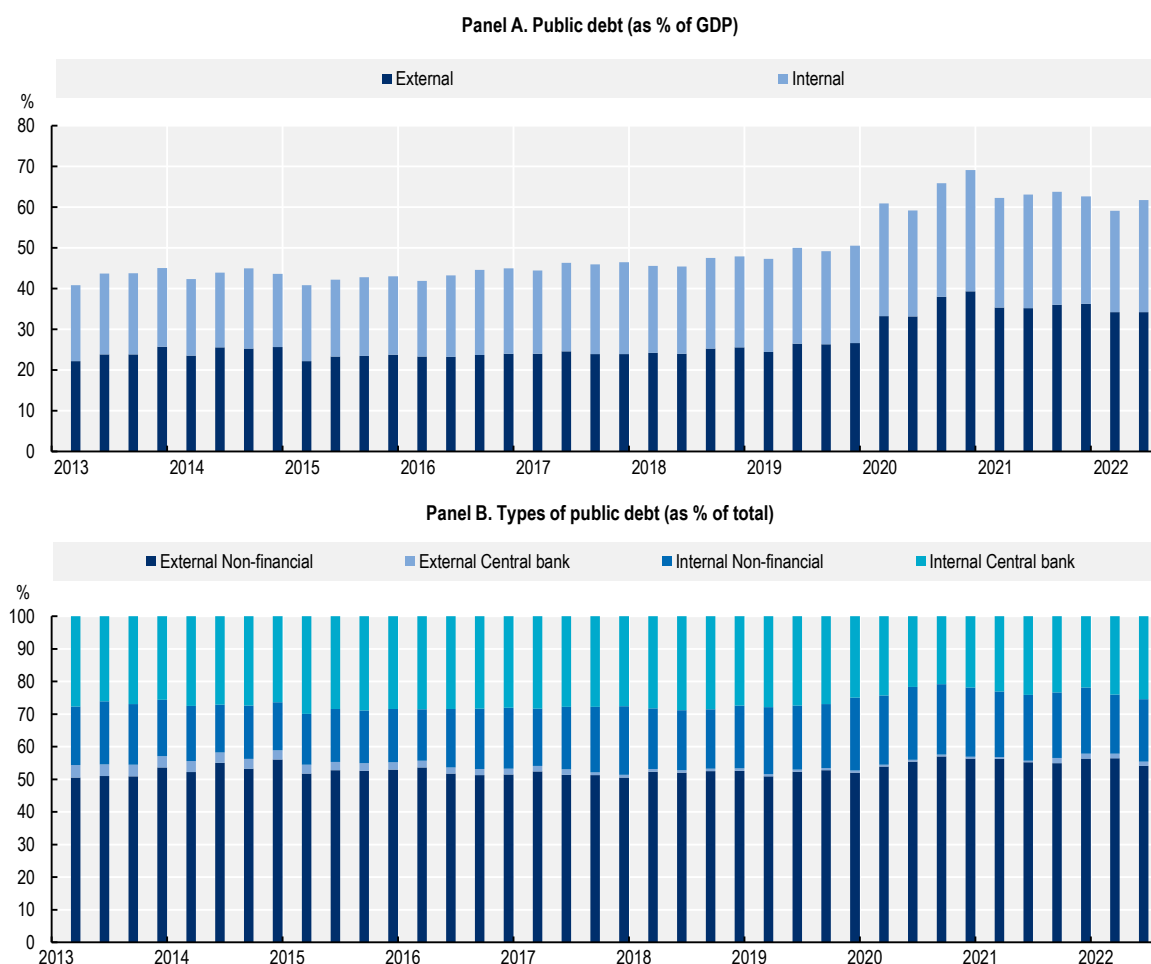
Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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Since 2012, the Central Bank has successfully implemented an inflation-targeting regime and inflation has stabilised within the target range of 4% +/- 1%. The COVID-19 pandemic triggered a breakout from this range in February 2021, and inflation peaked at 8.8% in August 2022 (Figure 2.42), primarily driven by external factors like high US inflation, rising fuel and food prices, and supply disruptions (IMF, 2022^[98]). The IMF expects inflation to return to the target range by the end of 2024 (IMF, 2022^[11]). Policy rates remained below 6% until June 2022, when the Central Bank began gradually raising the policy rate up to 8.5% in November 2022 in response to rising inflation. But the institutional framework on monetary policy could be strengthened further. The Central Bank currently oversees national statistics of inflation and national accounts. While beneficial as a short-term solution, this ultimately represents a conflict of interest, as the Central Bank has authority to set the measures that will be used to evaluate its own performance. Discussions on improving statistical capacities in the country (see Box 2.2. in section “Peace and Institutions”) could revolve around transferring these responsibilities to the *Oficina Nacional de Estadística* (ONE) with stronger capacities and the necessary funding to attract highly qualified staff.

Unlike other countries with an inflation-targeting regime, the Central Bank of the Dominican Republic is still intervening in foreign exchange markets regularly and is effectively managing a crawling peg. Following the outbreak of COVID-19, the Central Bank successfully defended its currency after a sudden devaluation surge and managed to bring the devaluation down again (Figure 2.41). The IMF recognises the exchange rate's stabilising role and the Central Bank's strengthened reserve position. It assesses the real exchange rate to be broadly in line with fundamentals (IMF, 2022^[98]). In the Dominican economy, the pass-through of currency depreciations on inflation is still high and more than half of consolidated public debt is in foreign currency (Figure 2.43). To strengthen its asset position in case of balance of payment deteriorations, the Central Bank aims to increase its foreign reserves. High interest payments for securities used to sterilise the foreign currency purchases put further pressure on the quasi-fiscal deficit. This increases the need to recapitalise the Central Bank to ensure the effectiveness of monetary policy.

Figure 2.43. The share of public debt in foreign currency is high in the Dominican Republic



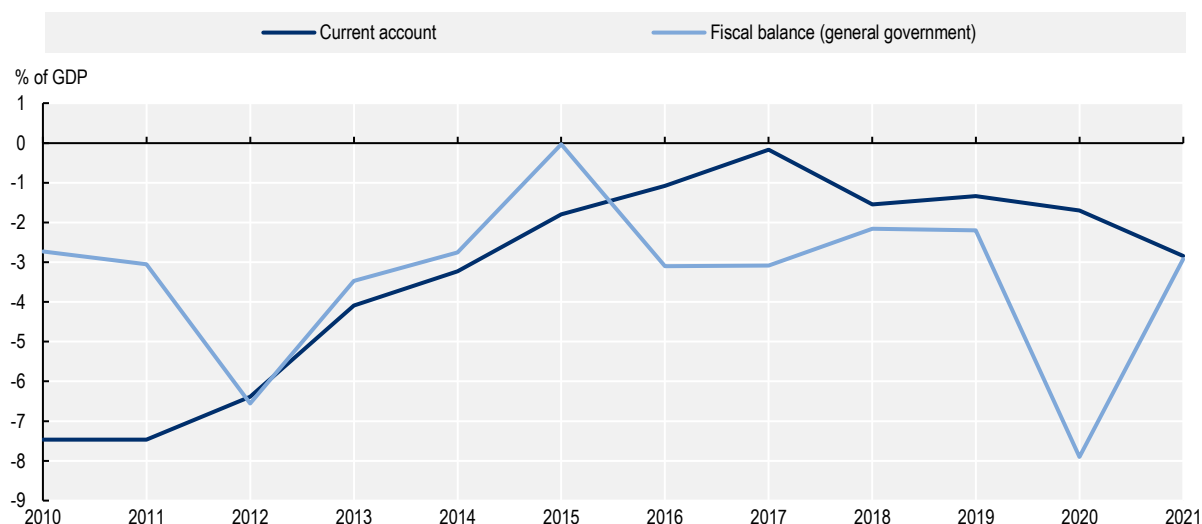
Note: The bars represent quarterly data.

Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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Since 2011, the current account deficit has steadily reduced (before increasing again following the start of the COVID-19 pandemic) (Figure 2.44). This was mainly due to the real depreciation of the exchange rate, partly driven by the rebuilding of foreign exchange reserves, that has boosted exports. In parallel, the depreciated exchange rate and weaker domestic demand limited imports. Lower oil prices in pre-pandemic years also contributed to the decreased value of imports. At present, the trade balance for goods shows a deficit (-12.3% of GDP in 2021). As tourism receipts are still below pre-pandemic levels (accounting for 6% of GDP), the total balance of goods and services remains low (around -8.5% of GDP). Driven by improvements in the US labour market and uncertainty about future US immigration policy, growing remittances (amounting to 11% of GDP in 2021) have contributed to narrowing the current account. Repatriation of profits from foreign investment in the country amounted to 5.1% of GDP, which, in total, led to a current account deficit of around -2.8% in 2021. FDI (around 3.3% of GDP) and portfolio investments largely financed this. In sum, this led to a positive balance of payment and net increases in reserves of about 2.5% of GDP in 2021.

Figure 2.44. The current account deficit has been reduced in the Dominican Republic, but the fiscal deficit remains high though relatively stable



Note: The fiscal balance is the sum of primary balance and interest payments for the general government. It does not include the quasi-fiscal deficit of the Central Bank which has oscillated between -1.5% of GDP in 2010 to -0.9% in 2018.

Source: Authors' calculations based on (IMF, 2022^[1]; Central Bank of the Dominican Republic, 2022^[72]).

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Risks to external accounts are important. First, a strong dependence on the US economy and the high share of public debt in foreign currency is evident. By far, the United States is the leading export destination of Dominican merchandise and services. The United States also remain the primary source of FDI and portfolio investment inflows and remittance receipts come almost exclusively from Dominicans living there. Thus, a slow-down of the US economy would lead to an increase in the current account deficit and a decrease of capital inflows; the resulting depreciation pressure on the currency could increase doubts about the sustainability of public debt.

Second, dependence on fuel imports for the domestic energy infrastructure makes the current account very sensitive to fluctuations of oil prices and increases social costs in case of a balance of payments crisis.

Third, as discussed in the next section, if the country fails to implement the necessary fiscal consolidation to stabilise public debt, deteriorating investor sentiment and decreasing capital inflows could complicate the financing of the current account deficit.

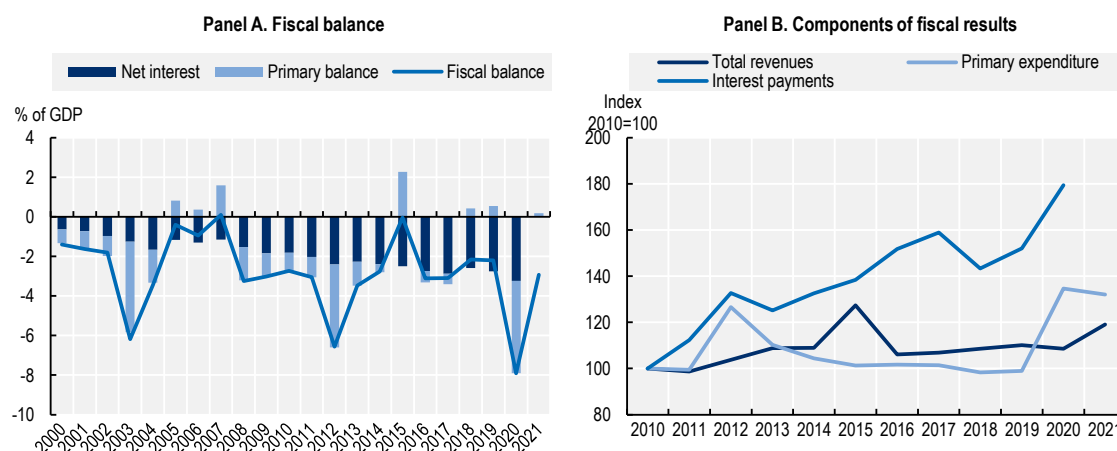
Finally, the country is highly exposed to the risk of hurricanes and earthquakes, which have large fiscal costs and could strongly affect agricultural output and exports as well as decrease tourism receipts (see section on "Planet").

Fiscal consolidation is necessary to stabilise public debt and free resources to improve public services

Although the primary balance had improved before the pandemic, the fiscal deficit remained high due to the rising burden of interest payments. In particular, the primary balance increased to 0.6% of GDP in 2019, reflecting improved tax collection, before dropping to -4.7% in 2020 and rebounding to 0.2% in 2021 (Figure 2.45).

Despite strong economic growth since 2010, the consolidated public sector debt has risen from 38.8% of GDP in 2010 to an estimated 59.2% in 2022. The COVID-19 pandemic deteriorated the public debt-to-GDP ratio, which reached 70.3% in 2020, almost 20 percentage points higher than in 2019 (53.2%). However, consolidated public sector debt was reduced to a level of 62.1% in 2021, and the ratio should continue to trend downward (IMF, 2022^[98]). According to national data, non-financial public sector debt was at 40.4% of GDP in 2019, increased to 56.6% in 2020, and decreased again to 50.4% in 2021 and 46.5% in October 2022 (Dirección General Crédito Público, 2022^[99]).

Figure 2.45. The primary deficit has improved in the Dominican Republic until the COVID-19 pandemic, but the burden of interest payments is rising



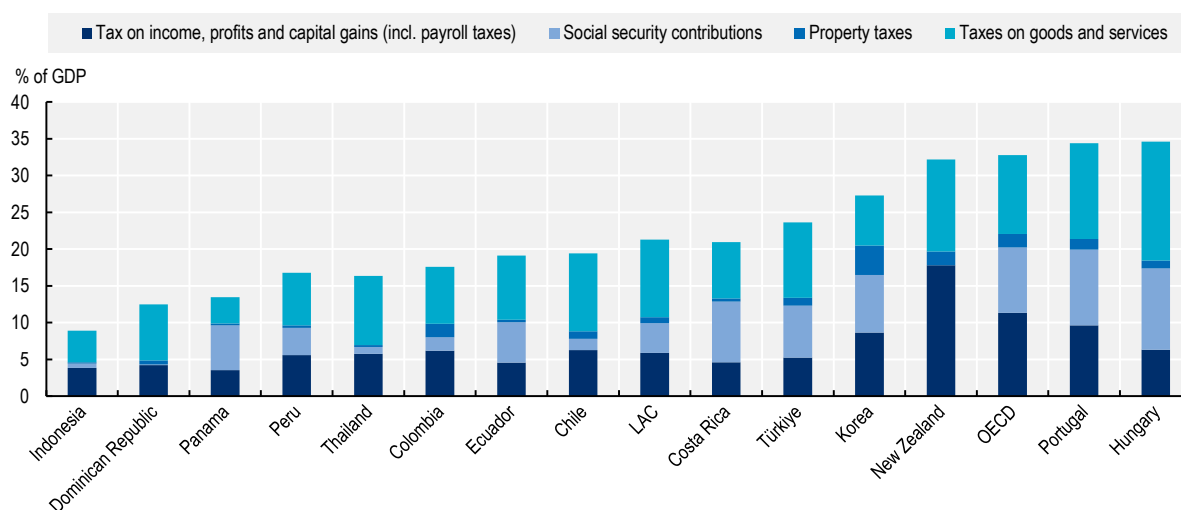
Note: The figure shows the fiscal results for the general government. It does not include the quasi-fiscal deficit, primary balance or interest payments of the Central Bank. The quasi-fiscal deficit of the Central Bank has oscillated between -1.5% of GDP in 2010 to -0.9% in 2018. In 2021, it stood at -1%. Interest payments of the Central Bank were 1.7% of GDP and the Central Bank's primary balance stood at 0.3% in 2020. Interest payment data are available until 2020. IMF projections were used as 2022 data to calculate the fiscal balance, primary expenditure and total revenues.

Source: Authors' calculations based on (IMF, 2022^[1]; World Bank, 2022^[2]; IMF, 2022^[98]).

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The Dominican Republic has one of the lowest tax revenue collections in the region, with only 12.6% of GDP (Figure 2.46). This is driven by several factors, including a narrow tax base, large tax expenditures (in total around 4.4% of GDP in 2021), and relatively high levels of tax non-compliance (Chapter 4).

Broad scope exists to rationalise and unify the numerous tax exemptions and special tax regimes, and thus broaden the tax base. This would significantly simplify the tax system, reduce the scope for tax evasion and allow lower tax rates (OECD, 2013^[100]). Besides the positive fiscal impact, creating a level playing field for all firms and sectors would improve the allocation of scarce domestic resources and increase competition, innovation and productivity (Chapter 4).

Figure 2.46. Tax revenues are low in the Dominican Republic

Note: Data from 2020, OECD average from 2019.

Source: Authors' elaboration based on (OECD et al., 2022^[101]).

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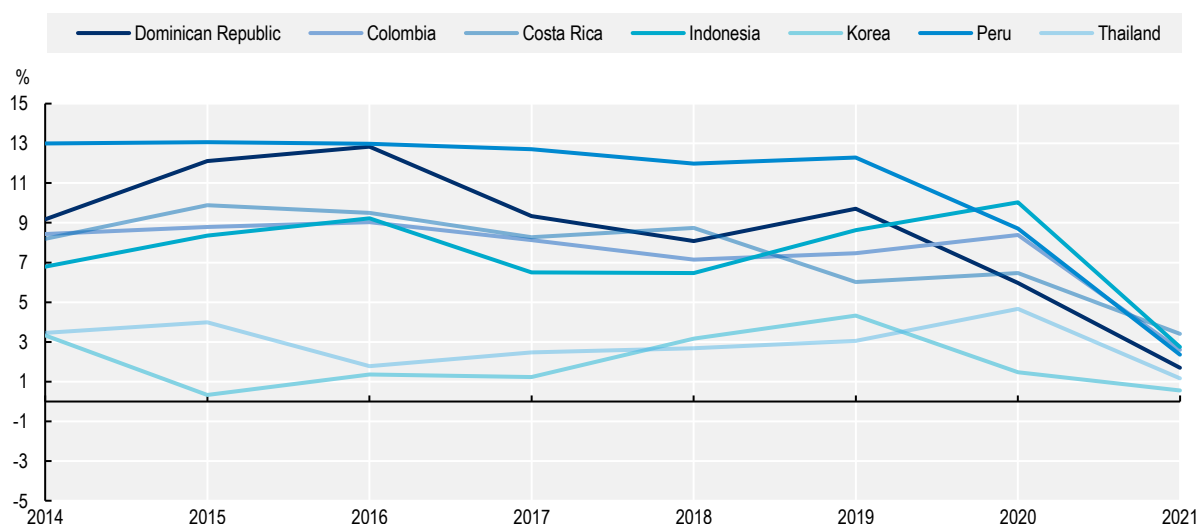
The generous exemptions in special tax regimes in the Dominican Republic have the effect of shifting the tax burden to non-exempt formal domestic firms, for which corporate income tax rates have increased in recent years, in contrast to a worldwide trend of declining rates (Daude, Gutierrez and Melguizo, 2017^[102]). This further reduces incentives to formalise domestic businesses, with detrimental consequences for productivity growth and tax collection.

Scaling back most regressive or poorly targeted exemptions, for instance from VAT, as well as rationalising special economic regimes and fighting high levels of tax non-compliance, have further potential to significantly increase public resources. There is also potential for exploring innovative taxes in emerging sectors, like in those related to the digital and green economy. Given the large increase in mining activity in recent years, authorities could also explore the scope for raising royalties, which are low in international comparison, though efforts have already been undertaken in this direction with renegotiation of certain contracts. As important as increasing public revenues is to improve the quality of public spending to make it more efficient (Chapter 4). Overall, sustainable public finances, together with high quality public infrastructure and education, could help replace tax exemptions as the main tool to attract FDI and to redistribute wealth, while also raising trust in the government and reducing tax evasion and informality (section on “Peace and Institutions”).

Deepening capital markets will be essential for financing development

Real interest rates in the Dominican Republic are high and have been increasing since 2010, considerably raising production costs for domestic firms and hampering firm entry and firm growth. Rising inflation, however, has more recently considerably lowered the real interest rate (Figure 2.47). Domestic credit to private sector stands at only 30.5% of GDP, of which the private bond market contributes only about 1.5 percentage points (Figure 2.48). The Dominican Republic does not have a stock market. The main factors explaining shallow capital markets and high interest rates are high public debt; crowding out of private investment; a peculiar institutional context with two public debt issuers; and co-ordination failures (Chapter 4).

Figure 2.47. Inflation in the Dominican Republic brought down real interest rates



Source: Authors' elaboration based on (World Bank, 2022^[2]).


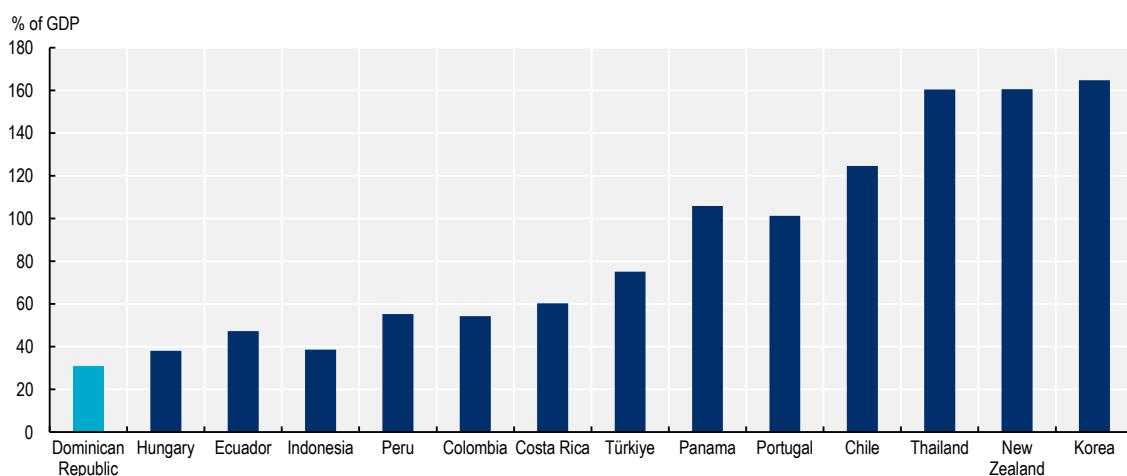

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Figure 2.48. Domestic credit to private sector is relatively low in the Dominican Republic



Source: Authors' elaboration based on (World Bank, 2022^[2]).

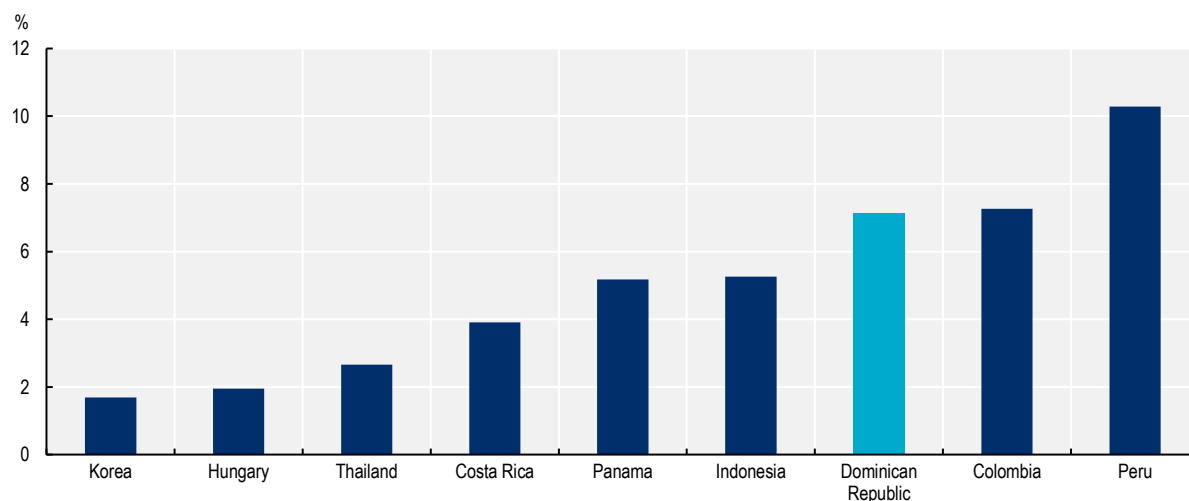
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In the Dominican Republic, both the treasury and the Central Bank have been issuing in the past public bonds with similar maturities but with insufficient co-ordination about the issuance date, exact maturity, interest rate, type of securities or placement method (OECD, 2012^[96]). In recent years, coordination across both institutions has been strengthened, but there are still potential areas for improvement (Chapter 4).

High financing costs in the Dominican Republic are partly related to the relatively high concentration of the Dominican banking sector, with the four biggest banks dominating more than 80% of the market (DGII, 2018^[85]; World Bank, 2018^[50]). The spread between lending and deposit rates is among the highest in the region (Figure 2.49, Figure 2.50). Although high profitability of the banking sector is an important factor for stability of the financial system, policy action to increase competition in the sector would stimulate banking

penetration and financial deepening while also reducing financing costs for domestic firms. Improvements in the regulatory framework to reduce administrative burdens and facilitate regulatory compliance would help to stimulate competition and market entry (OECD, 2012^[96]). The lack of alternative financial instruments might also be a relevant explanation for high interest rates.

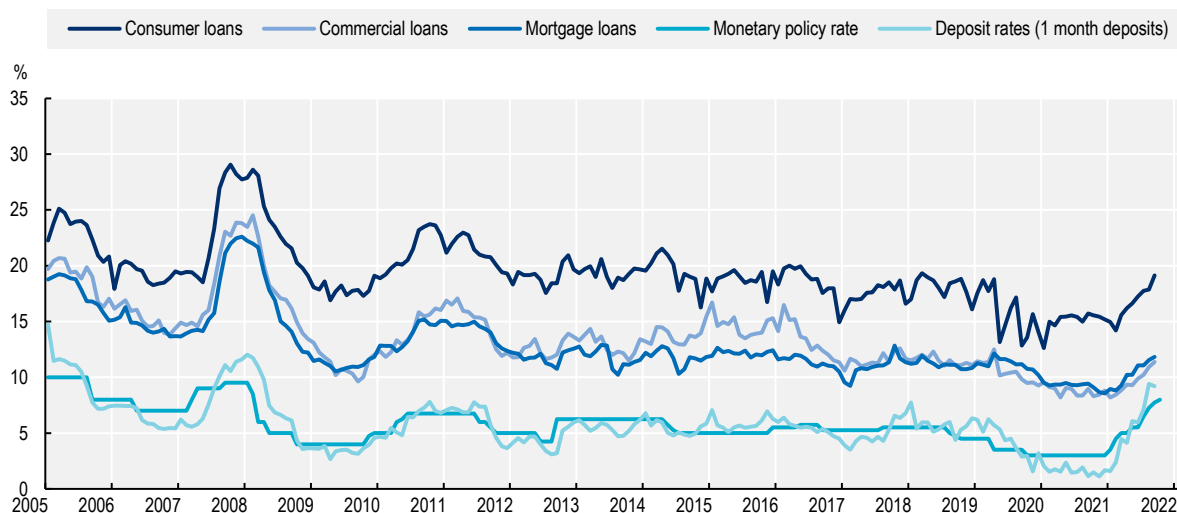
Figure 2.49. Interest rate margins are high in the Dominican banking sector



Source: Authors' elaboration based on (World Bank, 2022^[21]).

StatLink  <https://stat.link/2amw5y>

Figure 2.50. Interest rate margins have not decreased in the Dominican Republic



Source: Authors' elaboration based on (Central Bank of the Dominican Republic, 2022^[72]).

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Peace and institutions – Strengthening governance

The Peace and Institutions pillar of the 2030 Agenda for Sustainable Development encompasses peace, stability and trust, as well as effective governance and the performance of the public sector more broadly.

A strong institutional framework is a key ingredient of inclusive and sustainable development in multiple ways. Effective institutions are needed to create the “rules of the game” that bolster economic growth and inclusion. Likewise, they can provide good quality public services that satisfy citizens’ needs, increase their trust, and favour economic development. Finally, they are crucial to promote participation of different actors and levels of government in policy making, supporting a co-ordinated and long-term vision of development.

In the Dominican Republic, public institutions face various challenges that limit their capacity to support inclusive and sustainable development. Indeed, as shown in previous sections of this review, strong economic growth has not translated into sufficient social progress and well-being, and has been based on a model that is not sustainable in the long term. The impacts of the COVID-19 pandemic also highlighted the fundamental role of public services and social protection systems in guaranteeing well-being for all (OECD et al., 2021^[27]). Stronger public institutions are needed, as stated in the National Development Strategy (NDS) 2030.

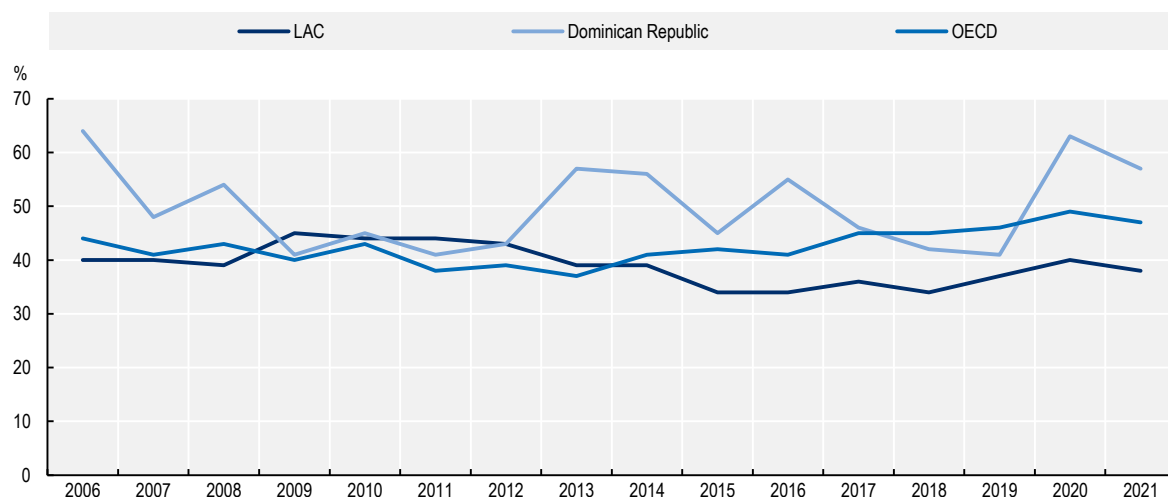
This section explores these challenges in detail. First, it analyses the growing divide between citizens and institutions, as well as the institutional trap facing the Dominican Republic. Trust has been declining and social aspirations are rising, putting pressure on a social contract that is key to deliver greater well-being to all. Second, it analyses some of the main challenges of the country’s institutional framework, and the policy efforts, such as adopting digital technologies, needed to move towards more credible, capable, open and innovative public institutions. Third, it examines some of the main barriers to effective public policy making, mainly related to institutional fragmentation and lack of co-ordination (both horizontal and vertical). This encompasses the need to improve strategic thinking and long-term planning, and address the perils of policy capture that deviate policy making from the public interest.

Strengthening trust in institutions is key to renewing the social contract

Despite strong economic growth, trust in public institutions has been volatile and insufficient, though it has improved more recently

The evolution of trust in public institutions in the Dominican Republic over the last two decades has followed a trend apparently disconnected from economic growth dynamics. Confidence in national government has been higher in the initial years of each administration governing the country in the last two decades and has generally fallen rapidly afterwards. Confidence in the national government was particularly low in 2011 (41%), 2015 (45%) and 2019 (41%), but recovered to higher levels in 2020 (63%) and 2021 (57%). The 2021 level of confidence is well above the averages for LAC (38%) and the OECD (47%) (Figure 2.51).

Other indicators also point to an erosion of citizens’ trust in institutions, though again with a recovery particularly linked to the management of the impacts of the COVID-19 pandemic. Support for democracy, for instance, fell from a maximum of 73% in 2008 to 60% in 2013, 54% in 2017, and a minimum of 44% in 2018 (Latinobarometro, 2021^[103]). In 2020, it rebounded slightly to 50%, presumably because part of the population perceived and appreciated government efforts put in place to counter the effects of the pandemic.

Figure 2.51. Confidence in national government in the Dominican Republic, LAC and OECD

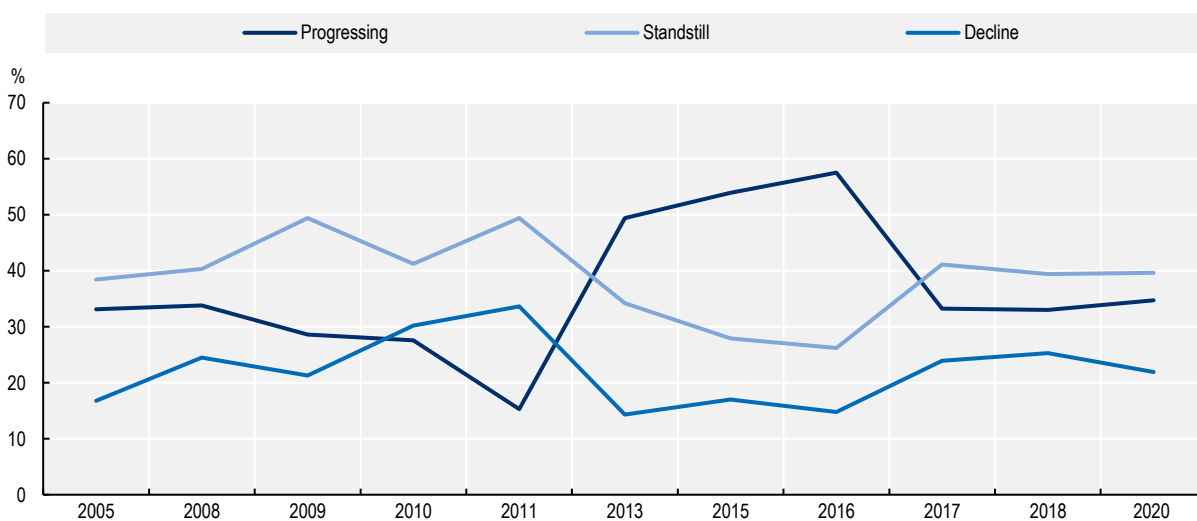
Source: Authors' elaboration based on (Gallup, 2022^[15]).

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The perception of progress in the Dominican Republic has also deteriorated. After a low point in 2011, more than half of the population believed the country was progressing in the period between 2013 and 2016. Subsequently, a steady drop is evident: in 2020, only 35% believed the country was progressing, while 40% felt it was at a standstill and 22% considered it to be declining (Figure 2.52).


Figure 2.52. Perception of progress in the Dominican Republic

Percentage of the population



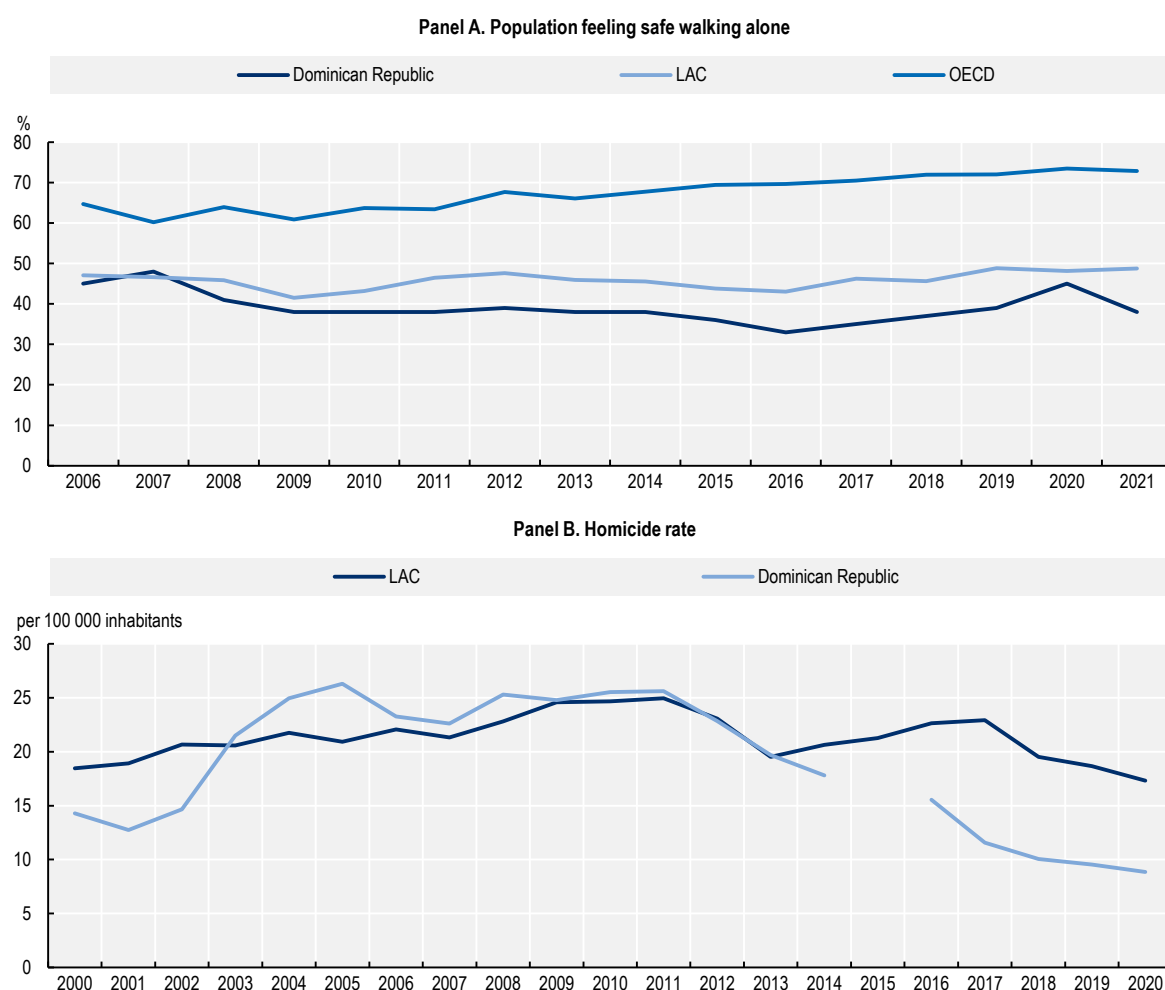
Note: The question posed is: "What is your perception of progress of the country? The country is..."; Data are not available for 2006, 2007, 2012, 2014 and 2019 as the survey was not conducted.

Source: Authors' elaboration based on (Latinobarometro, 2021^[103]).

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In 2020, the main sources of concern across citizenship were economic issues, mostly related to the general outlook for the economy, the risks of unemployment and poverty, and access to and quality of public services, followed by political issues, mostly corruption and delinquency (Latinobarometro, 2021^[103]). With respect to crime and insecurity, the percentage of population feeling safe walking alone has remained low, from levels of 45% (2006) to 33% (2016), with a recovery to 45% (2020) probably related with the isolation measures, and a drop again to 38% in 2021 (Figure 2.53, Panel A). This contrasts with actual data on intentional homicides: between 2001 and 2005, the homicide rate rose from 12.5 to 25.9 (per 100 000 people); it then fell steadily to 15.2 (2016) and 9 (2020) (Figure 2.53, Panel B). This apparent paradox could be related to a lack of precise information about types of crime other than homicides, improved assistance of emergency services that prevents the death of many victims of attacks, or increased access to media delivering news about crime.

Figure 2.53. Crime and insecurity: Perception and current trends in the Dominican Republic



Note: Panel B: no data available for 2015 in the Dominican Republic.

Source: Panel A: Authors' elaboration based on (Gallup, 2022^[15]). Panel B: (World Bank, 2022^[2]).

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Multiple factors are potentially driving the existing divide between citizens and public institutions in the Dominican Republic. On the one hand, social demands have increased as various dynamics have

transformed aspirations. These include the expansion of the middle class, a younger and increasingly urbanised population, and greater access to digital technologies – and hence to information (which has made more visible longstanding issues without these necessarily being more acute) (OECD et al., 2020^[6]). The response to the impacts of the COVID-19 pandemic may have also had effects on public opinion and on the need to reinforce public services and social protection (OECD et al., 2021^[27]). On the other hand, while undeniable efforts have been made to strengthen the institutional framework, public institutions still face significant challenges to address structural problems, advance the pandemic recovery, and respond to new, growing demands. Insufficient institutional capacities are a barrier to successful policy implementation. Moreover, corruption and policy capture significantly deviate institutions and policy making from the public interest in order to serve particular interests.

Rising aspirations of the middle class demand a renewed social contract

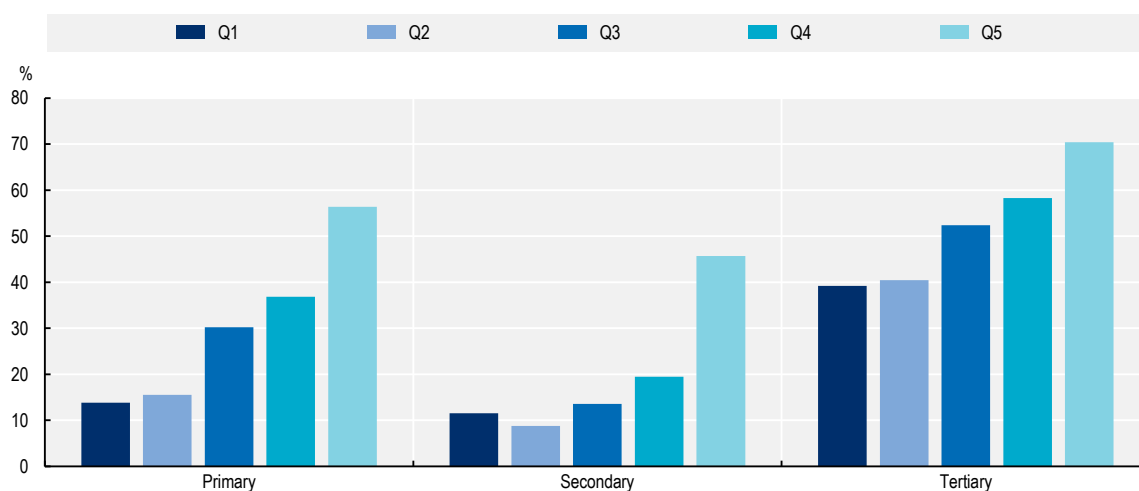
The expansion of the middle class has been one of the main socio-economic advancements of recent times in the Dominican Republic. Living on USD 13-70 per day (2011 PPP), the consolidated middle class expanded from 27.4% in 2010 to 42.4% in 2019. With COVID-19, it declined to 37.1% in 2020. However, a large and increasing “vulnerable” middle-class, living on USD 5.5-13 per day (2011 PPP), represents 46.9% of the population (World Bank, 2022^[37]).

The vulnerable middle-class lives with a feeling of uncertainty. Defined as individuals living in households with a daily per-capita income between USD 5.5 -13 (PPP 2011), people in this socio-economic group usually have low quality, informal jobs, and are at risk of falling back into poverty if hit by any negative event such as unemployment, an economic shock or illness. This was the case for many in the context of the pandemic, though measures put in place by the government sought precisely to prevent these vulnerable populations from falling into poverty. In 2020 almost half (46.9%) of Dominicans were part of the vulnerable middle class (World Bank, 2022^[37]).

Socio-economic progress in the Dominican Republic has come with greater aspirations and an increased perception of unmet social demands. Expansion of the middle-class involves increased expectations of citizens, including demand for better quality public services. Similarly, an intense process of urbanisation is changing society: as much as 83% of the population was living in urban areas in 2021, relative to 61.7% in 2000 and 73.7% in 2010 (World Bank, 2022^[2]). This creates new demands, new social dynamics and numerous institutional challenges. A younger population is also transforming social expectations. In 2021, population aged 15-29 reached around 2.9 million, representing almost 26% of total population (United Nations, 2021^[104]). This group, which has been born and raised in democracy, comes with new perspectives and demands about living standards.

Higher aspirations and growing levels of dissatisfaction and mistrust have been weakening the social contract in the Dominican Republic, fuelling an “institutional trap”. On the one hand, individuals from high- and middle-class households usually channel their dissatisfaction with public services by opting out (i.e. moving towards better quality private services they can afford). For instance, enrolment in private secondary schools increases substantially for higher income groups (Figure 2.54). In this sense, they are paying, via their taxes, for the cost of public services that they do not necessarily use and also paying, from their available income, for the cost of private services. On the other hand, individuals from the vulnerable middle class and poor households are also dissatisfied with the quality of public services but cannot afford to opt for private services. This creates a risk of fracture, as it affects the willingness of citizens to engage in a social contract, fuelling an institutional trap.

Figure 2.54. Share of students in private schools by income quintile, 2016



Source: Authors' elaboration based on (CEDLAS/World Bank, 2022^[60]).

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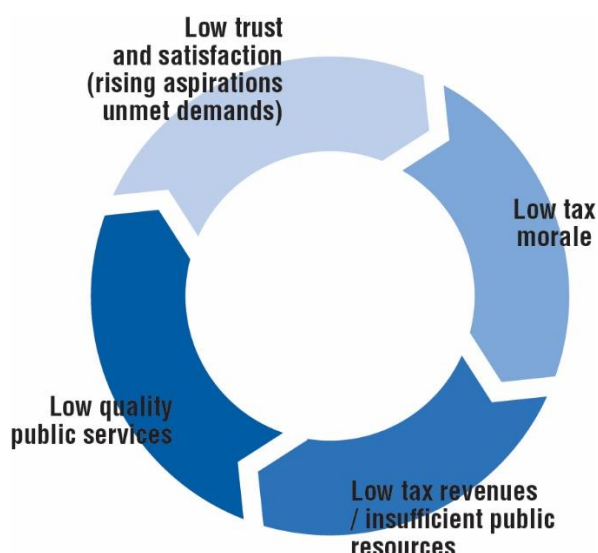
An institutional trap is at play in the Dominican Republic

Higher aspirations and the unmet demands of society due to lack of institutional capacities create a feeling of disengagement and an institutional trap in the Dominican Republic. As such, “tax morale”, or the willingness of citizens to pay taxes, is relatively low. In 2016, 41% of Dominicans justified not paying taxes, if possible (OECD/CAF/ECLAC, 2018^[53]); in 2020, 27.9% declared that they managed to avoid paying some taxes (Latinobarómetro, 2020^[105]).

Low levels of tax morale have negative impacts on the government’s capacity to raise taxes (which is already low). In 2020, tax revenues were at 12.6% of GDP, placing the Dominican Republic among the lowest in the LAC region in this indicator, above only Guatemala. The highest historical data-point was 15% in 2007, with a subsequent decreasing pattern of tax revenues to 13.5% in 2019, which shows that, despite the economic shock of the pandemic, the country has not progressed in its capacity to raise taxes in the past years. By contrast, average tax revenues in 2020 were 21.9% of GDP in LAC and 33.5% for the OECD (OECD et al., 2022^[101]).

Raising public resources is vital to finance better public services and to strengthen public institutions. With low levels of trust and tax morale, however, fiscal legitimacy remains weak and the capacity to raise tax revenues is limited. A vicious circle persists in which citizens demand more but are not willing to pay taxes, given their low levels of trust and satisfaction, hence limiting the capacity of states to effectively respond to society’s growing demands (Figure 2.55).

Figure 2.55. The institutional trap in the Dominican Republic



Source: (OECD et al., 2019^[3]).

Bringing citizens and institutions closer demands stronger institutions that support inclusive and sustainable development

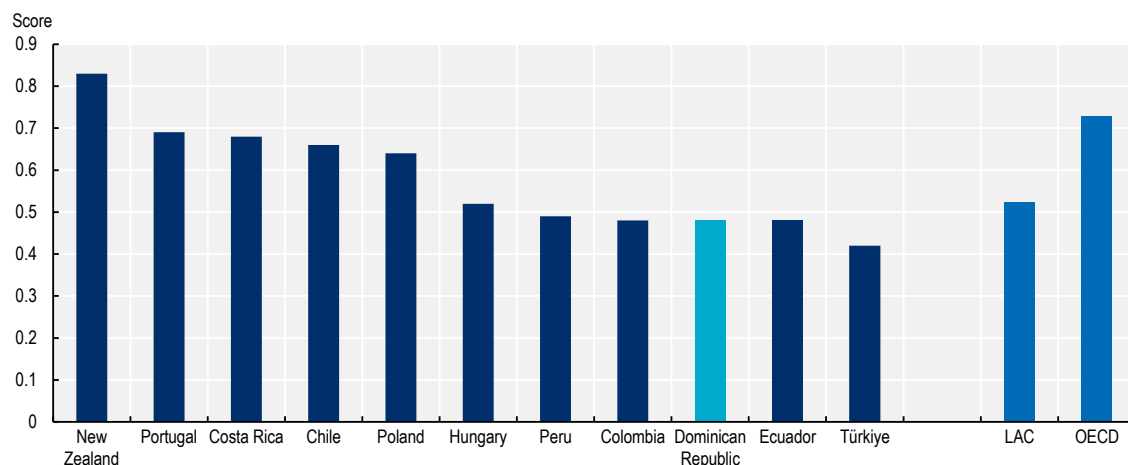
Stronger institutions are needed to support inclusive and sustainable development and respond to citizen demands in the Dominican Republic. The institutional framework must be strengthened to address the current development traps and underpin the recovery. This section explores some of the main weaknesses of public institutions in the country.

More credible institutions are needed to restore citizens' trust

Compliance with the rule of law is a critical component for economic development and effective and trustworthy states. The rule of law is the capacity of the state to observe and enforce formal rules in an impersonal and systematic manner to government actors and citizens alike (World Bank, 2017^[106]). A state that enforces the law is essential for guaranteeing an environment that enables good governance and economic growth (OECD/CAF/ECLAC, 2018^[53]).

Scope exists for improvement regarding compliance with the rule of law in the Dominican Republic. In 2021, the Dominican Republic scored below LAC and OECD averages on the Rule of Law Index, and was among the lowest of the benchmarking economies (Figure 2.56). Among 126 countries covered by this index, the Dominican Republic ranked 94th. This index includes eight factors, namely: constraints on government powers; absence of corruption; open government; fundamental rights; order and security; regulatory enforcement; civil justice; and criminal justice. The Dominican Republic shows particularly poor performance on constraints on government powers, absence of corruption, regulatory enforcement, and civil and criminal justice.

Figure 2.56. Rule of Law Index in the Dominican Republic, LAC, OECD and benchmarking economies, 2021



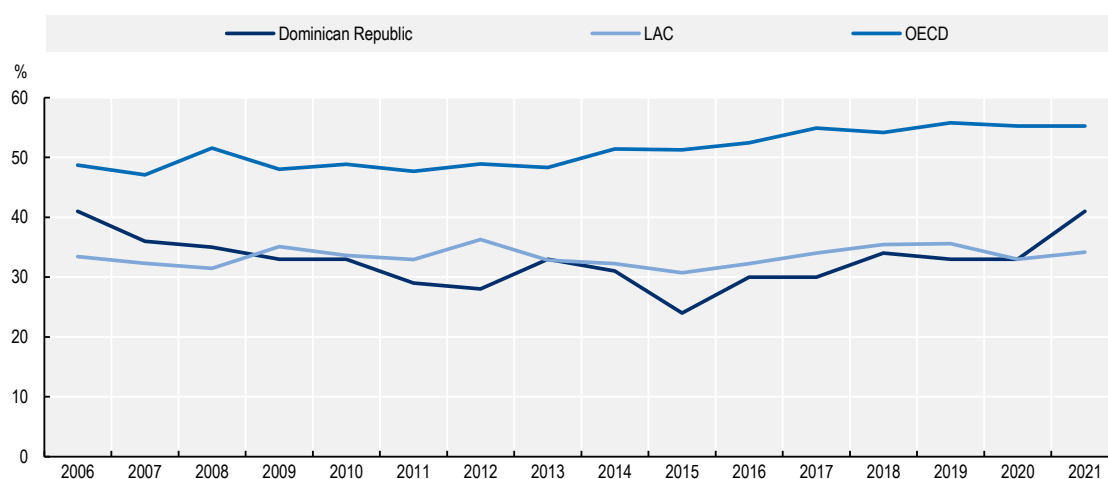
Source: Authors' elaboration based on (The World Justice Project, 2022^[107]).

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The capacity of the state to comply with and enforce the rule of law is directly linked to the strength of legal institutions. These institutions must be able to enforce the division of powers among institutions and also prevent them from overstepping their legal mandates. They must also be able to, with legal proceedings, oversee compliance of elected officials and civil servants and to give equal treatment to all citizens. Finally, they must be able to enforce civil and property rights among citizens (OECD/CAF/ECLAC, 2018^[53]).

Trust in the judicial system in the Dominican Republic remains low. In the last decade, only around one in three citizens indicated having trust in the judicial system, down from 41% in 2006 (Figure 2.57). In 2021, trust in the judicial system recovered to 41%, which is above the LAC average (34%) but significantly below the OECD, where on average, half of citizens trust the judicial system.

Figure 2.57. Trust in the judicial system in the Dominican Republic



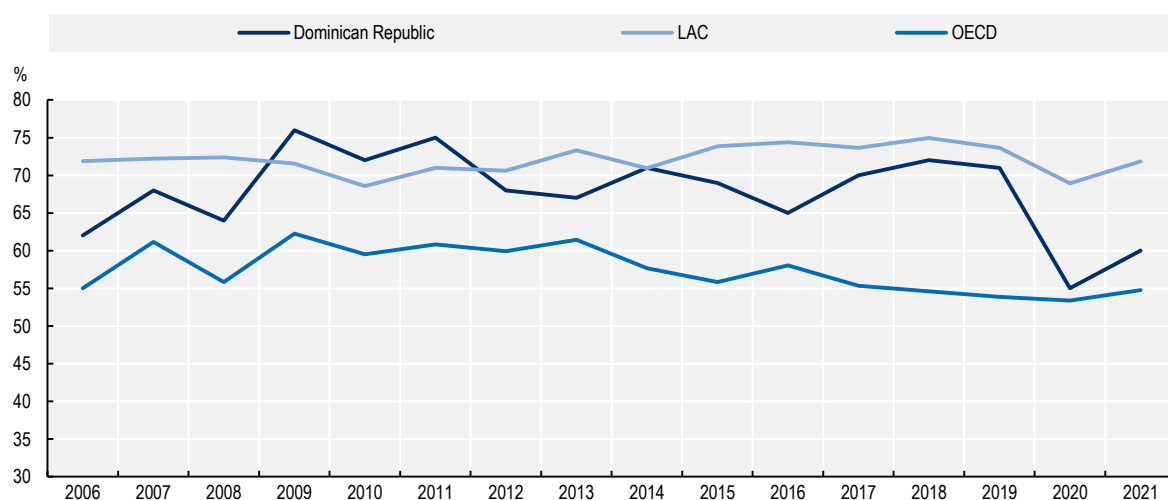
Source: Authors' elaboration based on (Gallup, 2022^[15]).

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The perception of corruption in government is high in the Dominican Republic. Despite some recent improvements, in 2021, still 60% of the population believed corruption to be widespread (Figure 2.58), almost on par with perception of corruption 15 years ago (62% in 2006), suggesting little progress in this front. The level is somewhat below the LAC average (72%). Corruption is one of the main sources of concern for Dominicans; in 2021, around 55% of the population thought that corruption had not improved from the previous year (Latinobarometro, 2021^[103]). Of 180 countries assessed in the 2021 Corruption Perceptions Index, the Dominican Republic ranked at 128 (Transparency International, 2021^[108]). Scandals around the “Odebrecht case” were most likely behind a noticeable rise in the perception of corruption between 2016 and 2019. The *Marcha contra la Impunidad* or *Marcha Verde* was a massive demonstration against corruption that took place in various parts of the country in January 2017, revealing a moment of particular social discontent and rejection to impunity.

Corruption is a mechanism by which people or entities use the state and institutions to gain private advantage; as such, it critically undermines trust and the rule of law. As it deviates resources from the public interest, it is also strongly damaging for development. It can also curb competition and a fair functioning of the economy, aggravate social and economic disparities, and limit equal access to public services (among other negative impacts) (OECD/CAF/ECLAC, 2018^[53]).

Figure 2.58. Perception of corruption in the Dominican Republic, LAC and OECD



Source: Authors' elaboration based on (Gallup, 2022^[15]).

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State capacities must be strengthened to guarantee more effective provision of good quality public services

Institutional capacities are generally weak in the Dominican Republic. This limits the capacity of public institutions to deliver on their functions and restricts the ability to provide good quality public services. The “fiscal muscle” of the state (i.e. public financial resources) is a core element to support stronger institutions and improve public service delivery. However, as mentioned before, tax revenues in the country remain low. While mobilising more domestic resources must be a policy priority, a related imperative is to be able to do more with the same limited resources. Hence, efficiency must become a key element of public governance, particularly in the post-pandemic context where fiscal space has been reduced. Indeed, enhancing public sector performance is a central pillar of the NDS 2030.

The Dominican public administration has been characterised by its limited clarity in mandates and functions, and by a rather complex structure, with high fragmentation. This leads to inefficiencies in the application and co-ordination of public policies, which limits capacity to provide high quality service delivery (Mejía-Ricart, 2002^[109]). Broad scope exists for rationalising the public administration as well as for reducing existing duplications of roles and services. Such reforms would help to create savings, refocus the administration on citizens' needs and promote social investment (OECD, 2019^[110]).

In 2018, the Dominican Republic reinitiated an ambitious public administration reform that sought to strengthen the public governance framework and enhance efficiency and transparency. In 2021, the country approved the *Plan Nacional para la Reforma y Modernización de la Administración Pública*. This Plan seeks to strengthen institutions and their capacities in the design and implementation of public policies, while increasing the efficiency of public expenditure and the quality of public services. More broadly, it aims to enhance trust and bridge the gap between citizens and institutions. A number of elements are key to ensure the success and sustainability of public administration reform, namely its sequencing, guaranteeing the required resources, a more defined sectorial approach, adequate stakeholder participation, and effective and strategic communication. The magnitude of the public administration reform as envisaged by the Dominican Republic requires the existence of effective co-ordination mechanisms, not only within the Ministry of Public Administration (MAP) as the steering body of the reform but also *vis-à-vis* all actors involved in the reform.

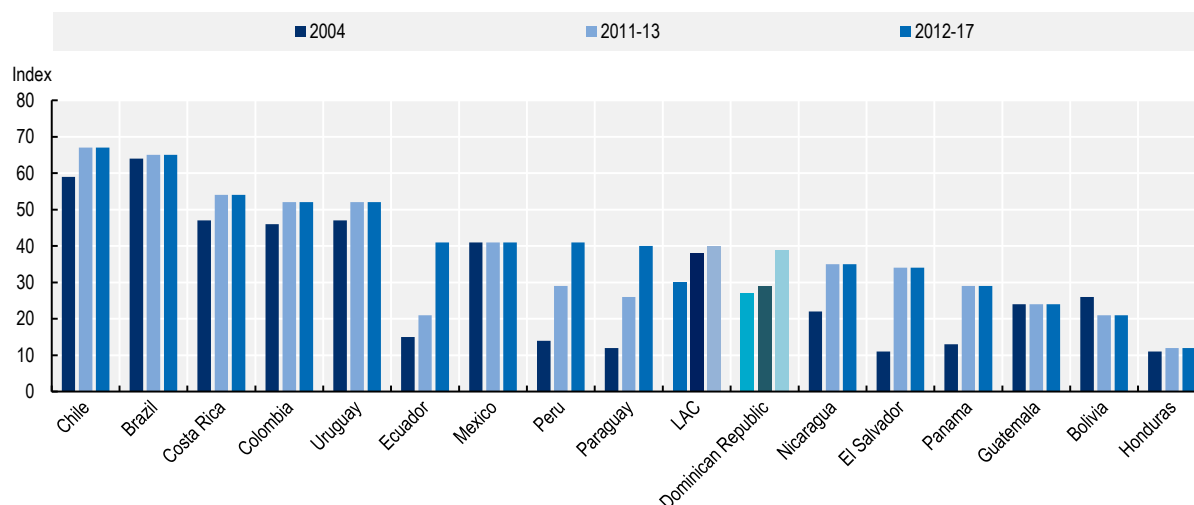
Two other areas are critical to improve the efficiency of public governance and the quality of public service delivery: strengthening the civil service and encouraging administrative simplification. Both offer potential gains in the Dominican Republic.

State capacities are directly shaped by the quality of public servants. Public employees are one of the main assets of public administration; thus, investing in their skills and developing a system for selection, strengthens the pool of human resources in public institutions.

The Dominican Republic is taking bold steps to modernise and professionalise its public administration. Significant improvements relative to the civil service have been made in recent years, but its performance is still insufficient. On average, between 2012-17, the country scored slightly below the LAC average on the Civil Service Development Index, which covers diverse aspects relative to the design and functioning of the public service career (Figure 2.59).


Creating a career of public service has been a major achievement for the Dominican Republic, with Law 41-08 (established in 2008) being a key development to improve public sector capacities. The career of public service is based on merit-based recruitment and employment processes, as well as on performance-oriented human resources practices. Since 2010, the *Sistema de Monitoreo de la Administración Pública* (SISMAP) is a system to monitor progress in these fronts. Significant steps forward have been achieved, though the implementation process has challenges, mainly related to institutional fragmentation, lack of workforce planning, and lack of leadership and management competencies across the public administration. Additionally, as these reforms challenge a culture of political influence and nepotism in public administration, they demand continued strong political support to succeed (OECD, 2015^[111]).

Figure 2.59. Civil Service Development Index



Note: Data were last updated in July 2020, but the data set covers the time period 2004-17.

Source: Authors' elaboration based on (IDB, 2020^[112]).

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Administrative simplification is another vital area to improve public governance and public service delivery. A too-complex regulatory framework can hamper access to public services to citizens and businesses, while also creating both inefficiencies and excessive burdens to public authorities and service providers (OECD, 2017^[113]).

To date, the focus of administrative simplification has been placed on businesses, and not so much on building a more efficient, citizen-centred government. The NDS 2030 includes administrative simplification as a priority area. Various initiatives have already been implemented, such as one-stop shops (both digital and physical), centralisation of registries on formalities, a programme on formality simplification, and implementation of citizen service charters (OECD, 2017^[113]).

Box 2.2. Statistical capacity in the Dominican Republic

A growing demand for official statistics is driving the Dominican Republic's current statistical agenda. The country's fast-growing economy, the development of its NDS 2030, and the adoption of the 2030 Agenda for Sustainable Development have challenged the national statistical system. The National Statistics Office (ONE) is the body in charge of co-ordinating the production of the national statistics necessary to monitor and evaluate the NDS 2030.

Looking back many years, Law 5.096 (1959) failed to establish a leadership role for ONE or provide guidelines for its technical, budgetary and operational autonomy. In the 1980s and 1990s, ONE was subject to politicisation, which weakened its position within the national statistical system. In light of this institutional challenge and building on its reputation as the watchdog of macro-economic stability, the Central Bank overtook parts of statistical production, becoming a highly influential actor in national policy making. Since then, the National Bank has been a major player in producing official statistics, including national accounts, labour market indicators and the consumer price index, among others.

Efficient production of official statistics, however, has been historically hindered by lack of clearly set co-ordination instruments of the national statistical system, ONE's dependence on the central

administration of the executive branch, and an on-going implementation process of the 2008 Civil Service Law.

Over the last ten years, however, the statistical capacity of ONE has evolved substantially, especially in terms of human, financial, technological and physical resources. With the assistance of international donors, ONE has successfully run household surveys since 2005, recruited qualified personnel and created the National School of Statistics. ONE has also been successful in defining strategic sectoral plans, holding inter-institutional meetings with entities from the statistical system, and increasing transparency in data dissemination. More broadly, ONE has generally been able to operate with autonomy from the government.

Thanks to continuity and the ability of leadership to enable implementation of a specific strategic vision – and thus, to capture resources from international donors – the weakness of the national statistical system has consistently improved.

Higher requirements for information for monitoring the NDS, the influence of multilateral organisations and international commitments (such as the Millennium Development Goals [MDGs] and Sustainable Development Goals [SDGs]), as well as a more general trend toward strengthening Dominican public administration, have also contributed to capacity building.

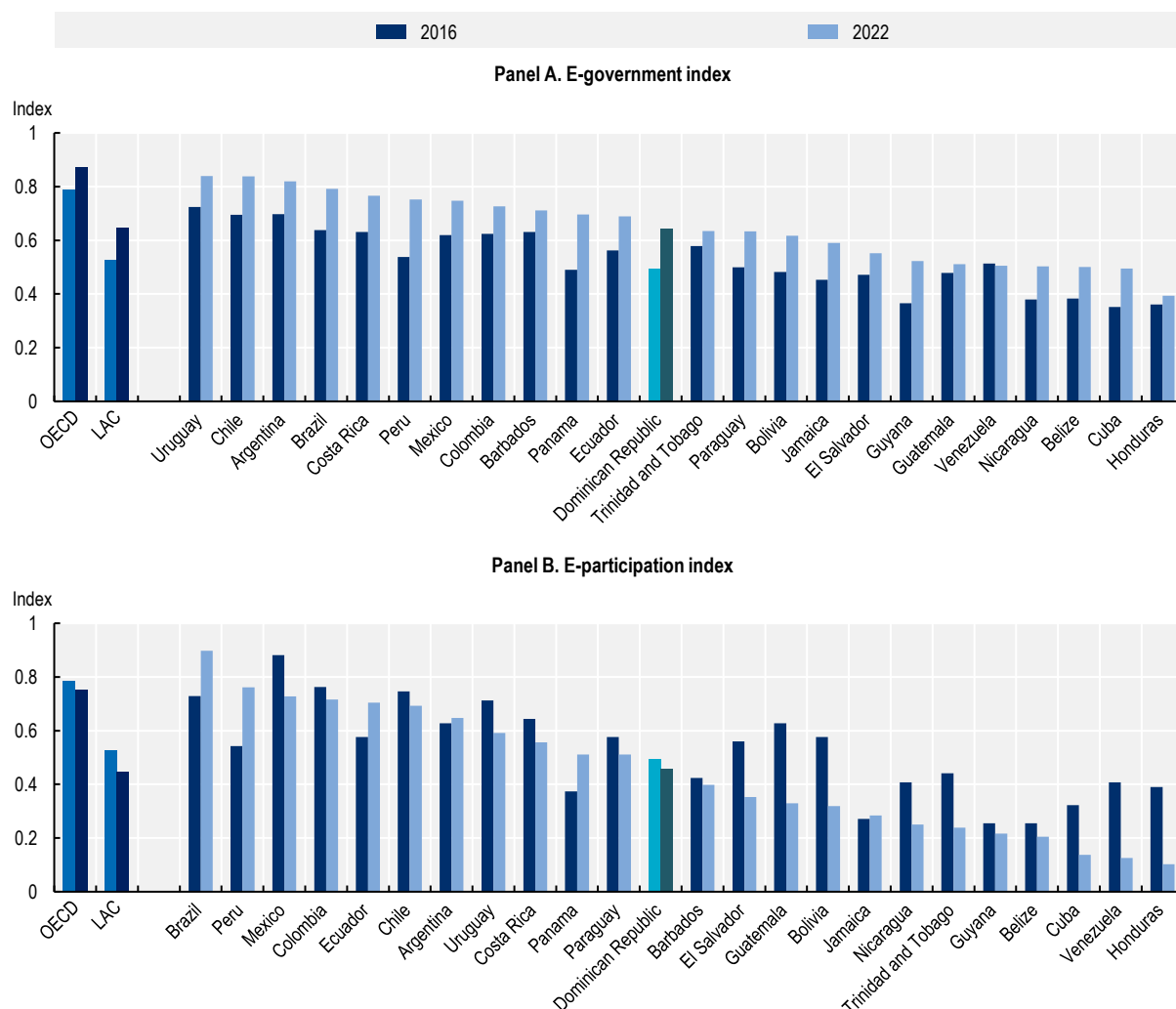
State capacities in the Dominican Republic can be strengthened by collaborating with the private sector, particularly for the provision of public goods requiring large investments, such as infrastructure. Public-private partnerships (PPPs) can be an effective way to increase total investments, but require greater regulatory clarity and institutional capacity. Engaging in PPP processes entails defining clear frameworks and ensuring that the government has appropriate capacity to initiate and manage them, and hence demand high levels of public governance and co-ordination (OECD/CAF/ECLAC, 2018^[53]). Efforts are being carried out but the PPP environment still needs improvements. The Infrascopes Index, which measures the environment for infrastructure PPPs of 26 LAC countries, ranks the Dominican Republic 10th with an overall score of 57.1. The country shows particularly low scores in: project preparation and sustainability, risk management and contract monitoring, and performance evaluation and impact (The Economist Group, 2022^[114]). Law 47-20 on PPPs (approved in 2020) established a specialised national agency (the General Directorate of Public-Private Partnerships) to develop PPPs and introduce principles of good governance, accountability and transparency.

More open and innovative public institutions can be achieved by embracing the digital transformation

Digital technologies can strongly support public governance in multiple ways. Adoption of digital technologies in governments is broadly understood as “digital government,” which is defined in the OECD Recommendation on Digital Government Strategies as “the use of digital technologies, as an integrated part of governments’ modernisation strategies, to create public value” (OECD, 2014^[115]).

Digital governance can have numerous beneficial impacts. First, it can help governments be more efficient by redesigning back-office processes. Second, it can support a new type of relationship with citizens by being more transparent, more accountable and more participatory, hence supporting trust and citizen engagement. Third, it can improve co-ordination of government actions across sectors and levels of government, supporting coherence. Finally, it can support innovation and public sector intelligence through the use of newly generated data, which can help to better understand citizens’ demands and behaviours and design more effective policies. In a context of limited fiscal resources, digital governance is potentially a cost-effective option.

Figure 2.60. UN E-Government and E-Participation indices



Note: The E-Government and E-Participation indices range from 0 to 1, with higher values corresponding to higher performance.

Source: Authors' elaboration based on (United Nations, 2016^[116]; United Nations, 2022^[117]).

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The Dominican Republic has taken steps towards digitalisation of public governance, but still lags behind some LAC countries. The UN E-Government index measures development of e-government at the national level to assess the readiness and capacity of national institutions to use information and communication technologies (ICTs) to deliver public services. In 2022, the Dominican Republic scored 0.64, in line with the LAC average (Figure 2.60). The UN E-Participation index focuses on the dimensions of e-information, e-consultation and e-decision making to assess the engagement of citizens in the use of digital government services. In 2022, the Dominican Republic scored 0.45, similar to the LAC average (Figure 2.60).

The institutional framework for advancing the digital transformation of government in the Dominican Republic has evolved significantly in recent years. In 2004, the government established the Presidential Office for ICT (OPTIC), with the aim of supporting the use of digital technologies to modernise and transform the public administration and improve the relationship with citizens. In 2008, Law 41-08 created the MAP, providing the legal basis for this institution to take the lead on digital government policy. The

NDS 2030 also includes the development of e-government as one of its strategic lines. Between 2016 and 2020, *República Digital* represented a cross-cutting governmental initiative including four strategic axes, one of which focused on digital government and moving towards more open and transparent public governance. In 2021, another major step was taken by creating the *Gabinete de Transformación Digital*, in charge of elaborating of a new Digital Agenda 2030, which was approved in 2022. Together with the dialogue on digital transformation initiated in 2021 (*Diálogo de las reformas 2021: Transformación Digital*), these are strong evidence of the political commitment to drive a digital transformation, with a fundamental axis of the Digital Agenda 2030 being the digital transformation of public institutions.

To tap the potential of digital governance in the Dominican Republic, implementation of existing norms and regulations must be improved, for instance regarding open government. The 2017 OECD Recommendation of the Council on Open Government defines open government as “a culture of governance that promotes the principles of transparency, integrity, accountability and stakeholder participation in support of democracy and inclusive growth” (OECD, 2017^[118]). Countries increasingly acknowledge the role of open government reforms as catalysts for public governance, democracy and inclusive growth (OECD, 2016^[119]). The Dominican Republic joined the global Open Government Partnership as early as 2011. In 2018, the government established the Data Centre of the Dominican State, to make data available for use and re-use by institutions and citizens. Likewise, the Centre for Citizen Attention supports better interaction between citizens and public institutions; it is complemented by *Punto Gob* sites, which provide citizens with different types of highly demanded transactional services in one place.

Development planning and policy co-ordination must be improved to achieve development objectives

Development planning is a political and social process that seeks to co-ordinate different actors, sectors and levels of government for comprehensive actions to achieve development objectives. In the Dominican Republic, the National Development Strategy 2030 represents a successful, collective effort to set a long-term vision. However, some implementation challenges appear to be limiting its potential impact. First, difficulties in reaching consensus on certain strategic areas constrains capacity to advance an ambitious reform agenda. Second, co-ordination across different levels of government is insufficient and territorial organisation must be improved to enhance the impact of development actions at the local level. Finally, challenges linked to the policy-making process limit the capacity to successfully advance development policies. In particular, policy capture exerts a strong influence in these processes and deviates policy making from the public interest.

The National Development Strategy and the “pacts”

The NDS 2030 is built on four strategic axes: a state with efficient and transparent institutions; a cohesive society; a complex, innovative and sustainable economy; and sustainable management of the environment.

The NDS includes within its objectives national “pacts” on three strategic areas: education, electricity and fiscal issues. The pact on education has advanced successfully, after strong citizen mobilisation led to a public commitment to spend at least 4% of GDP on education, annually. Signed in February 2021, the pact on electricity (*Pacto Nacional para la Reforma del Sector Eléctrico en la República Dominicana, 2021-2030*) aims to build an efficient, competitive and sustainable electric system, including a responsible environmental vision. The fiscal pact, however, is still pending. This pact remains of critical importance, particularly in the post-pandemic context in which fiscal space has tightened and vast resources are needed to support an ambitious reform agenda while protecting the most vulnerable and guaranteeing fiscal sustainability (Chapter 4).

International co-operation can play a vital role in supporting domestic capacities to implement development policies and advance the NDS. The Dominican Republic represents a good example of alignment between the NDS and international co-operation. Indeed, the National System of International Co-operation for Development (SINACID) is aligned to the National Planning and Public Investment System, as well as to the State Financial Management System. As of 2016, under the Viceministry of International Co-operation (VIMICI in Spanish), the sectors in which most of the initiatives were concentrated were health, agriculture and fishing, and education, followed by justice, environment, industry, and trade. The main source of co-operation was through multilateral and bilateral funds (OECD et al., 2019^[3]).

Territorial development and co-ordination

Large territorial disparities remain in the Dominican Republic across various dimensions of well-being. For instance, in the macro-region *Sur*, poverty levels reached 28.8% of the population in 2020 and increased to 31.8% in 2021, while in the *Norte o Cibao* they remained stable between 18.3 (2020) and 18.5% (2021) (Ministerio de Economía, Planificación y Desarrollo, 2022^[32]). Likewise, the share of households with access to internet ranges from 44.4% of highly populated and developed provinces such as *Distrito Nacional* and 34.4% of *La Altagracia* to very low levels of connectivity in smaller, less-developed provinces such as 5.4% in *Elías Piña* or 4.9% in *Independencia*. In effect, a difference of 45.8 percentage points exists between regions with higher and lower shares of households with internet (INDOTEL, 2021^[120]).

Regional disparities stress the importance of including a territorial perspective in national development planning, as is done in the NDS 2030. In reality, the Dominican Republic remains a largely centralised country. A high level of territorial atomisation results in low capacities at the subnational level and limited responsibilities, lack of fiscal transparency and poor frameworks for fiscal responsibility at the municipal level. In addition, the system of transfers to local governments is weak (Martínez-Vázquez, et al., 2017^[121]).

In this respect, the modernisation of the subnational public administration must be a key axis of public policy. There have been efforts in this direction like the creation of the *Comisión Presidencial para la Reforma Municipal* (COPREM) in 2015, and the creation of a Fund for Territorial Cohesion for the co-financing of public investment projects of common interest, with a focus on poorer municipalities.

The Law of Land Planning and Use (*Ley de Ordenamiento Territorial y Uso del Suelo*) will be of critical importance to advance this agenda. The text of this law has been a matter of discussion in recent years, and, in October-2022, it was in good track but had not yet been approved.

From planning to action: Improving the policy-making process and avoiding policy capture

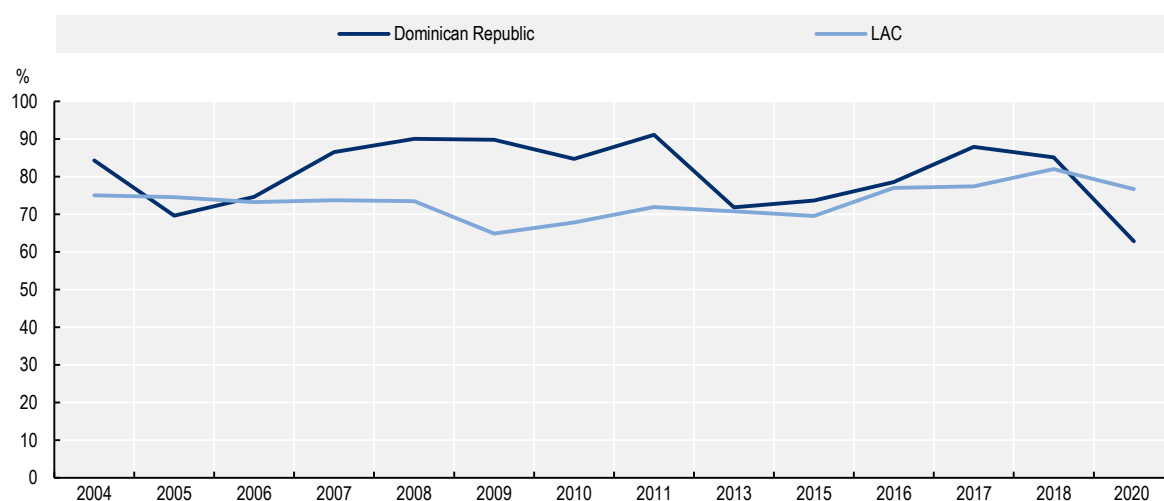
Policy capture is presumably high in the Dominican Republic and one of the main barriers to inclusive and sustainable development. Practices of policy capture can significantly undermine the impact of public policies in promoting inclusive and sustainable development. Policy capture is “the process of consistently or repeatedly directing public policy decisions away from the public interest towards the interests of a specific interest group or person” (OECD, 2017^[122]). While the pursuit of the public interest should guide design of public policies, most policies will lead to both winners and losers. Hence, strong incentives exist for certain groups to influence policy decisions in the direction of their interests, such that they can gain advantage or preserve a beneficial situation.

Policy capture is detrimental for development in multiple ways. It can undermine productivity and growth, as it perpetuates the advantageous status of dominating economic powers and preserves existing monopolistic or oligopolistic structures, hence limiting the potential benefits of fair competition. It also creates incentives for economic agents to invest in gaining influential power and in rent-seeking activities, rather than in competing by innovating or developing skills. In turn, policy capture is cause and consequence of inequality, as it preserves the interests of the wealthy and powerful who – precisely because of their wealth and power – can continue to influence policies in their private interest. Policy


capture also leads to misallocation of public resources, which are needed to invest in better public services, and limits the capacity to advance and to overcome existing development traps that demand bold and strong reforms. Policy capture also erodes trust and legitimacy, with large implications for the success of public policies, for social cohesion and for a good functioning of the social contract (OECD/CAF/ECLAC, 2018^[53]; OECD, 2017^[122]).

The perception that powerful groups dominate public policy making has been very high in the Dominican Republic for many years, though with a remarkable decline recently. Since 2008, this perception of concentration of power has been oscillating between 70% and 90%, persistently above the LAC average. In 2018, as much as 85% of Dominicans thought the country was governed for and by the powerful. More recent data (from 2020) show a marked decline to 59.8% (Figure 2.61).

Figure 2.61. Share of the population that believes that the country is governed by the powerful



Source: Authors' elaboration based on (Latinobarometro, 2021^[103]).

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Policy capture is difficult to measure, but perceptions of its widespread incidence show its impact on inclusive development in the Dominican Republic. Unlike corrupt practices such as bribery (e.g. to obtain a contract), capture is not related to a specific transaction, but is usually characterised as a more stable relationship built up over time through both legal (e.g. lobbying and financial support to political parties or electoral candidates) and illegal instruments and channels. Undue influence can even be achieved without directly involving (and without the knowledge of) public decision makers, for example by manipulating information or establishing close social or emotional ties with influencers (OECD, 2017^[122]).

The existence of broad tax incentives could be somewhat linked to the influence of policy capture (Jovine and Cañete, 2017^[123]). Policy capture in tax incentive schemes in the Dominican Republic takes place through private sector influence from within the institutional framework, not from outside. These tax regimes (free trade zones, border zones, tourism and industrial competitiveness) are administered by governing bodies where there is presence of private sector representatives. This implies that decisions over the continuation or modifications of these tax regimes are not a direct competence of the Ministry of Finance, and that private interests have a capacity to bias and influence decisions in these governing bodies (Daude, et al., 2014^[91]).

Planet: Conserving nature

As one of the countries most vulnerable to natural hazards, the Dominican Republic continues to be under growing environmental pressure. To ensure a more inclusive and sustainable development path for its future citizens, it will need to translate protection of the environment from the periphery of public action into integrated public policies. The country has enjoyed strong economic growth, but the current development model is not sufficiently inclusive and sustainable in the long term. An economy based on sustainable management of the environment and an appropriate adaptation to climate change is needed, as emphasised in the NDS 2030.

This section identifies four major environmental constraints facing the Dominican Republic. First, protection of the environment is a relatively low priority compared to the support of economic growth. Considering the country's rich natural capital, reinforcing its protection and improving management of natural resources will be essential for the development path. Second, as the country is highly exposed to natural hazards, the vulnerability of housing constructions and lack of urban and territorial planning increases the risk of physical and property damages. Third, the Dominican economy remains highly dependent on fossil fuels, making it vulnerable to economic shocks. Finally, institutional fragilities undermine the coherence of environmental policies and the government capacity to enforce environmental legislation (Table 2.2).

Protection of the country's natural capital is not sufficiently prioritised

The Dominican Republic has rich natural capital and needs to reinforce its protection. Natural capital corresponds to natural assets and their role of providing natural resource inputs and environmental services for economic production. Natural capital is generally considered to comprise natural resource stocks, land and ecosystems (OECD, 2001^[124]).

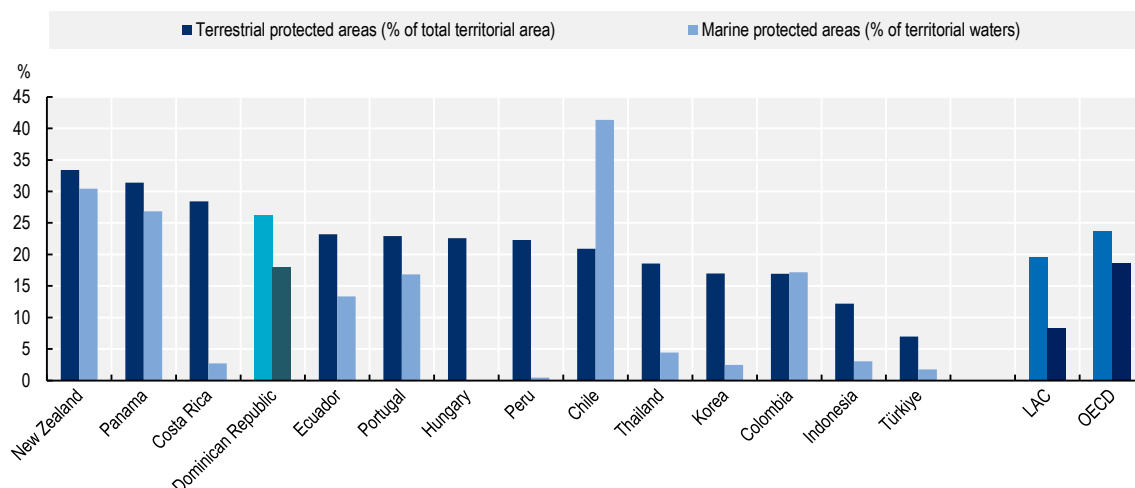
Biodiversity and natural areas are key assets that need better protection

The Caribbean islands are considered as one of the five areas most relevant for biodiversity in the world (Myers, 2000^[125]). Due to their surface, Hispaniola and Cuba contribute to a greater extent to this diversity. Specific to the Dominican Republic, around 26.2% of its total land and nearly 18% of territorial waters are classified as terrestrial and marine protected areas (World Bank, 2022^[2]), well above the averages for LAC and OECD (Figure 2.62). Based on legislation on biodiversity (mainly *Ley 202-04 de 2004 & Decree n°571 of 2009*), the Dominican Republic has a national system of protected areas (*Sistema Nacional de Areas Protegidas, SINAP*). The system is composed of 147 different protected areas: mostly national parks that cover 12 727 km² of terrestrial area and 48 625 km² of marine area, together accounting for a total of 19.2% of the national territory (UNEP-WCMC, 2022^[126]). Some 90% of the endemic fauna and flora reported by the country is found in the protected areas. The Dominican coastline is particularly important in terms of biodiversity, being home to 450 plant species and 1 159 animal species. Almost 76% of the country's coast is included under the SINAP protection.

Biodiversity faces various threats in the Dominican Republic. Uncontrolled development of several sectors that are essential in the current economic growth strategy of the Dominican Republic tend to jeopardise protection of environment. Rational management of fishing, tourism, urbanisation and forests is needed to ensure economic growth is not detrimental to preserving natural capital.

Marine resources are threatened by constant coastal development and overfishing. The Dominican Republic's marine resources are at risk. Between 70% and 90% of coral reefs have already disappeared (Deutsche Welle, 2020^[127]; USAID, 2013^[128]) due to coral bleaching or water warming, which may be linked to fishing practices. Development of the fishing industry and its productivity were promoted at the expense of conserving marine resources. More sustainable management of these resources could support development of the blue economy⁵ (Patil et al., 2018^[129]).

Figure 2.62. The level of terrestrial and marine protected areas in the Dominican Republic is above the LAC average



Note: No data are available for Hungary on marine protected areas (no access to sea). LAC and OECD are simple averages of the countries with available data.

Source: Authors' elaboration based on (World Bank, 2022^[2]; UNEP-WCMC, 2022^[130]).

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Mass tourism has become a major threat for environmental protection. With around 6.1 million international tourists in 2017 and nearly 6.6 million in 2018 (Ministry of Tourism, 2022^[131]), the Dominican Republic continues to be the favourite touristic destination in the Caribbean. Between 2007 and 2017, the number of international tourists increased by 35%.

In 2019, travel and tourism (T&T) relative contribution to GDP was 15.9%. In 2021, after the COVID-19 shock, the Dominican Republic eased all travel restrictions for vaccinated travellers and had a strong rebound of T&T contributing 11.8% to GDP (WTTO, 2022^[42]). T&T constitutes almost 16.7% of total employment and around 5% in terms of direct employment (see “Prosperity” section in this chapter). Tourism in the Dominican Republic and the Caribbean is dominated by all-inclusive resorts and cruise tourism. Global air connectivity between 2009 and 2019 grew by more than 100% in the Dominican Republic (WTTO, 2022^[42]). During the 2017-18 cruise year, the Dominican Republic had passenger arrivals in excess, around 1.1 million passengers (BREA, 2020^[132]). In recent decades, beaches in the Dominican Republic have experienced accelerated erosion (UNEP/GPA, 2003^[133]), due mainly to human impact (Cambers, 1999^[134]). New mega-resorts projects close to the coastline are likely to threaten the preservation of national parks and their endemic species.

As the number of tourists increases, environmental pressure also rises; as such, developing a sustainable tourism model becomes crucial to economic policy discussion. Some initiatives have been developed: in 2019 UN Environment launched the Roadmap for Low Carbon and Resource Efficient Accommodation in the Dominican Republic. The roadmap sets five targets for the accommodation sector: reduce 25% of greenhouse gas (GHG) emissions by 2030 (from a 2020 baseline); reduce food waste by half; reduce by 25% the use of non-renewable energies; eliminate single-use plastics; and develop a sustainability certification for hotels. The Ministries of Environment and Natural Resources and of Tourism, among other actors, have confirmed their commitment to develop a sustainable and resilient tourism sector, and implementing the roadmap remains on the country's agenda (UN Environment, 2019^[135]).

Environmental vulnerability in the Dominican Republic is exacerbated by rapid urbanisation and the lack of territorial planning. With the urban population growing by 2.4% annually since 1994, the Dominican

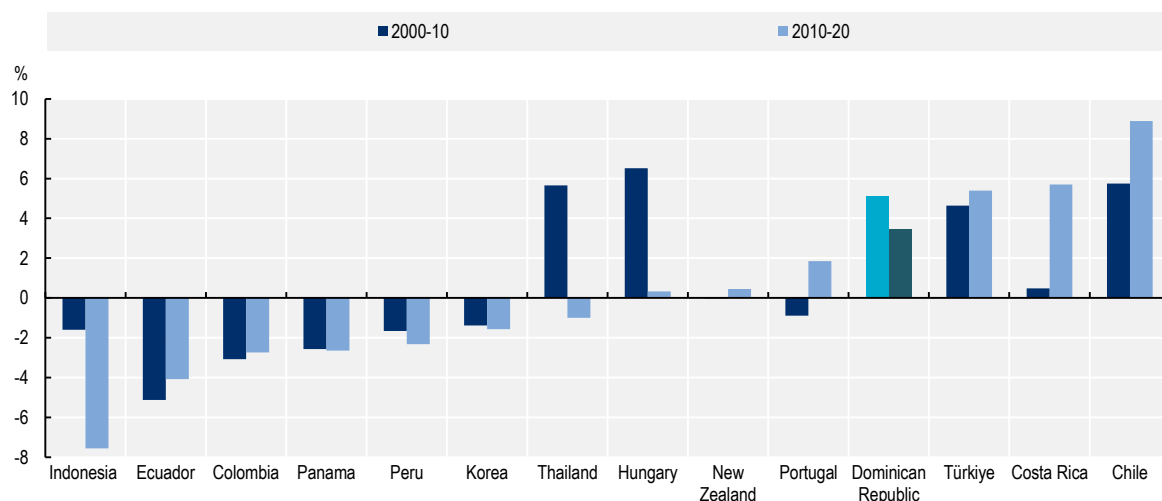
Republic has urbanised faster than the LAC region. Legislation (Law No. 305 of 1968) states that constructions are prohibited within the 60-meter maritime-terrestrial zone, but allows exceptions only for the tourism sector and authorisation is provided directly via presidential decree. Nevertheless, many beaches (e.g. Cortecito, Uvero Alto and Punta Cana) have the highest percentage of buildings within the fixed 60-meter shoreline, mainly for tourism purposes (Almanzar et al., 2017^[136]).

While the Dominican Republic was able to control deforestation over the last decades, threats to the protection of existing forests remain. In the 1980s, forests that once covered 70% of the country were drastically reduced due to agricultural expansion and logging. In 2020, total forest cover was estimated as 44.4% of total land area, approximately 2.1 million hectares (FAO, 2022^[137]). Forest area in the Dominican Republic increased by 5.1% between 2000 and 2010 and by 3.4% between 2010 and 2020, compared to declines of -5.7% and -3.0% for South America (Figure 2.63). However, the frequency of forest fires (Figure 2.64) and continuous expansion of agricultural lands due to pressure from agricultural activities could reverse current trends. In 2020, almost half of the country's territory was dedicated to agriculture (50.3%), which is above the averages for LAC (32.8%) and OECD (33.9%) (World Bank, 2022^[2]).

The country has a National Climate Change Plan (*Plan nacional de Adaptación para el Cambio climático*, PNAC-RD) and a National Action Plan for Adaptation to Climate Change (PNCC). The National Council for Climate Change is responsible for formulating, implementing and co-ordinating (across ministries), and enforcing climate change policies and projects under the President. The strategies on climate change cover mitigation and adaptation issues; however, implementation of the strategy faces challenges in territorial articulation and monitoring, its integration across sectors (energy, transports, etc.), and budget alignment to the expected results.

Figure 2.63. The Dominican Republic made significant efforts in reforestation

Percentage change in forest areas in selected benchmarking economies between 2000-10 and 2010-20

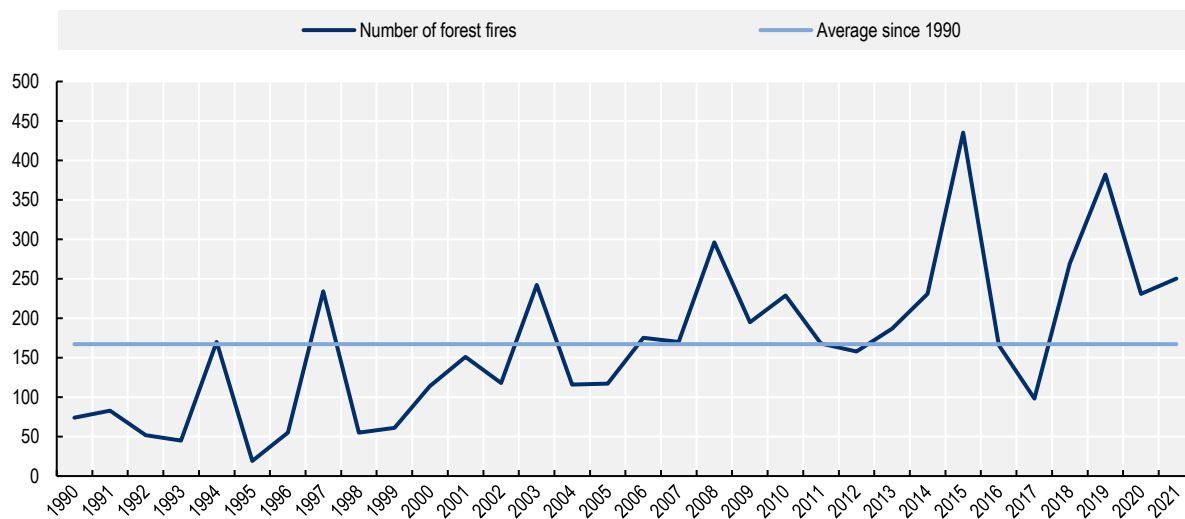


Source: Authors' elaboration based on (FAO, 2022^[137]).

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Figure 2.64. High frequency of forest fires in the Dominican Republic

Frequency of forest fires in Dominican Republic since 1990



Source: Authors' elaboration based on (Ministry of the Environment (MMARN) and the Office of national statistics (ONE), 2022^[138]).

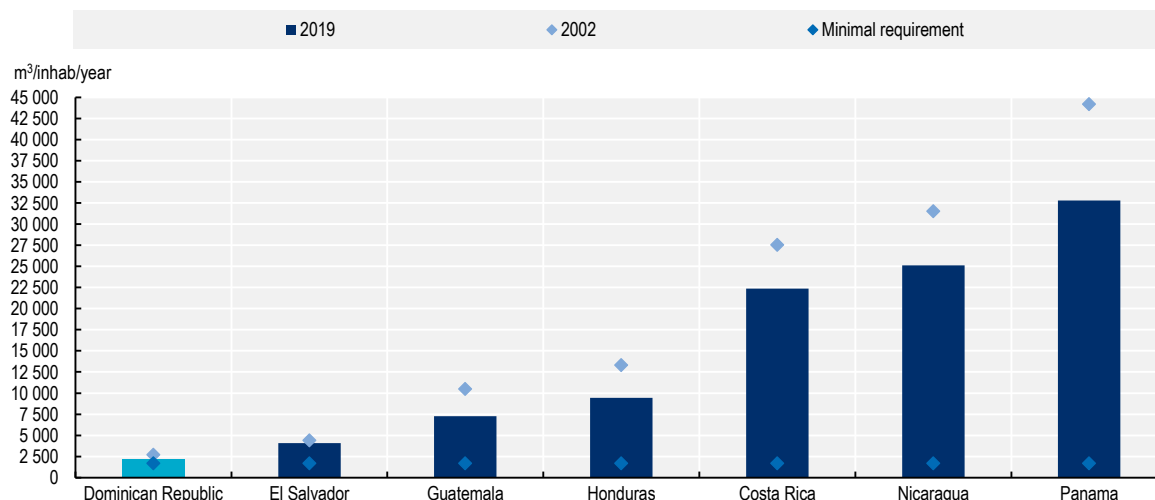
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The current development model puts pressure on the water resource

Mining activities, as well as agriculture, can affect negatively the preservation of water, which is already scarce in the Dominican Republic. Mining activities result in environmental liabilities that impact nearby surface water and groundwater. In agriculture, development of one of the world's thirstiest crops – i.e. sugarcane – has led to significant impacts on water resources and biodiversity.

The Dominican Republic is increasingly affected by water scarcity. In contrast to other Central American countries, in 2019, the Dominican Republic had an average water availability per capita of 2 188m³ per year (Figure 2.65); this is close to stress levels at which withdrawals exceed safe levels (1 700m³ per person per year according to UNESCO).⁶ The water-consuming economic sectors, the impact of droughts and floods, and uneven spatial and seasonal water distribution aggravate considerably water scarcity in the country (Serrano, 2015^[139]). In this context, it is important to advance discussions around a Law on Water, and even a Pact on Water (Pacto por el Agua) at the national level.

Agricultural activities continue to have considerable impacts on water use. They are estimated to use 83% of the available water, mostly from superficial sources (World Bank, 2018^[50]) and the remaining 17% from groundwater (FAO, 2022^[140]). Due to the common practice of irrigation by flooding, the efficiency rate for irrigation in agriculture is below 25% (Sánchez, 2016^[141]). The commercially important export sectors in agriculture – historically built mainly on sugar, coffee and bananas, and secondly on rice, citrus, cocoa and tobacco – continue to prevail. Sugarcane is one of the most water-intensive crops and the Dominican Republic remains one of the main producers in the region (FAO, 2022^[142]).

Figure 2.65. The Dominican Republic is close to the water stress levelTotal renewable water resources per capita (m³/inhab./year)

Note: Water stress is defined as when annual water supplies fall below 1 700m³ per person (UNESCO, 2012^[143]).

Source: Authors' elaboration based on (FAO, 2022^[144]).

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Mining is a particular concern for the Dominican Republic from a socio-environmental perspective. Due to large foreign direct investment (FDI) in gold and silver mining, the mining sector grew around 21% per year from 2010 to 2021 (see Prosperity section) (Central Bank of the Dominican Republic, 2022^[145]). The extractive sector is associated with various environmental impacts – water use and contamination being only one. The largest gold mine is located in Pueblo Viejo, in the north-central region (Sánchez Ramírez province). The Pueblo Viejo's open-pit mining project (operated by Rosario Dominican) had to close in 1999 due to environmental liabilities that impacted nearby surface and groundwater, and the community living there was relocated (Climate Diplomacy, n.d.^[146]). Current technologies used to extract gold from low-grade ore in Pueblo Viejo are resource-intensive. The legal framework on mining was improved with the revision of the Mining Law in March 2018 (*Ley de Minas 146, initially from 1971*) and the above-mentioned *Ley de Medio Ambiente (Ley 64)*. However, a lack of consistency is evident in implementation and monitoring of this legislation. The use of surface and groundwater does not seem to be strictly monitored by the authorities, and there are not well-defined sanctions if needed.⁷ Also, enforcement of health and safety norms appears to be weak and environmental impact assessments are not publicly available. In 2019, the Ministries of Finance and Energy and Mines signed an inter-institutional co-operative agreement on the mining sector that aims to unify procedures and regulate the evaluation of requests for mining concessions, the auditing of obligations granted, and other special contracts (Ministerio de Hacienda de la República Dominicana, 2019^[147]).

Natural hazards constitute a major challenge for future development of the Dominican Republic

The impact of natural hazards on the economy

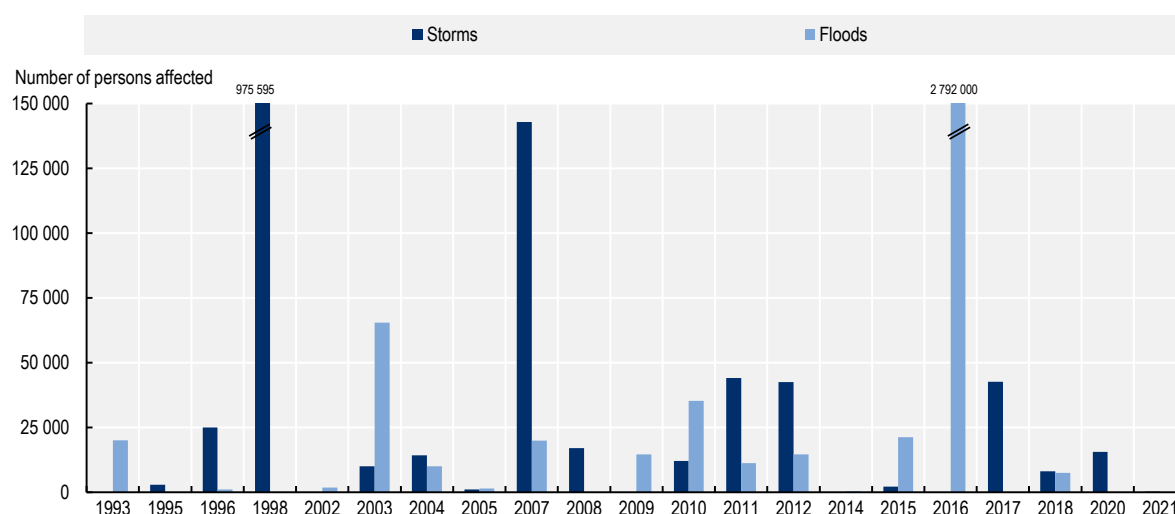
The Dominican Republic is highly exposed to natural hazards. When weather-related and geological hazards occur, the consequences and costs for the Dominican society can be considerable. Over the period 2000-19, the Dominican Republic ranked as one of the 50 most vulnerable countries to extreme

weather events worldwide (Germanwatch, 2021^[148]). From 1980 to 2008, some 40 different disasters affected 2.65 million people, almost one-quarter of the entire population. A study from the World Bank and the Ministry of Economy, Planning and Development (MEPyD) estimated the historical economic impact of disasters over 1961–2014 at about 0.7% of GDP per year (World Bank, 2017^[149]).

Due to its geographical location, the Dominican Republic is particularly affected by hurricanes, storms and floods. Between 1990 and 2021, the Dominican Republic was affected by 29 hurricanes and storms and by 25 floods, in which according to estimates 1 411 persons lost their lives (ECLAC, 2022^[33]). In 2004, hurricane Jeanne caused economic losses up to 1.9% of GDP (approximately USD 417 million). Earlier, in 1998, Hurricane Georges also resulted in large economic losses equivalent to 14% of GDP (World Bank, 2017^[149]). The vulnerability of housing constructions and the lack of urban and territorial planning increase both physical and property damage, as shown, for example, by the number of households impacted by natural hazards in 1998, 2007, and 2016 (Figure 2.66).

Figure 2.66. High impact of natural hazards on households in the Dominican Republic

The number of directly affected persons by type of natural hazards in the Dominican Republic, 1993-2021



Source: Authors' elaboration based on (ECLAC, 2022^[33]).

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Impact of natural hazards on key economic sectors and infrastructure

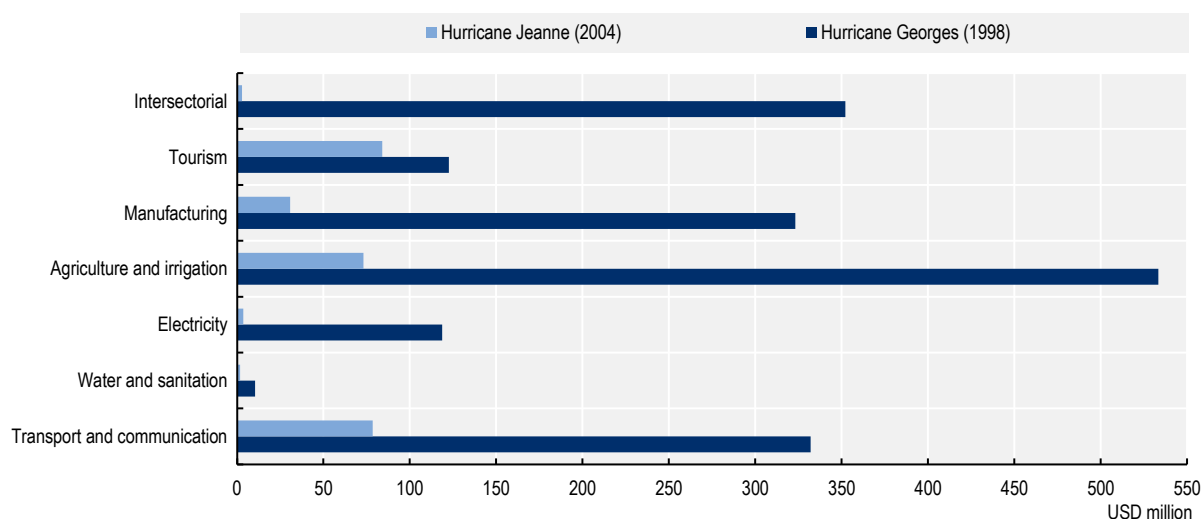
Natural hazards have considerable impacts on the Dominican economy and on infrastructure. Agriculture is the economic sector most affected by natural hazards: damages and losses for these hurricanes were approximately USD 533.41 million (Hurricane Georges) and 73.1 million (Hurricane Jeanne). Tourism activities were also affected with losses and damages estimated at USD 122.62 million in 1998 and USD 84.03 million in 2004 (Figure 2.67).

The fiscal impact of widespread damage and losses caused by natural hazards can be sizeable in relation to government budgets (OECD/World Bank, 2019^[150]). The current legal framework for the national system for disaster prevention, mitigation and response was established in *Law 147-02 on Risk Management* from 2002 (*Ley 147-02 sobre Gestión de Riesgos del 22 de septiembre de 2002*). The Dominican Republic is also signatory to the Sendai Framework for Disaster Risk Reduction 2015-2030. Evaluation of the financial

and economic impact of natural disasters is not regular and systematic, and the sectorial analyses are not always centralised.


Figure 2.67. Damages and losses on economic sectors and infrastructure due to hurricanes in the Dominican Republic

Damages and losses in USD million for Hurricane Georges (1998) and Hurricane Jeanne (2004)



Note: The Damage and Losses Assessment (DaLA) methodology is used to capture the closest approximation of damages and losses due to disaster events.

Source: Authors' elaboration using the DaLA methodology based on (ECLAC, 2022^[34]; EM-DAT, 2022^[151]).

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The Dominican economy remains highly dependent on fossil fuels

Impact of fossil fuels on the environment

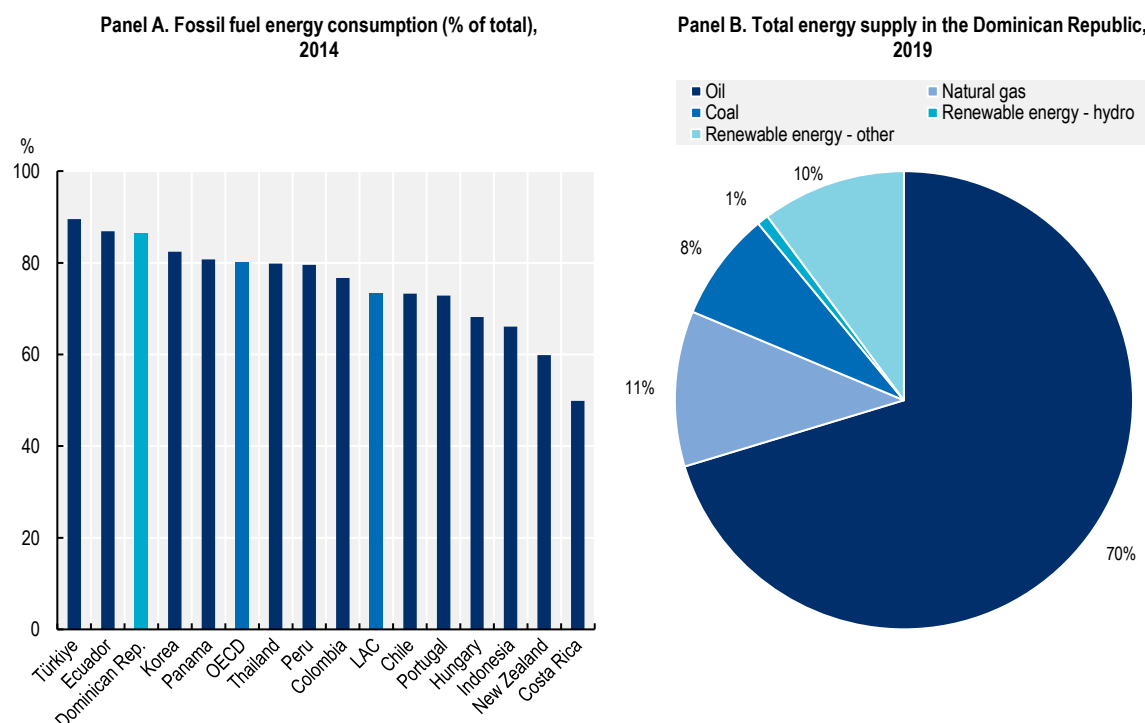
Energy consumption is growing in the Dominican Republic, which still relies on imported fossil fuels for nearly all of its electricity needs. This makes the country particularly vulnerable to fuel price shocks and dependent on imports from other countries for its energy supply. Russia's invasion of Ukraine in early 2022 has highlighted the risks of being energy-dependent on other countries, as is the case of much of Europe (OECD et al., 2022^[9]). The Dominican Republic needs to reduce both import dependency and the impacts of fossil fuel combustion on the local environment. In 2019, fossil fuels represented 89% of total energy supply, while renewable energies made up only 11% (Figure 2.68).

The Dominican Republic has set ambitious targets in relation to energy and its impacts. In its Nationally Determined Contribution (NDC) it committed to reduce its emissions by 27% by 2030, in relation to a business-as-usual scenario. It also set the target to reduce per-capita GHG emissions by 25% by 2030 compared to 2010 levels (Ministerio de Economía, Planificación y Desarrollo, 2012^[152]). The National Greenhouse Gas Inventory of 2010 shows energy as the greatest source of emissions (61.9%), followed by agriculture (19.9%), waste (12.9%), and industrial production (5.3%); land-use change and forestry activities are indicated as carbon sinks, absorbing 3.1 MtCO₂ in that year.


The inauguration in February 2020 of the Punta Catalina coal-fired plant by the Dominican Republic's state-owned electric utility (*Corporación Dominicana de Empresas Eléctricas Estatales*, CDEEE) could

contradict the commitment to decarbonise the economy. The 752-MW coal plant is expected to produce between 5 and 8 Mt CO₂e and 30 tonnes (t) of nitrogen dioxide (NO₂) and sulphur dioxide (SO₂). At present, Punta Catalina is the main electricity generator, producing 25-30% of the country's electricity. It has confronted consistent operational problems and supply chain issues, as well as environmental impacts such as residual ash causing health externalities. Additionally, the government continues to apply large subsidies to the electricity sector and hydrocarbons. In 2021, the government allocated USD 1.03 billion to the subsidy for Electricity Distribution Companies (EDE's) and USD 266.9 million directly to fuel (U.S Department of State, 2022^[153]).

Figure 2.68. Fossil energy consumption is high in the Dominican Republic



Note: Fossil fuel comprises coal, oil, petroleum, and natural gas products. The LAC includes all Latin American countries and Caribbean islands. Total energy supply consists of production + imports – exports – international marine bunkers – international aviation bunkers +/- stock changes. Source: Authors' elaboration based on (OECD/IEA, 2014^[154]; IEA/OECD, 2021^[26]).

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The Dominican Republic should ramp up efforts to develop renewables

Naturally endowed with abundant solar and wind resources, the Dominican Republic should ramp up efforts to develop renewables. In 2019, the share of renewables in energy consumption was 14% and the share in total energy supply was 11% (IEA, 2022^[155]). The Dominican Republic could become one of the leading countries in the Caribbean region for renewables (IRENA, CNE, 2016^[156]), but lack of certainty and clarity regarding rules for their deployment constitutes a substantial challenge (CONEP, 2019^[157]). Transforming the electric power sector, predominantly based on hydrocarbons, is essential for boosting the share of renewables. Based on Law 57-07 on Renewable Sources of Energy Incentives from 2007 (Ley 57-07 del 7 de Mayo de 2007), the electricity sector is obliged to increase the share of renewables in the power generation mix to 25% by 2025. High electricity losses in distribution are an additional challenge

for the power system. Institutional weaknesses undermine the coherence, consistency and enforcement of environmental policies

Effective governance and implementation of environmental policies is essential to improve the protection of natural capital and reduce the Dominican Republic's high exposure and vulnerability to climate-related disasters and extreme events. The environmental institutional framework can be improved by strengthening co-ordination between ministries and government authorities as well as between national and sub-national levels. The lack of clearly defined roles and responsibilities, as well as of explicit incorporation of environmental components in other key policy areas (e.g. transport, management of natural resources), are additional institutional challenges in environmental policies.

Institutional challenges in environmental policies at the national level

A meaningful co-ordination mechanism among the various ministries and government agencies that have competences over environmental is essential to advance the green agenda in the Dominican Republic. The Ministry of the Environment and Natural Resources (*Ministerio de Medio Ambiente y de Recursos Naturales*, MARN) was established in 2000 through adoption of the Law on Environment (*Ley de Medio ambiente, n°64 de 18 de Agosto de 2000*). Strengthening dialogue between the Ministry of Environment and other ministries is vital. Roles and responsibilities of each actor involved in defining, planning and implementing energy policy are not always explicitly clarified. Co-ordination between the Ministry of Environment and Natural Resources and the Ministry of Tourism could also be improved in relevant areas, such as ecotourism.

The Dominican Republic's environmental legal and policy framework aligns with an existing system of sanctions in case of violation; its application and consistency, however, are not always sufficiently clarified. Sanctions applied for the “no respect” and violation of the Environmental Law (*Ley ambiental n°64-00, art. 167*), for example, are not clearly formulated or consistently enforced. The lack of regular environmental monitoring in specific sectors (e.g. water) by government authorities can weaken environmental policies.

Institutional challenges in environmental policies at sub-national level

Dialogue about co-ordination of environmental policies between the national and sub-national levels is as relevant as the inter-ministerial co-ordination. Solid waste management can serve as an example due to its centralised control by the executive and its fragmentation among various institutions involved, which include: the Presidency (*Dirección General de Programas Especiales de la Presidencia*, PROPEEP); the Ministry of Environment and Natural Resources; the Ministry of Health; the MEPyD; and the Ministry of Education. In addition, it concerns the federation(s) of municipalities, municipalities and operators. Despite all the actors involved, solid waste management is considered as inadequate across the Dominican Republic and improvised rubbish dumps are common. On average, each Dominican produces 1.2 kg of waste per day. Waste separation is practically non-existent so nearly all waste ends up in one of about 368 open air dumps (Forbes Central America, 2020^[158]; Deutsche Welle, 2018^[159]). The Chamber of Deputies of the Dominican Republic adopted in 2018 a law on waste management (*Ley de residuos solidos de julio 2018*), with the objective to create the “missing” legal framework for the management, reduction and recycling of waste.

Box 2.3. The Dominican Republic is engaged on environmental matters at the multilateral fora

Since the United Nations Conference on Environment and Development (1992, Rio Summit), the Dominican Republic and the LAC region have made progress in strengthening the environmental pillar of sustainable development, including by signing multilateral agreements. The Dominican Republic has since ratified 15 international treaties dealing with protection of the environment and/or climate change (Table 2.2). The COP21 Paris Agreement was ratified by the Congress in March 2017.

Table 2.2. Ratification of multilateral environmental agreements by the Dominican Republic

Type of multilateral environmental treaty	Date of entering in force	Focus	Date of signature by the Dominican Republic
Treaty on Plant Genetic Resources	29/06/2004	Conservation and sustainable use of plant genetic resources	02/05/2022
Minamata Convention	16/08/2017	Pollutant release register, environmental education	20/03/2018
Convention on the conservation of Migratory Species of Wild Animals (CMS)	01/11/1983	Biodiversity	01/11/2017
Paris Agreement (Framework Convention on Climate Change)	04/11/2016	Climate change, environmental transparency framework	21/09/2017
Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilisation to the Convention on Biological Diversity	12/10/2014	Biodiversity	13/11/2014
Stockholm Convention on Persistent Organic Pollutants (POPs)	16/05/2004	Pollutant release register, environmental education	04/05/2007
The Cartagena Protocol on Biosafety to the Convention on Biological Diversity	11/09/2003	Biodiversity, environmental education	20/06/2006
Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade	24/02/2004	Pollutant release register	24/03/2006
Kyoto Protocol (Framework Convention on Climate Change)	16/02/2005	Climate change	12/02/2002
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	05/05/1992	Certification	10/07/2000
United Nations Framework Convention on Climate Change (UNFCCC)	21/03/1994	Climate change, environmental education, pollutant release register	07/10/1998
United Nations Convention to Combat Desertification in those Countries Experiencing Serious Droughts and/or Desertification (UNCCD)	26/12/1996	Biodiversity, environmental education	26/06/1997
UN Convention on Biological Diversity (CBD)	29/12/1993	Biodiversity, environmental education, indigenous communities, environmental evaluation	25/11/1996
Vienna Convention for the protection of the Ozone Layer	22/09/1988	Climate change, pollutant release register, biodiversity	18/05/1993
Montreal Protocol on Substances that Deplete the Ozone Layer	01/01/1989	Climate change	18/05/1993
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	01/07/1975	Biodiversity	17/12/1986

Source: (ECLAC, 2022_[160]).

Notes

¹ Data for Chile are from 2017, for Peru from 2018, for Panama, Thailand and Türkiye from 2019, and for Ecuador 2021. Korea is not included in the average because no data were available.

² Percentage of a cohort of pupils (or students) enrolled in the first grade of a given level or cycle of education in a given school year who are expected to reach successive grades (UNESCO, 2022^[16]).

³ Adjusted gender parity index for gross enrolment ratio for tertiary education, data from 2017 (latest year available).

⁴ The special regime for domestic industry mainly facilitates custom procedures and provides domestic exporting firms with some investment incentives and VAT refunds for certain inputs. It also offers a 50% tariff reduction for inputs sourced from free economic zones and used for partial-processing and re-export to free economic zones (Daude, et al., 2014^[91]).

⁵ Blue economy is defined by the OECD as the sum of economic activities of ocean-based industries, together with the assets, goods and services provided by marine ecosystems (OECD, 2019^[162]).

⁶ Water stress is defined as being when annual water supplies fall below 1 700 700 m³ per person per year (UNESCO, 2012^[161]).

⁷ Based on an interview with representatives from the civil society in June 2019.

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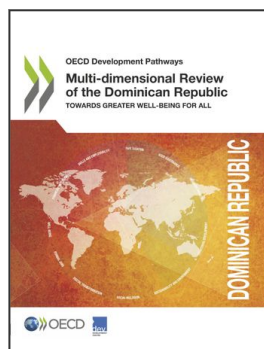
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