Executive summary

The Dominican Republic has been one of the fastest growing economies in Latin America and the Caribbean (LAC) in the last two decades. Following a severe economic crisis in 2003, progress has been remarkable. Annual GDP growth averaged 5.1% between 1993 and 2021, and in 2011 the country became an upper middle-income economy. Macroeconomic stability was an essential factor, as was deeper integration in the global economy, with significant foreign direct investment inflows, the development of free trade zones, and the expansion of tourism and mining. Remittances from Dominicans living abroad, mainly in the United States, also played a significant role.

While economic progress has come with improvements in the various dimensions of citizens' well-being, challenges remain. Poverty declined after 2003-04, but 23.8% of the population were still poor in 2021, and inequalities persist across income groups, age, gender and territories. The Dominican Republic is among the 50 countries most vulnerable to climate change worldwide, and its development model puts pressure on water and marine resources, although the forest area has expanded in the last two decades. The Dominican Republic has abundant wind and solar resources, yet fossil fuels represented 89% of total energy supply in 2019. Citizens are aware of these challenges, and their perception of progress has deteriorated in recent years. Interestingly, confidence in government has increased since the pandemic to 57% in 2021, well above the LAC average. However, 60% of the population believed that corruption is widespread, and a similar proportion thought the country was governed for and by the powerful.

The COVID-19 crisis aggravated some of these longstanding challenges, but the recovery is an opportunity to advance an ambitious reform agenda. This review highlights three areas for public action to promote greater well-being for all: 1) creating more formal job opportunities; 2) mobilising public and private financial resources for development; and 3) embracing the digital transformation.

A broad formalisation strategy with stronger social protection and production transformation

Labour informality is one of the critical and most persistent challenges in the Dominican Republic. In 2021, 45.4% of Dominicans lived in households where all workers were employed informally. This average hides important differences across income levels and territories: 64.6% of people in the poorest income quintile and 56.6% of the population in rural areas lived in a household depending only on informal employment. Labour informality is directly linked to low firm formalisation. Formality remains unattractive or unaffordable for many firms, especially the smaller ones, due to the associated tax and administrative burdens; complications stemming from the multiple sectoral and size-related variants of minimum wage regulations; and the high costs of dismissal incurred after the first year of formalisation.

Informality leaves workers with no or insufficient social protection. To reach them, the Dominican Republic must improve the targeting of programmes, with better interoperability of existing registries, and a focus on households where all workers are informal. Addressing barriers and disincentives to formalisation requires further simplifying tax and administrative procedures, providing SMEs with specific support, and the labour force with better skills. A broad formalisation strategy should include ambitious production transformation efforts to support specific sectors and explore the potential of the digital and green transitions for job creation.

Mobilising further public and private resources to finance an ambitious development agenda

The impacts of the pandemic and international crises have further tightened fiscal space. At 12.6% of GDP in 2020, tax revenues in the Dominican Republic were significantly below the LAC and OECD averages, of 21.9% and 33.5% respectively. A tax mix with more direct taxation can improve revenues and strengthen the redistributive capacity of the system. For instance, new taxes could be explored in the green and digital economy, and better registries would improve the collection of property taxes.

Tax expenditures represent 4.4% of GDP. Reforming or eliminating outdated or poorly targeted tax incentives can increase revenues. In Special Economic Zones, the distributional and efficiency implications of incentives could be assessed more regularly. Tax non-compliance is among the highest in LAC: for VAT, it was estimated at 43.5% (3.6% of GDP) in 2017, above the LAC average of 30.1%. Broader use of electronic invoicing is one option to fight non-compliance. Addressing the challenges of the digital economy and non-compliance from multinationals is also crucial, through compliance with the OECD/G20 agreements.

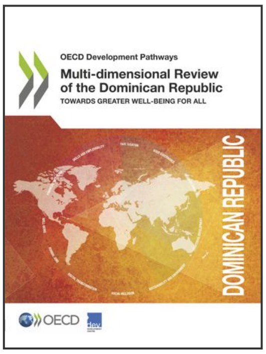
Better public spending requires targeted social programmes, a stronger public investment system and solid fiscal frameworks, including the possibility of a fiscal rule. A fiscal pact, backed by broad consensus, can support a holistic and well-co-ordinated fiscal strategy for the recovery and beyond.

Deepening and strengthening the financial system is key to channelling private financing towards development. Banking depth is still low: promoting competition in the sector and improving financial inclusion are priorities, as is developing the local debt market, both public and private.

Embracing a digital transformation for all

A successful digital transformation can improve productivity, foster inclusiveness, help tackle climate change, transform public institutions and increase overall well-being. Improvements in connectivity have been remarkable. Between 2010-20, the percentage of Internet users more than doubled, from 31.4% to 76.9%, one of the highest rates in LAC. Disparities remain, however, and policies should ensure that digitalisation bridges existing divides, instead of creating new ones. Nine out of the 32 provinces in the Dominican Republic do not reach the 10% threshold of households with Internet. Progress in schools has been notable: 47% of them are equipped with effective online learning platforms, one of the highest levels in LAC. However, this level was 61% in advantaged schools but only 33% in disadvantaged ones.

Digital transformation can boost productivity, innovation and productive diversification. However, the Dominican Republic’s innovation system has been underperforming, due to low investment in research and development. Better performing logistics are also critical. Finally, global digital transformation could affect employment: 12% of jobs might be at high risk of automation, against a LAC average of 16%. Hence the need to invest in digital skills. The recently adopted Digital Agenda 2030 represents a step towards a clear, ambitious and comprehensive digital strategy, showing commitment to digital transformation.



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