

# **3**

## **Towards more formal jobs in the Dominican Republic**

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Despite many years of remarkable socio-economic progress in the Dominican Republic, rates of labour informality have remained persistently high. The predominance of informal employment means that most of the population lacks social protection, which amplified the socio-economic impact of the coronavirus (COVID-19) pandemic. Beyond the immediate effects in the context of the pandemic, informality goes against inclusive and productive development. The Dominican Republic must continue its efforts to place formalisation at the centre of its development strategy for the following reasons: First, formalisation is key to expanding the breadth of the social protection system and reaching the most vulnerable groups. Second, barriers to the formalisation of companies should be reduced, which can have a positive effect on productivity growth, tax collection and increased trade opportunities, and can eventually lead to the creation of more formal job opportunities. Third, investing in skills development and production transformation are key policy areas for generating greater formalisation through gains in productivity as well as through better job prospects for the workforce.

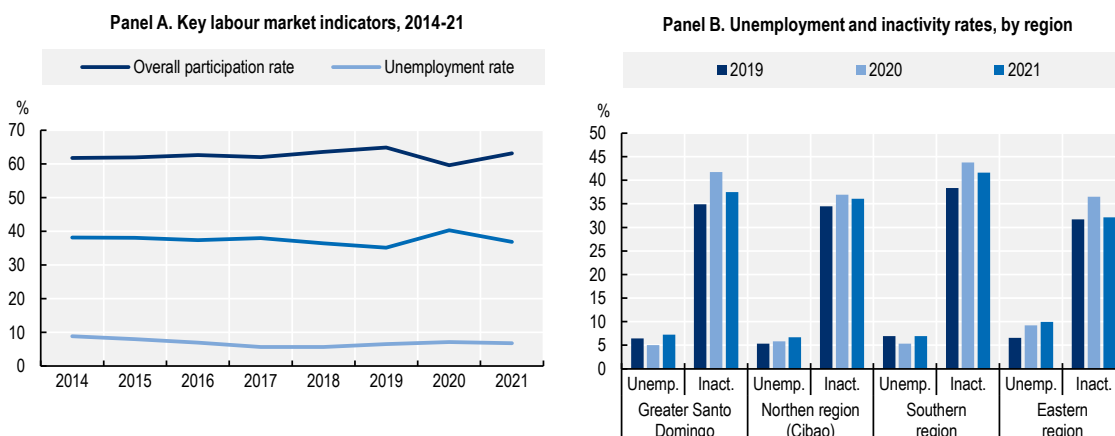
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## Introduction

The Dominican Republic has recorded remarkable economic growth rates in most years after the 2003-04 economic crisis, but these have not translated into comparable improvements in labour market outcomes. Between 2010 and 2019, the country recorded an average gross domestic product (GDP) growth rate of 5.64%, considerably higher than the average GDP growth rate for Latin America and the Caribbean (LAC) countries (1.23%) and for the Organisation for Economic Co-operation and Development (OECD) member economies (2.1%) (World Bank, 2022<sup>[1]</sup>). Despite this period of prosperity, those sectors primarily enabling economic growth did not create sufficiently high-quality jobs, and large numbers of workers remain concentrated in low-quality jobs and sectors with low productivity growth (see Initial Assessment in Part I). While some labour outcomes have progressed, the Dominican Republic's labour market still faces deep structural challenges that have limited the social impact of the economic expansion. Labour market participation, for example, has improved over the last decade, but remains relatively low and with significant gaps across socio-economic groups (gender, age, education level and income) and territories. For instance, female labour participation rates increased from 48.2% to 52.7% between 2014 and 2019, but still remained well below the male participation rates of 75.9% and 77.9%, respectively.<sup>1</sup>


The Dominican Republic's labour market continues to face long-standing challenges that were aggravated by the impact of COVID-19. The modest, yet positive, evolution of some labour market outcomes in the last decade was negatively affected by the COVID-19 crisis. The unemployment rate decreased from 8.8% to 6.5% between 2014 and 2019 but increased to 7.1% in 2020. The inactivity rate had slightly improved, decreasing from 38.2% in 2014 to 35.1% in 2019, but it then increased to 40.3% in 2020<sup>1</sup> (Figure 3.1, Panel A). The impact of the COVID-19 crisis on labour market outcomes has also been markedly heterogeneous across socio-economic groups and territories. For example, the unemployment rate rose by 0.5 percentage points in the northern region of the Dominican Republic and by 2.6 percentage points in the eastern region (see Figure 3.1, Panel B). Conversely, it declined by 1.5 percentage points in the Greater Santo Domingo region and by 1.6 percentage points in the southern region, most likely because many people there were not actively seeking employment during the COVID-19 pandemic, hence the increasing rate of inactivity. Although several of these indicators recovered in 2021, they had not yet reached pre-pandemic levels by end-2021.

**Figure 3.1. The COVID-19 crisis, cushioned by a series of emergency social programmes, had a differentiated impact on labour market outcomes across regions in the Dominican Republic**



Note: Panel A: 2014-21 data are from the third quarter of each of the relevant years. This graph uses Q3 data because data from the first and second quarters of 2020 were collected by telephone during the COVID-19 pandemic and not by the usual method of the Encuesta Nacional Continua de Fuerza de Trabajo (ENCFT).

Source: Authors' elaboration based on BCRD (2022<sup>[2]</sup>).

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Labour informality, which remains a critical and persistent challenge and is the main topic of analysis in this chapter, is high in the Dominican Republic and it amplified – and was amplified by – the effects of the COVID-19 pandemic. Containment measures to curb contagion had significant effects on labour markets worldwide. The government of the Dominican Republic launched several emergency programmes in order to mitigate the effects of the confinement measures (e.g. the Programa de Asistencia al Trabajador Independiente [Pa' Ti programme]). Despite this, the crisis had a greater impact on workers in the informal labour sector, who could not sustain their livelihoods due to lockdown measures. This chapter provides an in-depth analysis of labour informality in the Dominican Republic and proposes strategic areas of action for increasing the country's formal labour force. This chapter is structured in four sections. The first section analyses informality and its negative impacts in terms of lack of social protection coverage from the perspectives of both individuals and households. The second section analyses the barriers that companies face in moving towards formality, which is a necessary step in boosting labour market formalisation, and on the relevance of production transformation to create formal job opportunities. The third section analyses the impact of low productivity levels in preventing greater formalisation rates and focuses on skills development as a critical policy area for improving productivity and formalisation. The final section presents a set of policy recommendations for a labour formalisation strategy.

## **Informality leaves many workers and their households without adequate social protection coverage**

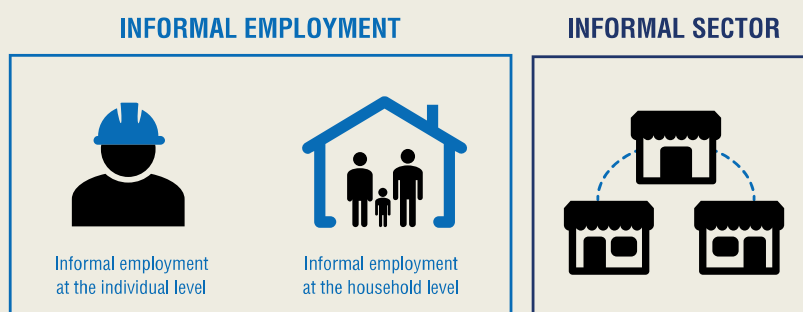
Informality is one of the greatest development challenges facing the Dominican Republic. Informal labour is a complex and multidimensional phenomenon and is both a cause and a consequence of low development levels (OECD et al., 2019<sup>[3]</sup>). It erodes tax collection, undermines productivity growth and leaves a large share of the workforce vulnerable to shocks due to lack of social protection. Informal work perpetuates low productivity levels, unsophisticated economic structures, a low-skilled labour force, and weak labour market institutions and regulations. All of these factors, however, are also key contributors to informality (Basto-Aguirre, Nieto-Parra and Vázquez-Zamora, 2020<sup>[4]</sup>; OECD, 2020<sup>[5]</sup>). The choice to operate informally can result from an exclusionary formal labour market or can be a voluntary decision in response to high costs and other burdens of formality (Jütting and De Laiglesia, 2009<sup>[6]</sup>). However, informality is also an alternative to unemployment, particularly for low productivity sectors and low-skilled workers. In this way, it plays a critical role in alleviating poverty. The formal sector can grow by: 1) creating more formal jobs, 2) transforming jobs from informal to formal and 3) destroying informal jobs.

This section analyses the phenomenon of informality and its impact on limiting the coverage of the Dominican Republic's social protection system. Informality has many pervasive effects. This section focuses on how widespread informality leaves large segments of the population with no access to social protection, with greater incidence of this being evident among the most vulnerable in society, and examines informality from the individual and household perspectives in order to better understand the vulnerabilities it creates. Indeed, understanding the vulnerabilities of informal workers and their dependents is critical to rethinking social protection and to tackling informality via differentiated policies. Throughout this chapter, the definition of informal employment is based on that used by the OECD and the International Labour Organization (ILO) (OECD, forthcoming<sup>[7]</sup>; ILO, 2018<sup>[8]</sup>), which considers status in employment and classifies workers according to the labour-based benefits for dependents and the characteristics and sector of the economic unit for independent workers. On the other hand, the definition of the informal sector used in this review is the one proposed by the Central Bank of the Dominican Republic (CBDR), which uses criteria at the company level in order to classify economic units as being part of the formal or informal sector. Both concepts are explained in detail in Box 3.1.

### Box 3.1. Defining and measuring informality: A methodological note

What informality is and how it should be measured is a matter of broad discussion. Countries employ a wide range of approaches in order to measure informality. Informality can refer either to **informal employment** or to the **informal sector**.

Figure 3.2. Approaches to measuring informality



Source: Authors' elaboration.

#### i) Informal employment

This report provides its own definition of **informal employment**. The methodology follows the set of criteria described in ILO (2018<sup>[8]</sup>) and replicated by OECD/ILO (2019<sup>[9]</sup>). Calculations for the Dominican Republic use 2019, 2020 and 2021 microdata of the ENCFT (BCRD, 2022<sup>[2]</sup>). The ENCFT provides information on the labour market through household surveys, which gather information on the level of economic activity and other sociodemographic data, such as the characteristics of the population, the household and its members. This approach provides new data for comparing informality measures in the Dominican Republic with standardised data from 13 other LAC countries. These countries are included, together with countries from other regions, in the OECD's *Key Indicators of Informality based on Individuals and their Household* (KIIBIH) database (OECD, forthcoming<sup>[7]</sup>). The KIIBIH database uses household surveys in order to provide comparable indicators and harmonised data on **informal employment** and the well-being of informal workers and their dependents. This chapter analyses informality and its relationship with the vulnerability of informal workers and their household members.

#### **Informal employment at the individual level**

By using the job as the unit of reference, **informal employment** is determined according to the following criteria:

- In the case of employees, a job is considered informal if it is not subject to national labour legislation, income taxation, contributory social protection or employment benefits.
- In the case of own-account workers and employers, the status of **informal employment** is determined by the informal nature of the activity.
- In the case of family workers, all jobs are classified as **informal employment** (e.g. a family member working in a family business without set remuneration).

#### **Informal employment at the household level**

Measuring informality at the household level allows policy makers to monitor workers' vulnerabilities in the informal economy more effectively, as they can assess how such vulnerabilities may be passed on

to dependents and can thus design specific and differentiated policies for households with different compositions. Using this classification for **informal employment**, we can assign **households to three categories of informality** (see Table 3.1): 1) formal households, where all working household members are formally employed; 2) informal households, where all working household members are informally employed; and 3) mixed households, where at least one working household member has a formal job and at least one has an informal job (OECD, forthcoming<sup>[7]</sup>).

**Table 3.1. Household informality categories**

| Household informality composition |   |
|-----------------------------------|---|
| Formal                            | 100% of workers employed in formal jobs   |
| Informal                          | 100% of workers employed in informal jobs   |
| Mixed                             | At least one household member is formally employed and one is informally employed |

## ii) Employment in the informal sector

This chapter uses the **informal sector** statistics published by the Central Bank of the Dominican Republic (BCRD), together with the National Statistical Office (ONE, for its acronym in Spanish), to illustrate the size of the informal sector and hence its employment levels. Their definition of the informal sector is an adaptation from ILO's definition (ILO, 2013<sup>[10]</sup>) and considers the condition of the company in which the main economic activity takes place, as well as their workers' access to social security. In particular, a company is considered part of the informal sector if it does not meet the following conditions: (1) being registered in the National Taxpayers Registry (RNC) and (2) keeping records of business transactions in auditable accounting books. These statistics are calculated using the ENCFT.<sup>2</sup> It is worth mentioning that the main labour market indicators published by the BCRD are calculated taking into account all persons aged 15 and over. All figures regarding the **informal sector** presented in this chapter follow such official definition unless stated otherwise.

## ***Labour informality is persistently high, particularly affecting the most vulnerable population***

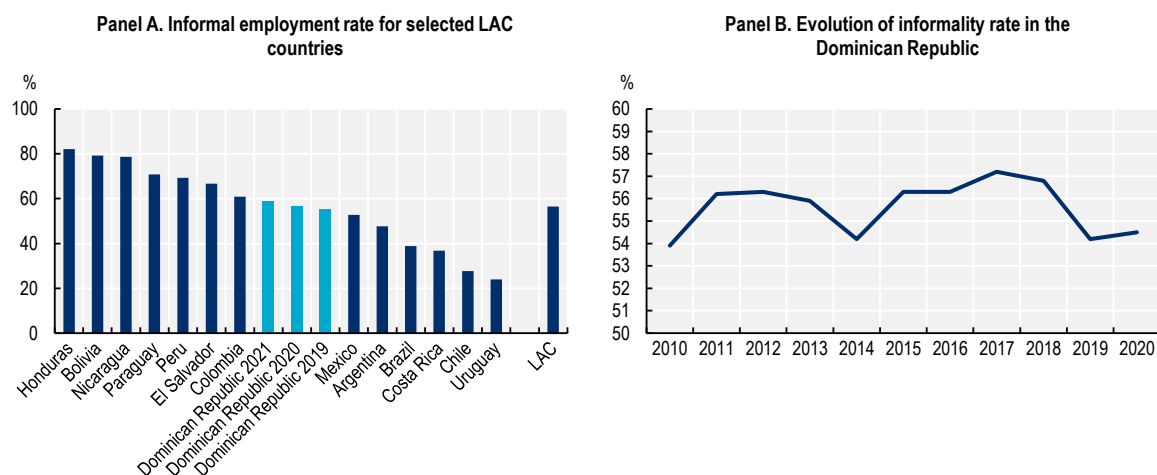
Most informal workers are trapped in a vicious cycle of vulnerability and inadequate social protection. Informal workers have no access to adequate levels of social protection (see Box 3.1), although they may have basic coverage in certain areas, such as non-contributory healthcare. Informal labour is also associated with low and/or unstable income. This prevents informal workers from saving and from investing in human capital and moving to higher-productivity jobs or to creating their own formal enterprises, which maintains them as informal – and therefore vulnerable – workers. This generates a vicious cycle, a “vulnerability trap”, that affects large segments of the population in the Dominican Republic and in other LAC countries (OECD et al., 2019<sup>[3]</sup>). Most of those who work informally are insufficiently protected from the various risks to which they are exposed, including illness or health problems, unsafe working conditions, or less protection of their labour rights, all factors that were aggravated by the COVID-19 crisis (OECD, forthcoming<sup>[7]</sup>).

The Dominican Republic's labour market has shown persistently high levels of informality for decades. In addition to the common causes of informality, the Dominican Republic has a series of particular structural conditions that have enabled and boosted the reproduction of this phenomenon in the country, such as birth under-registration, low education attainment (Corbacho, Brito and Osorio Rivas, 2012<sup>[11]</sup>) and teenage pregnancy (UNDP, 2017<sup>[12]</sup>).

In 2021, the informal employment rate in the Dominican Republic reached 59.0%, slightly above the 2019 rate of 55.3%. This is considerably higher than informal employment rates in Brazil, Costa Rica and Mexico

but below those in the Plurinational State of Bolivia (hereafter: Bolivia), El Salvador, Honduras and Peru. This informal employment rate is similar to the LAC average of 56.5% (Figure 3.3, Panel A). According to ILO data, the informal employment rate has been consistently high in the Dominican Republic, staying above 50% over 2010-20 decade (Figure 3.3, Panel B).

**Figure 3.3. The Dominican Republic's labour market shows persistently high levels of informality**



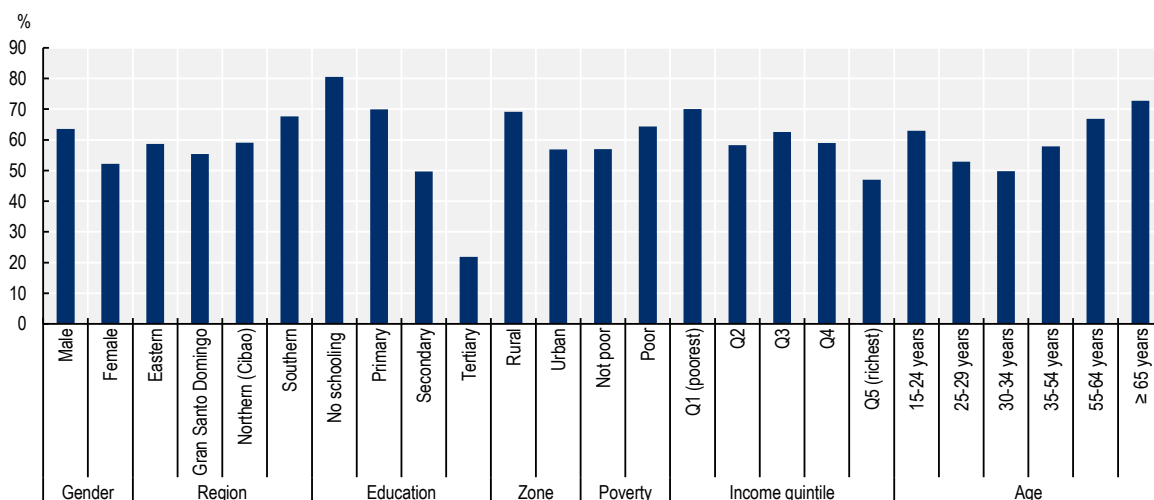
Note: The LAC average is the unweighted average of selected LAC countries. The Dominican Republic's estimate is for the third quarters of 2019, 2020 and 2021.

Source: Panel A: Authors' calculations based on the informal employment definition (OECD, forthcoming<sup>[7]</sup>; ILO, 2018<sup>[8]</sup>), using 2018 household surveys or the closest available year. For comparability purposes and availability of microdata at the time of calculation, 2019 and 2020 estimates for the Dominican Republic use the ENCFT for the third quarter (BCRD, 2022<sup>[2]</sup>). Panel B: Authors' calculations using ILO data (ILO, 2021<sup>[13]</sup>).

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**Figure 3.4. Informality increases vulnerabilities for traditionally disadvantaged groups**

Informality rate by socio-economic characteristics, 2021



Note: This figure uses the ILO definition of informality (ILO, 2013<sup>[10]</sup>).

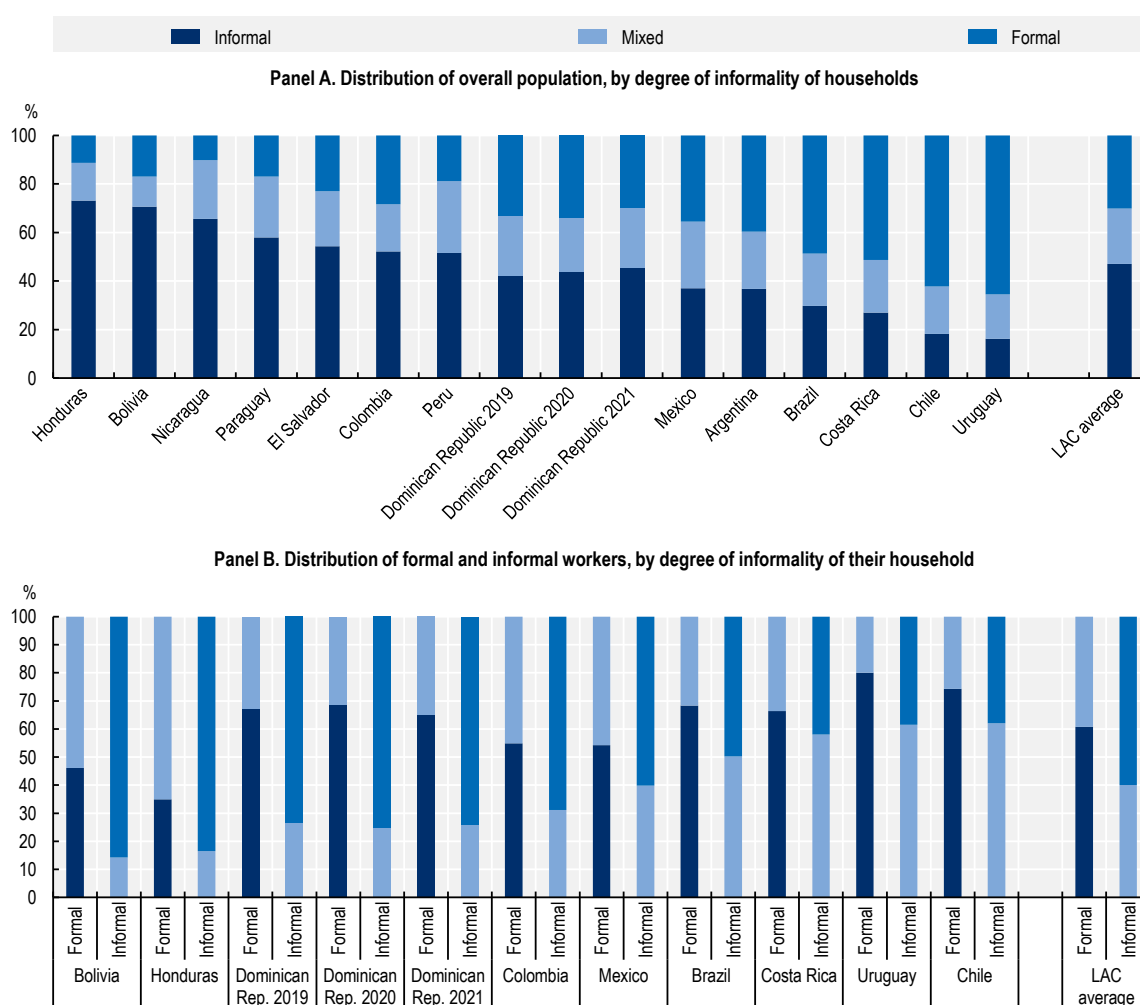
Source: Authors' calculations using (BCRD, 2022<sup>[2]</sup>) (ENCFT 2022).

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Labour informality reinforces other vulnerability conditions associated with income, education level, location, age and gender. Informality more frequently affects individuals in the poorest income quintile; those with low levels of education; rural populations, with a higher incidence among people in the northern (Cibao) and southern regions of the Dominican Republic; the younger and older cohorts; and men (Figure 3.4). In 2021, there was a difference of around 23 percentage points between the rates of informality in the poorest income quintile (70.5%) and the wealthiest income quintile (46.97%). Similarly, those with no education have informality rates of around 80.5%, compared with 21.9% among those with a tertiary education. In rural areas, informal employment was 69.1%, which is 12.19 percentage points higher than in urban areas (56.9%). At the same time, informality rates among younger (62.9%) and older workers (72.8%) are higher than the average for the population aged between 25 and 55 years (53.51%). Finally, informality affects more men than women, with informality rates at 63.6% and 52.2%, respectively.


***Almost one-half of Dominicans live in completely informal households, with a particular incidence in rural areas and low-income groups***

**Figure 3.5. Almost one-half of Dominicans live in a completely informal household**



Note: Estimates for selected LAC countries are derived from data for 2018 or the closest available year. The LAC average is the unweighted average of selected LAC countries.

Source: Authors' calculations based on OECD (forthcoming<sup>[7]</sup>), using the KILBIH database. In order to ensure microdata comparability and availability, the Dominican Republic's 2019, 2020 and 2021 estimates use the ENCFT for the third quarter (BCRD, 2022<sup>[2]</sup>).

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The incidence of labour informality is largely heterogeneous across Dominican households. This highlights the importance of making a concerted effort to extend social security to the most vulnerable households, particularly those where all workers are informal (i.e. informal households). In this regard, a household-level approach to analysing informality acknowledges that a completely informal household is more vulnerable than a household where at least one worker is formal. A mixed household is less vulnerable than an entirely informal one because the benefits provided by contributory social protection are often extended to the other members of the household (see Box 3.1). An accurate understanding of household composition in terms of informality allows for better targeting and differentiation of social protection policies so that they can address specific needs and mitigate the negative consequences of informality on individuals' and households' well-being (OECD, forthcoming<sup>[7]</sup>).

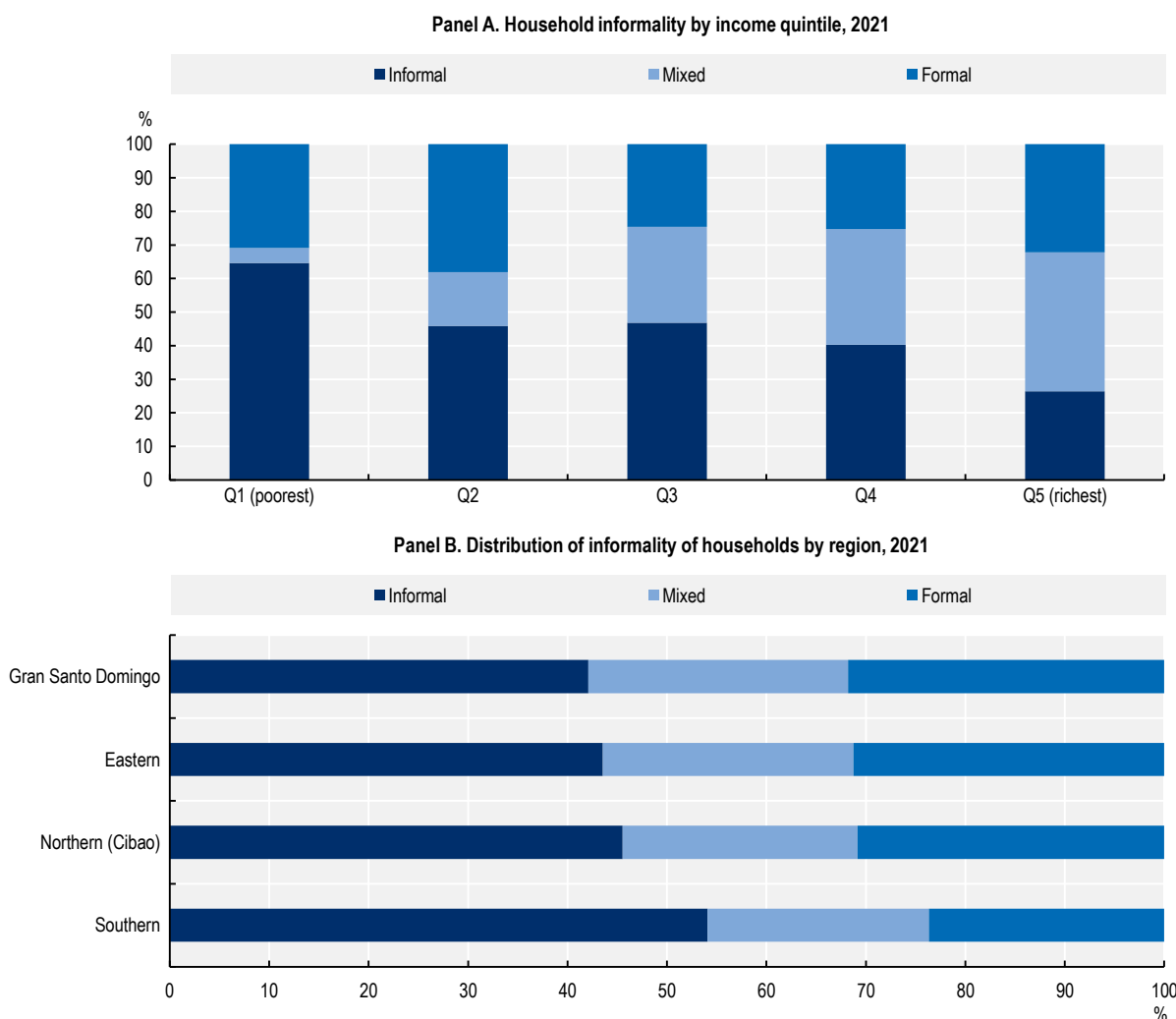
In the Dominican Republic, almost one-half of the population lives in households dependent only on informal employment. In 2021, 45.4% of the population lived in households where all workers were employed in informal jobs. This was more than a three-percentage-point increase from 2019, and placed the share of informal households in the country at a similar level to the LAC average (45%) and significantly above some countries in the LAC region, including Costa Rica (27%) and Mexico (37%). The distribution of individuals across different types of households also indicates a contraction in the proportion of mixed households (from 25% to 24%) and a decrease in the share of completely formal households (from 33% to 30%) in the same period (Figure 3.5, Panel A). This means that only one-third of the Dominican population lives in fully formal households. Moreover, three-quarters of informal workers live in a completely informal household, which excludes them from contributory social security systems (Figure 3.5, Panel B).

#### *Most low-income and rural households depend only on informal employment*

Low-income households primarily depend on informal work, leaving them in a vulnerable position due to their lack of contributory social protection. In the Dominican Republic in 2021, 64.6% of people in the poorest income quintile lived in a household that depended only on informal employment, compared with 26.4% of those in the wealthiest income quintile. Similarly, only 4.5% of people in the poorest income quintile live in a mixed household, and 30.1% live in a completely formal household. In contrast, 41.4% and 32.2% of the population in the wealthiest income quintile live in mixed or completely formal households, respectively (Figure 3.6, Panel A). It is worth mentioning that informality is not always the consequence of a condition of vulnerability. In fact, it is sometimes the result of a decision to avoid incurring formal work costs such as paying taxes, social security contributions, among others (e.g. high-income doctors who decide to operate informally). Household informality in the Dominican Republic's wealthiest quintile is a clear illustration of this, with 26.4% of it belonging to an informal household and 41.4% to a mixed household (Figure 3.6, Panel A).

Households in rural areas have significantly higher levels of informality. As much as 56.6% of the population in rural areas lived in a completely informal household in 2021, while 21.6% lived in mixed households and 21.8% lived in formal households. In contrast, 43.0% of individuals in urban areas lived in completely informal households, with 25.2% living in mixed households and 31.8% in formal households in the same year. The formality of households constitutes a critical matter in policy decisions since the coverage of individuals in formal employment who live in mixed households helps to extend social protection to other family members. There are also considerable differences in informal household composition between regions: 54.1% of the total population in the southern region lives in a completely informal household, compared with 42.1% of the population in Gran Santo Domingo. The highest proportion of mixed households is found in the eastern region (25.2%) and Gran Santo Domingo (26.2%) (Figure 3.6, Panel B).

Figure 3.6. Income levels and geographic location also shape households' degree of informality



Note: Data for 2021 for the Dominican Republic correspond to the ENCFT for the third quarter. Income quintiles were created using salaried workers' income, independent workers' income from both primary and secondary occupations, and other national and international income as derived from the ENCFT.

Source: Authors' calculations based on the KILBIH database (OECD, 2021<sup>[14]</sup>) and the ENCFT 2022 (BCRD, 2022<sup>[2]</sup>).

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### ***While informality leaves a large share of workers unprotected, the response to the COVID-19 crisis showed ways to strengthen social protection***

Low levels of social protection have amplified the negative impact of the COVID-19 crisis, particularly for vulnerable informal workers. Protecting informal workers has become imperative, particularly for those outside traditional social assistance programmes (Basto-Aguirre, Nieto-Parra and Vázquez-Zamora, 2020<sup>[4]</sup>; OECD, 2020<sup>[15]</sup>). One direct effect of the lack of social protection in the context of the COVID-19 crisis has been an increase in poverty levels. Despite government efforts to support those most affected by the pandemic, monetary poverty increased from 21% in 2019 to 23.4% in 2020, and the extreme poverty rate increased from 2.7% to 3.5% over the same period. In other words, the crisis pushed approximately 268 515 Dominicans into poverty, 93 127 of whom fell into extreme poverty (MEPyD, 2021<sup>[16]</sup>). The social

crisis is worse in the eastern region, which is highly dependent on tourism, with the poverty rate rising 6.7 percentage points between 2019 and 2020, from 19.6% to 26.3%.

The share of employment in the informal sector grew with the COVID-19 crisis, which also pushed many workers into inactivity. Employment in the informal sector accounted for 51.3% of total employment in 2020, three percentage points higher than in 2019 under pre-pandemic conditions. Employment in the informal sector continuously increased during 2020, showing the vulnerability of this type of employment to shocks. This has been accompanied by a move of many workers to inactivity, particularly in the formal sector. While the annual share of workers in the informal sector fell by 5.8% in the last quarter of 2020, the share of workers in the formal sector fell by 11%.<sup>3</sup> In 2021, employment in the informal sector contracted to 50.9%.

The COVID-19 crisis has underscored the importance of reinforcing social protection in the Dominican Republic. As most informal workers fall outside the coverage of traditional contributory social security mechanisms, they are more dependent on other public social assistance programmes. These are usually non-contributory programmes delivered through cash transfers, solidarity pensions and in-kind transfers. However, social assistance programmes are generally targeted only at poor or particularly vulnerable populations and are delivered under some specific conditions (see Box 3.1). Therefore, a large share of informal workers who are not poor, but who are still vulnerable, find themselves without any safety net and are particularly exposed to adverse shocks, as in the COVID-19 crisis. They do not have social protection associated with employment, nor do they have access to existing social assistance programmes, as they are not eligible (Basto-Aguirre, Nieto-Parra and Vázquez-Zamora, 2020<sup>[4]</sup>; OECD, forthcoming<sup>[7]</sup>).

### Box 3.2. Social assistance in the Dominican Republic

#### Social targeting through the Unified System of Beneficiaries

The Unified System of Beneficiaries (Sistema Único de Beneficiarios - SIUBEN) is the main instrument used to target the social policies in the Dominican Republic. SIUBEN is responsible for identifying, characterising, registering and prioritising families living in poverty in order to inform social policies, mainly social assistance programmes. SIUBEN is responsible for calculating the Multidimensional Poverty Index of the Dominican Republic (MPI-DR) and the Quality of Life Index (Índice de Calidad de Vida; ICV). These measures are used to determine the eligibility of an area, household or individual for government social programmes.

#### Social assistance includes both conditional and unconditional programmes

Before the COVID-19 crisis, Progresando con Solidaridad was the primary social policy for poverty reduction in the Dominican Republic. This programme was also the main channel of social assistance from the government of the Dominican Republic. Cash transfers from several social assistance programmes were delivered through the Solidaridad card, which was given to low-income families identified by SIUBEN. Progresando con Solidaridad included three conditional programmes. The first was the Comer es Primero (PCP) programme, a cash transfer programme for households living in poverty. It also included the Incentivo a la Asistencia Escolar (ILAE) and Bono Escolar Estudiando Progreso (BEEP) programmes. These programmes aimed to incentivise education through cash transfers paid to households living in poverty with family members aged between 5 and 21 years who were attending school.

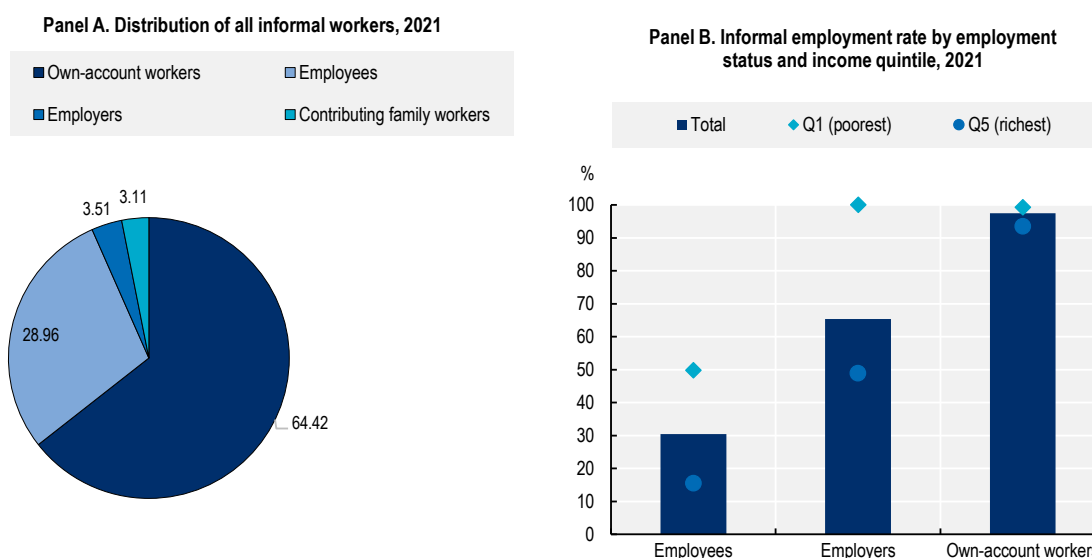
The government's unconditional programmes included Programa Protección a la Vejez en Pobreza Extrema (PROVEE), Incentivo a la Educación Superior (IES), Programa de Incentivo a la Policía Preventiva (PIPP), and Programa Incentivo Alistados Armada República Dominicana (PIAARD).

PROVEE is a cash transfer for those elderly people who are in extreme poverty. The IES is a cash payment to support low-income students who are enrolled in higher education. The PIPP and PIAARD are cash transfers to help police officers and military personnel buy food and supplies. There are also specific programmes to help households pay for electricity, kitchen gas, and natural gas (i.e. Bonoluz, Bonogás Hogar, and Bonogás Chofer).

The Progresando con Solidaridad programme was transformed into the new Supérate programme in June 2021 with a renewed strategy to fight poverty. Once fully implemented, Supérate will have several components with which to achieve its objectives in the areas of educational inclusion (Aprende and Avanza); health, food security and emergency support (Aliméntate, Micronutrientes, Bono Navideño, Bono Familia Acompañada and Bono de Emergencia); economic inclusion (Empléate and Emrende); housing (Familia Feliz, Bonoluz and Bonogas); and support for women (Cuidados and Supérate Mujer), among others. According to their objectives, each of the programme's components will determine certain eligibility criteria to assign periodic transfers to beneficiary families through the Supérate card. Beneficiary families should be registered in SIUBEN in order to be part of the programme.


Source: Decree 377 of 2021 (PDR, 2021<sup>[17]</sup>) and Presidency of the Dominican Republic (PDR, 2021<sup>[18]</sup>).

**Figure 3.7. Informal employment predominantly affects own-account workers and presents substantial disparities for employees across income quintiles**



Note: Household income was calculated by aggregating the ENCFT variables "ingreso\_asalariado", "ingreso\_independientes", "ingreso\_asalariado\_secun", "ingreso\_independientes\_secun", "otros\_ingresos\_nac\_a" and "otros\_ingresos\_ext" at the household level. For comparability purposes and availability of microdata, 2019, 2020 and 2021 estimates for the Dominican Republic use the ENCFT for the third quarter.

Source: Authors' elaboration based on ENCFT 2022 (BCRD, 2022<sup>[2]</sup>).

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The COVID-19 emergency policy to protect households was initially based on expanding traditional social assistance programmes and gradually evolved to reach as many informal workers as possible. During the beginning of the crisis, the policy response to COVID-19 used existing mechanisms to reach the most vulnerable. However, these mechanisms soon showed that a large share of informal workers were left

outside the scope of both the non-contributory and the formal contributory systems, and thus had no support during the crisis. This is why the Dominican Republic, like many other countries in the LAC region, enacted additional emergency programmes and new mechanisms in order to reach informal workers without any type of social protection (see Box 3.3).

In the Dominican Republic, own-account workers face the highest informal employment rate and are particularly vulnerable, being outside the reach of both contributory and non-contributory regimes. Of all informal workers, 65% are own-account, 29% are employees, 3.5% are employers and 3.1% are contributing family workers (Figure 3.7, Panel A). More than 90% of own-account workers held informal employment in 2021; similarly, more than one-half of employers and almost one-third of salaried employees were informal workers. These figures are even more disparate between the wealthiest and the poorest social strata. In the poorest household income quintile, the informality rate reaches 71% and affects employers (100% informal), own-account workers (99.3% informal) and employees (49.8% informal) (Figure 3.7, Panel B). By contrast, in the wealthiest income quintile, the overall informality rate is 47% and mainly affects own-account workers, which are 93.5% informal; employees are 15.5% informal and employers are 48.9% informal (Figure 3.7, Panel B).

### Box 3.3. The COVID-19 policy response in the Dominican Republic

#### The *Quédate en casa* and *Pa' Ti* programmes supported households during the crisis

The *Quédate en casa* programme was created to support lower-income informal workers and families in vulnerable conditions. Initially, it covered 811 000 families by increasing their subsidies through the conditional cash transfer (CCT) programme *Solidaridad* from DOP 1 500 to DOP 5 000 (Dominican pesos) monthly. After a few months, the government identified another 690 000 families, categorised as poor or vulnerable by SIUBEN, who were also targeted to receive the *Quédate en casa* temporary economic support. In addition, for households where the primary income earner was particularly vulnerable to COVID-19, an additional amount of DOP 2 000 was transferred, resulting in more than 350 000 households receiving a total transfer of DOP 7 000. Beneficiaries of these programmes primarily included informal workers.

The *Pa' Ti* programme supported freelance business workers. A monthly transitional amount of DOP 5 000 was transferred to freelance workers' bank accounts. Beneficiaries were identified through a database of freelancers who had loans with the formal financial system.

#### The FASE programme and other emergency support measures for enterprises and formal workers

The Employee Solidarity Assistance Fund (*Fondo de Asistencia Solidaria al Empleado*; FASE) programme supported enterprises to retain formal jobs. During the height of the COVID-19 crisis, the government of the Dominican Republic created a Guarantee and Financing Fund to benefit micro- and small-sized enterprises through an agreement with the Central Bank of the Dominican Republic (BCRD), the Superintendency of Banks and the Association of Commercial Banks of the Dominican Republic.

The FASE programme had two stages. FASE 1 paid contributions to workers whose employers: 1) were contributing to the Social Security Treasury (*Tesorería de la Seguridad Social*; TSS) on behalf of workers before the pandemic began, and 2) had closed their operations because of reduced economic activity due to the social distancing measures implemented because of COVID-19. Under these conditions, FASE 1 paid up to 70% of the salaries for those formal workers that had to stop working, up to a maximum of DOP 8 500. Afterwards, FASE 2 paid contributions to enterprises that had continued their operations during the crisis in order to subsidise the salaries paid to formal workers, up to a maximum of DOP 5 000 per worker.

In addition, the government created a special fund to pay the Christmas bonus to all suspended workers who were currently, or who had been, enrolled in the FASE 1 cash transfer programme. The fund paid more than DOP 2.3 billion to recipients, and payments were distributed in the first 15 days of December 2020 to 1 million families in the Dominican Republic.

In terms of tax support, the annual income tax payment that certain companies were required to make in April 2020 was divided into four payments. The Directorate General of Internal Taxes (Dirección General de Impuestos Internos; DGII) temporarily exempted the hotel/tourism sector from advance income tax payments. Emergency measures were granted in order to make advance income tax payments more flexible for the entire productive sector, allowing these to be paid in three instalments immediately after the emergency period was over.

### **The BCRD also implemented measures to adapt the monetary policy framework**

The BCRD implemented a series of measures that increased the flow of resources to households and businesses and encouraged lower interest rates to address the COVID-19 crisis. These measures provided liquidity (in both local and foreign currencies) to financial intermediaries in order to address the effects of the crisis on the economy and the population. The approved measures included: 1) increasing liquidity for financial intermediaries; 2) increasing the financial resources released in order to channel new loans to the different productive sectors and households; 3) increasing foreign currency liquidity for financial intermediaries; 4) reducing the reserve requirement coefficient in local currency for savings and credit banks and credit corporations; 5) offering greater liquidity in foreign currencies in order to channel new loans to productive sectors, especially tourism and exports; 6) reducing the monetary policy interest rate, the overnight deposit interest rate, the overnight repo rate and the repo rate up to 90 days; and 7) implementing a special regulatory treatment.

Source: BCRD (2020<sup>[19]</sup>).

Before the COVID-19 pandemic hit the Dominican Republic, 18.6% of Dominicans did not have access to any type of social protection. While 93.3% of formal workers had access to contributory healthcare in 2019, only 60.18% of informal workers had access to any kind of healthcare scheme, most through subsidised public healthcare (Figure 3.8).<sup>4</sup> Similarly, among the poorest quintile of the population, 36.5% of informal workers did not live in households covered by traditional social assistance programmes in 2019. That figure remains high for the second- and third-income quintiles, at around 45%, meaning that a significant share of households live in poverty or economic vulnerability without coverage. The long-term effects of widespread informality also affect living conditions for the elderly, who end their productive life without any income substitution. In 2019, only 20.7% of those aged over 65 years received a contributory pension, and 6.7% received a solidarity pension. The latter figure decreased to 4.3% in 2020.

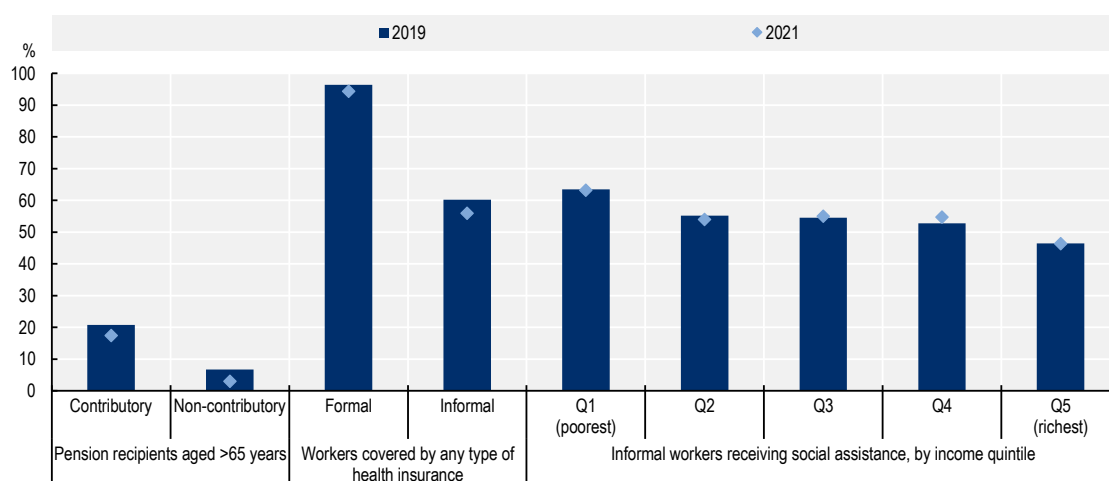
The COVID-19 crisis has increased awareness of the weaknesses in the social protection system and can represent an opportunity to advance system reforms. The current social protection system in the Dominican Republic was created by Law 87-01 in 2001. This established a contributory regime, through which the government provides coverage for formal employees, as well as a subsidised regime to cover independent workers with earnings below the minimum wage or in vulnerable economic conditions. Finally, a mixed regime (Régimen Contributivo Subsidiado) was created to cover independent workers with higher earnings, although this system has not yet been implemented. The subsidised scheme grew significantly during the COVID-19 crisis. Between December 2019 and December 2021, 2 035 071 additional people joined the subsidised regime of the National Health Insurance (Seguro Nacional de Salud; SeNaSa).

One key issue for debate in a future reform is how to expand the reach of the subsidised regime to all poor and economically vulnerable households. An adequate expansion of this non-contributory social security requires improved identification of the targeted population, as well as improvement in the frequency of

updates of the public registry used to classify households' eligibility for social programmes and SIUBEN, and in its interoperability with other public registries. Similarly, the mixed regime outlined in Law 87-01, which would have targeted own-account workers who are not eligible for the subsidised regime, was never put in place. This should be a matter for debate in the reform of the social protection system, as such a measure could strengthen coverage. However, it has to be considered that a voluntary affiliation mechanism could end up leading to the avoidance of contributions of some workers with payment capacity, thus undermining the system's financial sustainability in the presence of adverse selection problems. In addition, a mixed system could be costly in terms of administration and collection due to the labour informality of a large part of the target population (Pellerano and Féliz-Matos, 2018<sup>[20]</sup>).

**Figure 3.8 Low pre-pandemic levels of social protection aggravated the impact of the COVID-19 crisis**

Key indicators for social protection across different categories, as a share of the population



Note: Social assistance includes cash transfers, solidarity pensions and other types of transfers reported in the third quarter of the ENCFT 2019.  
Source: Authors' calculations based on (BCRD, 2022<sup>[21]</sup>).

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### **Women and youth still face greater barriers to entering the formal sector**

Dominican women still face significant barriers to participating and thriving in the Dominican labour market compared with their male peers, limiting their autonomy and increasing their economic vulnerability. The underrepresentation of women in the labour market has remained rather stagnant. Female participation rate in the labour market has remained 27 percentage points lower than male participation rate, on average, since 2014. While in 2015 the global participation rate for men was 76.3%, that for women was 48.1%. More than half a decade later, little progress was made in closing the gender gap. In 2021, the global participation rate for men was 75.7%, while for women it was 51.2% (see Figure 3.9, Panel A). Similarly, in terms of unemployment, women also face more difficulty in finding a job. While in 2021 women had an average unemployment rate of 12.1%, that of men was 3.9%. Overall, in terms of women's economic participation and opportunity, the Dominican Republic is ranked 101<sup>st</sup> out of 156 countries according to the 2021 World Economic Forum's *Global Gender Gap Index*,<sup>5</sup> with a score of 0.65 (see Figure 3.9, Panel B). This means that Dominican women are 35% less likely to have equal economic participation and opportunities than Dominican men (WEF, 2021<sup>[21]</sup>).

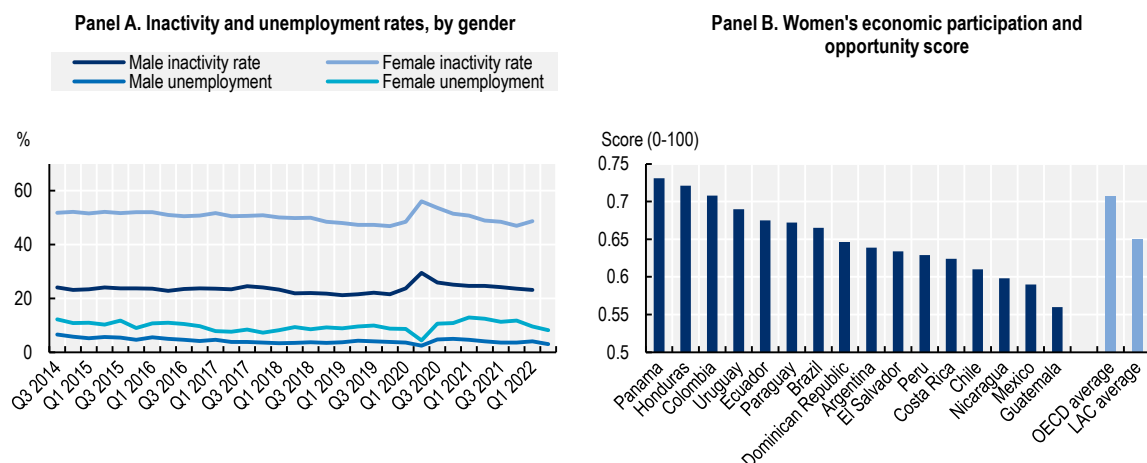
Despite some recent efforts to strengthen the economic autonomy and empowerment of women, there are still institutional barriers that reinforce gender inequalities in the labour market. On the basis established by the Labour Code in 1992, there are several institutional efforts aimed at closing the gender gaps in the labour market, such as the updates on the Regulation on the Maternity and Breastfeeding Allowance (CNSS, 2017<sup>[22]</sup>) and the adherence to ILO's Convention on the Protection of Maternity in 2014 (CDRD, 2014<sup>[23]</sup>; ILO, 2000<sup>[24]</sup>). However, there are still certain norms that hinder progress towards gender equality. For instance, although the current legislation establishes a period of maternity leave of twelve weeks for women, paternity leave is limited to just two days (CDRD, 1992<sup>[25]</sup>). There is no provision in the law mandating equal remuneration and no restrictions on employers asking about family status during interviews or hiring processes (OECD, 2019<sup>[26]</sup>). More recently, the MTRD has made important efforts to regulate the domestic work sector – made up of 92% women workers who earn 57% less than the average of those employed in the country (Cañete Alonso and Cuello, 2022<sup>[27]</sup>; MTRD, 2022<sup>[28]</sup>). The Resolution 551-08 (CNSS, 2022<sup>[29]</sup>) established a fixed and subsidised contribution to social security for domestic workers, regardless of their salary. Under this new pilot scheme, the employer assumes 66.5% of the contribution, 3.3% is paid by the worker, and 30.2% by the State.

Beyond labour legislation, Dominican women face complex structural barriers that make the playing field unlevelled compared to men. Notably, the national government has not been able to consolidate a comprehensive reproductive health care policy, from sex education in school to lifelong provision of contraception, and the body autonomy of women remains very limited. Consequently, teenage pregnancy remains a common problem. In 2020, there were 90.58 births per 1 000 women between 15 and 19 years old, compared to the averages of the LAC region with 60.26 and OECD countries with just 20.84 (World Bank, 2022<sup>[1]</sup>). High rates of adolescent pregnancy are a crucial factor that limits the opportunities of Dominican women to thrive in the formal labour market. In fact, 50% of women that had children during their adolescence work in the informal labour market versus 27% of other older mothers (UNDP, 2017<sup>[12]</sup>). Gender gaps should also be approached and addressed with an intersectional lens, since certain ethnic, socio-economic, geographical and migratory conditions can considerably increase the barriers and hinder the opportunities in the labour market. In terms of gender pay gap, the country scored 0.55 in wage equality for similar work in 2021, which means that women are 45% less likely to receive an equal wage for similar work than men (WEF, 2021<sup>[21]</sup>).

The vulnerability of women during the pandemic was much higher given the nature of their participation in the labour market, which deepened the negative impact on them. Women lost more jobs (7.5%) compared with men (4.9%), with greater job loss in the informal sector (8.4% versus 3.9% respectively). The over-representation of women in the sectors most affected by the crisis (such as retail and wholesale, the hospitality industry, and other services) contributed to the deterioration of their labour market outcomes (OECD et al., 2020<sup>[30]</sup>). Ninety percent of women in the Dominican Republic worked in these sectors before the pandemic, while the LAC average was about 80% (Gutiérrez et al., 2020<sup>[31]</sup>). All of these factors combined to contribute to the rate of female poverty increasing to 118 women for every 100 men in the Dominican Republic (ONERD, 2021<sup>[32]</sup>). The significant increase in the underutilisation of the female labour force since 2020 could create difficulties in job reintegration in the future.

Women also faced an extra unpaid work burden due to confinement measures and the closure of schools. Before the COVID-19 crisis, women accounted for 77% of the care workload in the average household, working 31.2 hours per week in care and household duties, while men contributed 33% of the time spent on these duties, equivalent to 9.6 hours (VPRD, 2019<sup>[33]</sup>). Lockdowns imposed an extra burden of care work on women, affecting their availability to work or search for a job, as well as the working hours they were willing to offer for paid work. In 2020, 41% of women in the Dominican Republic reported an increase in care work as the main reason that they remained inactive or stopped their job search, compared with 25% of men (ONERD, 2021<sup>[32]</sup>). The disproportionate impact of the pandemic on women's labour outcomes may permanently affect gender equality in the Dominican Republic.

**Figure 3.9. Women face greater barriers for thriving in the labour market, which limits their autonomy and increases their economic vulnerability**



Note: Panel B: The Global Gender Gap Index benchmarks the current state and evolution of gender parity across four key dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment).

Source: Panel A: Authors' elaboration based on BCRD (2022<sub>[2]</sub>). Panel B: Authors' elaboration based on WEF (2021<sub>[21]</sub>).

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Dominican youth also face higher rates of unemployment and inferior job quality. The youth participation rate in the labour market increased from 36% in 2009 to 45% in 2018; however, it remained 19 percentage points lower than total labour force participation in 2018. The youth unemployment rate was 10 percentage points higher than the general unemployment rate before the pandemic, and unemployed people aged between 15 and 24 years faced more prolonged periods of unemployment (6.2 months) than the duration of unemployment for the active population aged between 25 and 64 years (5.1 months) (CEDLAS and WB, 2020<sub>[34]</sub>). The informality rate for people aged between 15 and 24 years stood at 60%, 3 percentage points higher than for the general population. Moreover, the Dominican Republic has been experiencing a contraction in the youth-employed population since mid-2018.

The crisis has deepened the need for policies to tackle the vulnerabilities of youth employment. The Dominican Republic has made different efforts in order to improve the transition from school to formal employment and to strengthen education and training among young people. In 2020, the Social Cabinet of the President's Office launched the Oportunidad 14-24 programme, which aims to reintegrate vulnerable adolescents and young people aged 14-24 years, who are at great risk of social vulnerability (due to factors such as lack of employment, peer pressure and social insecurity), into productive and educational activities. The Oportunidad 14-24 programme provides training and education courses for young Dominicans, especially those who have dropped out of school. In addition, it offers the possibility of doing internships with professional organisations and provides support for entrepreneurship, including financial aid. Because of the COVID-19 pandemic, the employment rate for those aged between 15 and 24 years fell by 16% in Q4 2020, a significantly greater reduction than the 6% decline in employment for the general population in the same period. More recently, however, youth employment has recovered, with an increase of 1.5% between Q3 2019 and Q3 2021. This increase translates into approximately 10 000 additional youth being employed (i.e. those aged 15-24 years). However, the crisis disproportionately affected young people, not only through job losses but also through suspended education and training programmes, posing significant barriers to finding a first job (ILO, 2020<sub>[35]</sub>). For this reason, the government launched the Empléate and Emprende programmes in 2021, as part of the Supérate programme. These new programmes connect Supérate beneficiary families with a series of complementary services that include technical and vocational training, labour intermediation, advice for the development of formal productive

enterprises, financial and technological coaching, and family agriculture support (PDR, 2021<sup>[18]</sup>). Preventing the adverse effects of COVID-19 from becoming permanent among the youth population will be critical to supporting the country's long-term recovery.

### ***Challenges and opportunities to move from analysis to action***

Building a universal social protection system that protects the most vulnerable workers and households brings a challenge for a country's public finances. The high level of informality hinders the collection of social security contributions from informal workers and leaves them outside the protection scope of the system. Faced with these restrictions, making the operation of the system more efficient and improving the targeting and allocation of scarce resources is fundamental. First, to move towards universal coverage, the country must reach fundamental agreements on social protection and go through several structural reforms to materialise such agreements.

The OECD Development Centre team met in Santo Domingo with several government officials and other specialised actors from the social security sector to discuss the country's main challenges in this area and possible strategies to solve them. They shared their visions around the main challenges and opportunities. Table 3.2 shows the results of the discussions and summarises key policy recommendations.

**Table 3.2. Consolidate a robust and sustainable social protection system in order to protect informal workers and their household members**

| Policy recommendation  | Challenges and opportunities for implementation   |
|--|---|
| <b>1.1. Strengthen social protection systems, and build on the lessons learned during the COVID-19 pandemic:</b>   |   |
| Improve interoperability across different existing registries, integrating all social protection information systems and strengthening the role of SIUBEN in order to reach vulnerable, informal populations, and exploiting the potential of digital technologies.  | The central role that SIUBEN currently plays is an opportunity to implement this strategy. However, achieving such a connection between systems, modifying the labour code, and modifying the law of the social protection system are considerable challenges. Achieving interoperability between basic registries first could be more strategic. An overly ambitious integration could leave certain institutions out. It is essential to define the primary and secondary actors in the system, depending on their levels of responsibility, to be involved in such interoperability. In addition, it is crucial to have fair justifications for the information required by the institutions.  |
| Enhance a co-ordinated conditionality associated with social protection programmes, in order to make them a catalyst for better educational, economic and social inclusion.  | The biggest challenge of this recommendation is the modification of the labour code and the law of the social protection system. One opportunity could be to centralise the co-ordination of the strategy in a single institution.  |
| Adopt the household lens in order to better understand its composition (i.e. informal, mixed, or formal), and thus better identify the right mix of interventions and develop integrated policy packages for each type of household.   | Adopting a more granular lens at the household level is an opportunity to include other aspects of the life cycle, gender and geography. A new lens could also create social inclusion surveys by type of household, in addition to taking into account households' distribution by quintiles and other structural factors.   |
| <b>1.2. Make social protection contributions more flexible in order to include informal workers:</b>   |   |
| Progress towards a system that allows more flexibility for workers to contribute to the social protection system, particularly for those who face difficulties in making regular contributions through traditional channels (e.g. those earning less than the minimum wage, working through digital platforms or working in part-time jobs). This is particularly relevant for own-account workers (e.g. a flat rate for their contributions). | <p>The current situation brings a window of opportunity because various sectors are advocating for changes in social security for the first time since the system was created 20 years ago. However, one of the great challenges is the reluctance of the sectors. Also, extending protection to independent workers, without sufficient contributions, can become a problem due to the additional burden for the State.</p> <p>There are two alternatives: implementing a single subsidized-contributory system or implementing a contributory system and a subsidised system with an independent-workers approach. In any case, simplifying and standardising the labour legislation is crucial to encourage a higher level of formalisation that increases the number of contributing workers.</p> |
| <b>1.3. Progress towards a universal and more sustainable social protection system</b>   |   |
| In the short to medium term, efforts should be made to extend coverage to categories of the population not covered by social protection and across all regions of the Dominican Republic.  | Identifying and reaching those missing sectors not yet covered is an important challenge. Strengthening the existing universal protection schemes and extending them to all sectors may be an opportunity.  |
| In the longer term, the Dominican Republic should move toward a universal social protection system that is sustainable.  | One opportunity of the current situation is that there are ongoing discussions about a possible modification of the 1992 labour code. The implementation of a   |

Technical and political discussion is required in order to assess the convenience of developing a system where coverage depends less on individuals' employment status and where general taxes, instead of workers' contributions, gain relevance as a source of financing social protection systems.

universal social protection system must go hand in hand with a comprehensive tax reform. Other key structural aspects to change include the improvement of the civil registry of people and the regularisation of immigrants that allows them to channel their contributions to the social security system. Also, the universalisation of social protection must include new figures such as passive labour market policies. However, a great challenge would be negotiating with some parties whose economic interests would be affected.

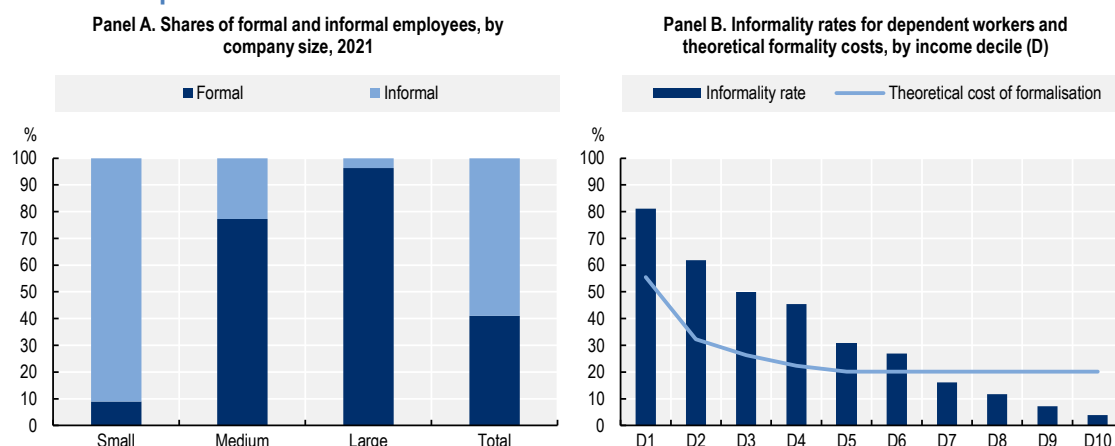
Note: Based on the meeting held on 23 June 2022, to discuss the draft analysis and policy recommendations with officials from the Ministry of Labour, the Ministry of Economy, Planning and Development (MEPyD), the Central Bank, the National Statistics Office (ONE), the Association of Industries (AIRD), CIEF Consulting/IFISD and the European Union.

Source: Authors' elaboration.

## There are structural barriers to the formalisation of companies and to the creation of more formal jobs

In addition to mitigating the pervasive impact of informality, which limits social protection and increases social vulnerability, it is crucial to understand the underlying causes of this phenomenon. The causes of informality are diverse and vary across countries, time periods and segments of the informal economy. There are several institutional, behavioural, and structural factors that can determine whether an enterprise or a worker decides to operate formally or not (OECD/ILO, 2019<sup>[9]</sup>), including the Dominican Republic's production structure. Belonging to a sector with low productivity and widespread informality may hinder a company's transition to formality or its decision to hire workers formally. Likewise, a company's size is closely related to its capacity to deal with the extra burdens that operating formally entails. But beyond these factors, there is a portion of companies that may have the capacity to operate formally but that remain informal because of the additional economic and bureaucratic costs involved in operating formally (Jütting and De Laiglesia, 2009<sup>[6]</sup>). The procedural and economic burdens of operating formally include the administrative and tax processes (the bureaucratic burden), the tax costs of operating formally (the tax burden), non-wage-related labour costs, and minimum wage regulations. The bureaucratic burden, for example, often involves cumbersome procedures and, therefore, higher operational costs.

**Figure 3.10. Informal work mainly affects small businesses and low-income employees in the Dominican Republic**



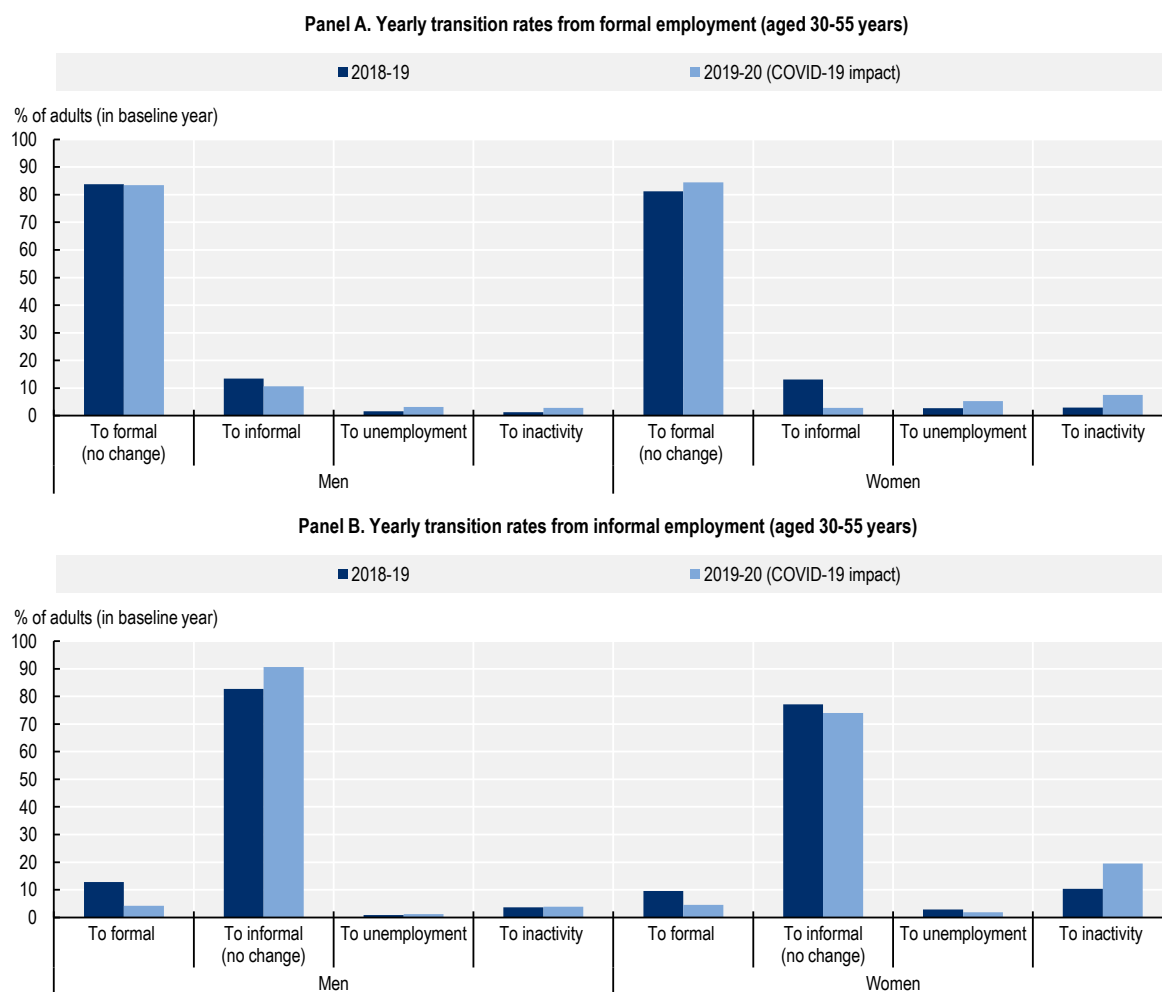
Note: Panel A: Small enterprises have fewer than 5 employees, medium-sized enterprises have between 6 and 20 employees, and large enterprises have more than 20 employees. Panel B: Blue bars represent informality rates by labour income decile for workers aged 15-64 years in 2013. The theoretical costs of becoming formal (black line) is expressed as the proportion of dependent workers' wages that workers would pay in social security contributions in order to become or remain formal.<sup>2</sup>

Source: Panel A: Authors' calculations based on the KIIbIH database and the ENCFT 2022 (BCRD, 2022<sup>[2]</sup>). Panel B: Authors' elaboration based on OECD/IDB/CIAT (2016<sup>[36]</sup>).

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Formalisation remains unattractive or unaffordable for many Dominican companies, especially the smaller ones. Informality is a problem that is commonly concentrated among micro-, small- and medium-sized enterprises (MSMEs). In the Dominican Republic, 91.0% of small enterprises' employees and 22.8% of medium-sized enterprises' employees are informally employed. In contrast, only 3.7% of employees in large enterprises are informally employed (see Figure 3.10, Panel A). MSMEs dominate the Dominican productive landscape. They represent approximately 94.6% of all businesses in the Dominican Republic (MICM, 2020<sup>[37]</sup>), contribute around 38.6% of GDP (UNDP and MICM, 2020<sup>[38]</sup>) and generate more than 51.4% of total employment (MICM, 2020<sup>[37]</sup>). On average, 68.2% of MSMEs are created as microenterprises, 29.3% are created as small enterprises, and only 2.5% are created as medium-sized enterprises (FondoMicro, 2014<sup>[39]</sup>).

**Figure 3.11. Transitions from formality and from informality (aged 30-55 years) by gender**



Source: Authors' calculations based on the KiliBH database (OECD, 2021<sup>[14]</sup>) and the ENCFT 2018, 2019 and 2020 (BCRD, 2022<sup>[2]</sup>).

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The cost of hiring formally is high for low-income workers in the Dominican Republic relative to their income. Among workers in the poorest income decile, formalisation would represent an additional cost of almost 60% of the workers' income. From the fifth income decile onwards, formalisation represents a burden of 20% of the workers' income<sup>6</sup> (see Figure 3.10, Panel B) (OECD/IDB/CIAT, 2016<sup>[36]</sup>). Although

moving towards formality would undoubtedly bring significant benefits for informal workers in terms of social protection coverage (healthcare, pension, unemployment), and for society as a whole in terms of productivity, growth, social security and tax revenues, the theoretical costs of formalisation remain too high for low-income workers relative to their income.

Barriers to formalisation are reflected in a segmented labour market, where transitions between informality and formality are relatively scarce, particularly for women. Between 2018 and 2019, 13.4% of men and 13.1% of women aged 30-55 years transitioned from formality to informality, but more than 80.0% of men and women retained their same labour status. Similarly, 12.8% of male informal workers transitioned from informal to formal employment between 2018 and 2019, while only 9.6% of informal female workers transitioned to formal employment. Between 2019 and 2020, during the COVID-19 pandemic, the rate of transitions from informal to formal employment dropped significantly, to 4.2% among men and 4.5% among women; 19.5% of female informal workers transitioned to inactivity and 1.91% transitioned to unemployment during the crisis, while these figures were only 3.9% and 1.24%, respectively, among male informal workers (see Figure 3.11).

### ***Streamlining companies' administrative and tax procedures has helped reduce disincentives to firm formalisation***

Administrative obligations associated with formality can be a strong incentive for companies to remain informal. These bureaucratic burdens include rigid labour market regulations, cumbersome processes and high costs of operation (CNC and IDB, 2019<sup>[40]</sup>). The labour market in the Dominican Republic is governed by the 1992 Labour Code (CDRD, 1992<sup>[25]</sup>). The Labour Code regulates all matters related to the definition of the labour contract, its modalities, and the official and private regulation of the conditions of different types of labour contracts. In addition, it regulates the procedures for enforcing the law by both administrative authorities and the courts. The Code establishes the Ministry of Labour and the courts as responsible for enforcing the law and its regulations.

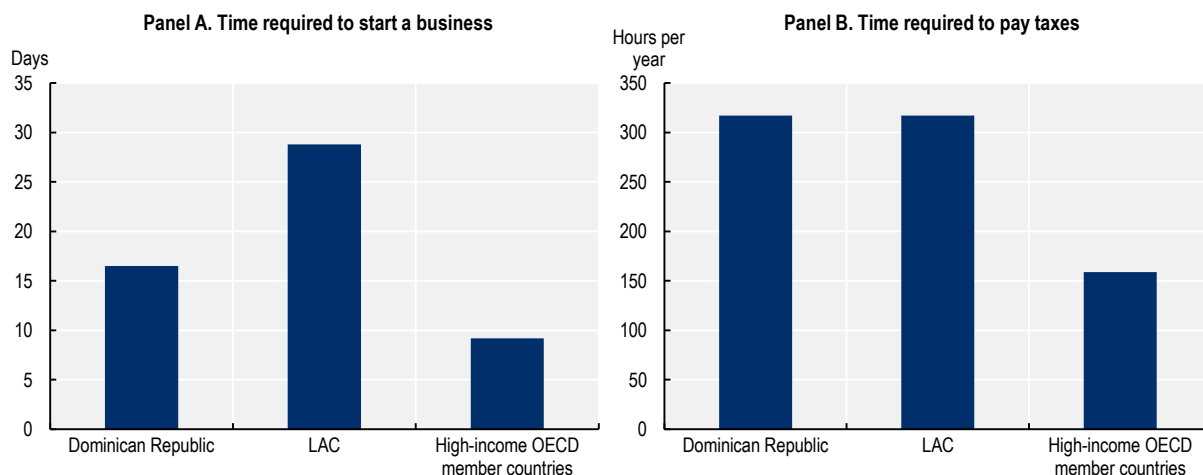
The Dominican Republic has made efforts to reduce the bureaucratic burden of setting up a formal business, becoming much more competitive than the LAC average. Setting up a formal company in the Dominican Republic requires seven procedures that take approximately 16.5 days (World Bank, 2020<sup>[41]</sup>). The average time required to set up a business in LAC countries is 28.8 days, while in high-income OECD member countries, it is only 9.2 days (see Figure 3.12, Panel A). The formalisation process includes: 1) verifying the availability of the company name, via the National Office for Industrial Property (Oficina Nacional de la Propiedad Industrial; ONAPI); 2) purchasing the company name via ONAPI; 3) paying the incorporation tax (via the DGII); 4) registering the company with the Chamber of Commerce; 5) obtaining a taxpayer identification number from the National Taxpayers Register (Registro Nacional de Contribuyentes; RNC) and applying for tax receipts (via the DGII); 6) registering employees with the Ministry of Labour; and 7) registering employees with the TSS (World Bank, 2020<sup>[41]</sup>).

The government created the Formalízate website as a one-stop shop in order to streamline bureaucratic formalisation procedures and to encourage businesses to formalise. The Ministry of Industry, Commerce and MSMEs (MICM) created the Formalízate website in 2015, through Decree 182-15 (MICM, 2015<sup>[42]</sup>). This has generated significant savings, in terms of both time and money, for enterprises dealing with all the necessary procedures for formalising employment. In order to operate this service, the MICM is in charge of co-ordinating several institutions throughout the formalisation process, including the Ministry of Labour, ONAPI, the DGII, the Chamber of Commerce, and the TSS.

Even though Dominican enterprises face a reduced number of procedures for paying taxes compared with LAC countries and OECD member countries, they still spend too much time complying with such procedures. In total, Dominican enterprises must comply with seven tax payment procedures, including payments for corporate income tax; value added tax (VAT); employee social security contributions (health, pension and National Institute of Technical and Vocational Training (Instituto Nacional de Formación

Técnico Profesional; INFOTEP); and taxes for vehicles, fuel and electronic transfers. In LAC, the average number of tax payment procedures per enterprise is 28.2, while it is 10.3 among high-income OECD member countries. Companies spend an average of approximately 317 hours per year on all tasks linked to paying taxes, which is in line with the LAC average of 317.1 hours per year. In contrast, companies in high-income OECD member countries spend half that time per year paying taxes, on average, at 158.8 hours per year (see Figure 3.12, Panel B (World Bank, 2020<sup>[41]</sup>)).

**Figure 3.12. The bureaucratic burden of setting up a business and complying with tax obligations is still higher in the Dominican Republic than in OECD member countries**



Note: Panel A: Time required to complete each procedure (calendar days) does not include time spent gathering information; each procedure starts on a separate day (two procedures cannot start on the same day); procedures fully completed online are recorded as half-days; a procedure is considered completed once the final document is received; and no prior contact with officials is accounted for. Panel B: Time required to comply with three major taxes (hours per year) includes collecting information and computing tax payable; preparing separate tax accounting books; completing the tax return and filing with agencies; and arranging payment or withholding.

Source: Authors' elaboration based on World Bank (2020<sup>[41]</sup>).

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### ***The tax burden associated with formal status can be high for some MSMEs***

The Dominican Republic's tax structure has a relatively high dependence on indirect taxes. In 2020, 61% of the government's revenue came from taxes on goods and services, followed by 16% from corporate taxes on income, profits, and capital gains, and 10% from taxes on individuals on income, profits, and capital gains (OECD et al., 2021<sup>[43]</sup>). In terms of direct taxation, as the country's tax base for personal income tax continues to be quite limited, corporate taxes are highly relevant. In addition, despite the economic growth that certain highly productive sectors have generated, the Dominican treasury does not receive revenues from sectors such as the Free Trade Zones, which are exempt from taxation.

Nonetheless, the tax wedge in the Dominican Republic is below the LAC regional average. The tax wedge is calculated by expressing the sum of personal income taxes, all compulsory social security contributions paid by employees and employers, and payroll taxes minus cash benefits as a percentage of the total labour cost. In the Dominican Republic, the average tax wedge is around 19.2%, while the average tax wedge in LAC countries is around 21.7%. Argentina has the highest tax wedge, at 34.6% of labour costs. Brazil, Colombia and Uruguay also have tax wedge figures of 30% or more. Honduras has the lowest tax wedge, at 10% of labour costs. When broken down by income deciles, the Dominican Republic's tax wedge is 1.2% for the three poorest income deciles, 19.2% for deciles four through nine, and 25.6% for the richest

(tenth) decile. This shows that only decile ten has an additional burden on account of personal income tax (OECD/IDB/CIAT, 2016<sup>[36]</sup>).

Small enterprises face more difficulty in coping with the corporate tax burden than larger companies do. In the Dominican Republic, small formal enterprises more frequently express that their biggest obstacle to operating formally is the tax rate of 12.5%, compared with the 8.1% rate for medium-sized enterprises and 11.3% for large enterprises (World Bank, 2016<sup>[44]</sup>). The fact that small enterprises struggle to cope with the country's tax burden becomes particularly problematic in a productive landscape heavily dominated by MSMEs, which are the most affected by formal work barriers.

Although the Dominican Republic has implemented simplified tax regimes for small taxpayers, tax rates are not differentiated for MSMEs or newly formalised enterprises. In 2009, the Dominican Republic implemented three special policies for small taxpayers that included a simplified procedure for taxation based on purchases, taxation based on income, and taxation on the transfers of industrialised goods and services (CDRD, 2008<sup>[45]</sup>). These simplified procedures replaced the regular procedures for corporate income tax (Impuesto sobre la Renta; ISR) and tax on the transfer of industrialised goods and services (Impuesto sobre Transferencia de Bienes Industrializados y Servicios; ITBIS) (Salazar-Xirinachs and Chacaltana, 2018<sup>[46]</sup>). In 2019, the country implemented the Simplified Taxation Regime (Régimen Simplificado Tributario - SRT) with new benefits, such as flexibility in the payment of the ISR, exemption from specific procedures, exemption from payment of tax on assets, simplification of payments, and the implementation of simplified forms for the payment of the ISR and the ITBIS (CDRD, 2019<sup>[47]</sup>). However, these measures do not include special tax rates exclusively designed for MSMEs to further incentivise formalisation in the Dominican Republic (e.g. providing tax exemptions during the first years of operation).

The tax burden on businesses in the Dominican Republic is similar to the LAC average, but greater than that of OECD member countries. In the Dominican Republic, a company has to pay approximately 48.8% of its profits in taxes and contributions. The highest burdens are due to a corporate income tax rate of 29.1% and social security contributions to pensions (15.6%), healthcare (0.4%) and the INFOTEP (1.5%). In line with the total tax burden in the Dominican Republic, companies in LAC countries pay, on average, 47% of their profits in taxes and contributions. In contrast, companies in high-income OECD member countries pay 39.9% of their profits in taxes and contributions (World Bank, 2020<sup>[41]</sup>). VAT, although not paid by companies, generates an annual burden of approximately 163 hours per year for compliance, while corporate income tax and pension contributions generate a burden of 74 hours and 80 hours per year for compliance, respectively (World Bank, 2020<sup>[41]</sup>).

The weak tax morale in the Dominican Republic not only undermines corporate revenue collection, but also makes it difficult to move towards a tax system that relies more on personal wealth and income rather than on companies. Taxing companies can, in turn, have an impact on formal employment. Formal businesses surveyed in the Dominican Republic report corruption as their biggest obstacle, with 14.0% of small businesses, 31.0% of medium-sized businesses and 16.1% of large businesses reporting this (World Bank, 2016<sup>[44]</sup>).<sup>7</sup> This reflects markedly weak tax morale among the country's entrepreneurs, who, distrusting institutions because of the level of corruption, find little incentive to pay taxes (OECD, 2019<sup>[48]</sup>). According to the Latinobarómetro survey, only 43% of Dominicans believe that not paying taxes is not justified (Latinobarómetro, 2016<sup>[49]</sup>) and 27.5% of Dominicans have heard about someone who managed to avoid paying taxes entirely (Latinobarómetro, 2020<sup>[50]</sup>).

### ***Non-wage labour costs can represent a barrier to formalisation, particularly for small employers***

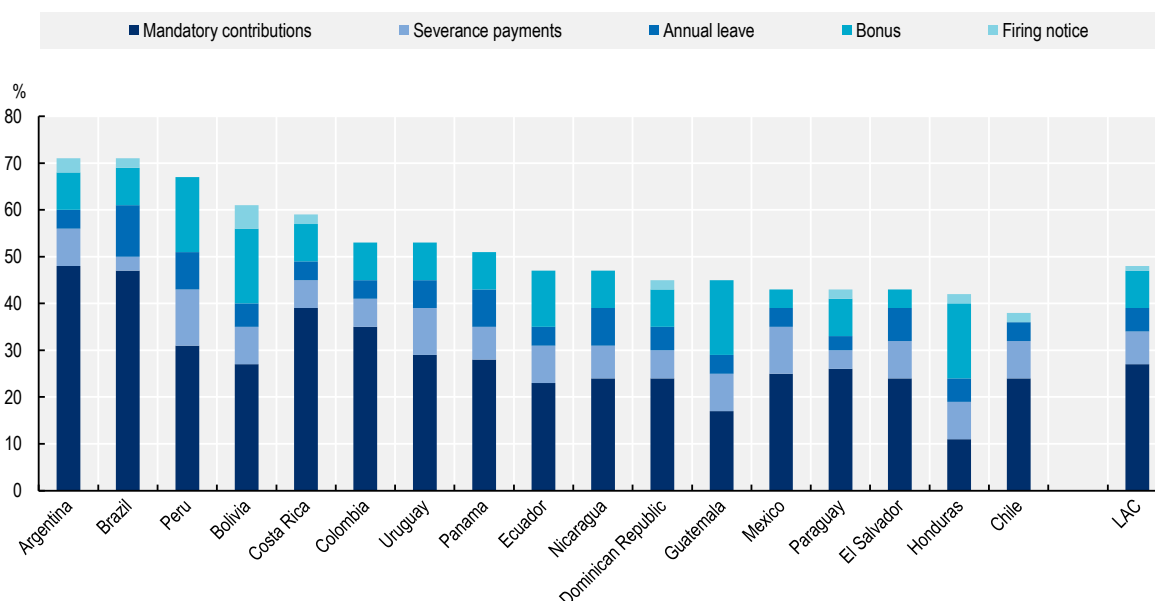
Annual non-wage labour costs were established in the Dominican Republic through four fundamental labour laws. In 1980, Law 116/80 created INFOTEP and introduced a 1% fee on workers' annual wages in order to finance it. In 1992, Law 16/92 established the current Labour Code and set the current rates of several non-wage labour costs: 1) the annual leave contributions, which amount to 4.9% of the annual

wage (14 days) for the first 5 years of employment and 6.3% (18 days) afterwards; 2) the severance contributions, ranging from 4.55% during the first year of employment to 160.9% after 20 years; 3) the Easter royalty, amounting to 8.33% of the annual wage; 4) the company's profit bonus, ranging from 15.7% during the first three years of operation to 21% from the fourth year onwards; and 5) the pre-notice fee, which increases from 2.5% between months 3 and 6, to 4.9% between months 6 and 12, to 9.8% after the first year. Then, in 2007, Law 87/07, which created the Dominican Social Security System, introduced a contribution of 1.3% of workers' annual wages for occupational risk insurance. Finally, Law 188/07, which amended Law 87/07, changed wage charges for pension contributions (7.1%) and family health insurance (6.7% during the first year of employment, 7.0% for the second year, and 7.1% from the third year onwards) (see Table 3.3) (Collado Di Franco, 2018<sup>[51]</sup>).

Effective non-wage labour costs in the Dominican Republic are below the average across LAC countries. As a percentage of the average net wages of formal salaried workers in the Dominican Republic, hiring a formal worker entails 24% of wages going towards mandatory contributions, 8% going towards bonuses, 5% going towards annual leave, 6% going towards severance pay and 2% going towards firing notice, for a total of 45% (Alaimo et al., 2017<sup>[52]</sup>). In LAC, among the countries with the highest non-wage labour burdens, Argentina, Brazil, Peru and Bolivia top the list. The average for the LAC region is 49.5% of the average net wages of formal salaried workers, which is distributed as follows: 27.3% for mandatory contributions, 13.8% for salaried costs (8.4% for bonuses and 5.4% for annual leave) and 8.4% for job security provisions (7.3% for severance pay and 1.1% for firing notice). Among OECD member countries in the LAC region, Chile and Mexico are below the region's average at 38% and 44%, respectively. Chile is the country with the lowest non-wage labour costs in the whole LAC region. While Chile has no bonus fee, Mexico and Colombia have no firing notice charges (see Figure 3.13).

**Figure 3.13. The Dominican Republic has total non-wage labour costs slightly below the LAC average**

Non-wage cost of salaried labour (as a percentage of the average net wages of formal salaried workers)



Note: Includes the additional cost of wages paid by workers and employers according to the definition included in the relevant country's labour law. It is referred to as the average formal wage in the country.

Source: Alaimo et al. (2017<sup>[52]</sup>), *Measuring the Cost of Salaried Labour in Latin America and the Caribbean*.

While most non-wage labour costs are relatively stable over time, those in case of dismissal increase drastically after the first year of employment, potentially exerting a disincentive for employers to hire formally. In the first year of employment, the total burden of a formal employee for the employer amounts to 45.04% of the employee's annual salary and 54.48% in case of dismissal. By the fifth year of employment, non-wage labour costs in case of dismissal have almost doubled, amounting to 98.61%. This increase is mainly due to the rise in the burden of severance pay, the increase in the company's profit share (bonus), and pre-notice payments. After 20 years of employment, the non-wage labour costs of a formal employee in case of dismissal amount to 222.75% of the employee's annual salary for the enterprise (see Table 3.3).

***Minimum wage regulations have many sector- and size-related variants that often lead to confusion in their application***

The 1992 Labour Code created the National Wages Committee to set minimum wage rates for workers in all economic sectors, as well as to define how these wages are to be paid. The Committee establishes thresholds for 15 sectors of the Dominican economy, including agriculture, retail and manufacturing. The rates may be established at the national, regional, provincial, or municipal level, for the Distrito Nacional (National District), or exclusively for a given enterprise (Art. 455 of the Labour Code (CDRD, 1992<sup>[25]</sup>)). The Committee reports to the Ministry of Labour. It has four members: two appointed by the executive branch and two representing employers and workers, while the Executive appoints the director-general. The National Wages Committee has set 16 sectoral categories of minimum wages<sup>8</sup> (ILO, 2013<sup>[53]</sup>), which entail more than 600 rates for their subcategories because the minimum wages can vary by the task within occupational categories. For instance, the construction sector alone has more than 500 minimum wage rates. The large number of minimum wages creates widespread confusion among Dominican employers and workers, hindering proper compliance with current legislation.

**Table 3.3. Companies face rising non-wage labour costs to employ a worker formally**

Annual non-wage labour costs of employing one person (percentage of the annual salary)

| Contribution  | 1st year      | 5th year      | 10th year      | 15th year      | After 20th year |
|---|---------------|---------------|----------------|----------------|-----------------|
| Pension plan  | 7.10%         | 7.10%         | 7.10%          | 7.10%          | 7.10%           |
| Family health insurance                                     | 6.67%         | 7.09%         | 7.09%          | 7.09%          | 7.09%           |
| Occupational risk insurance                                 | 1.30%         | 1.30%         | 1.30%          | 1.30%          | 1.30%           |
| INFOTEP   | 1.00%         | 1.00%         | 1.00%          | 1.00%          | 1.00%           |
| Easter royalty  | 8.33%         | 8.33%         | 8.33%          | 8.33%          | 8.33%           |
| Holidays  | 4.90%         | 6.29%         | 6.29%          | 6.29%          | 6.29%           |
| <b>Non-wage labour costs (excluding bonus)</b>              | <b>29.30%</b> | <b>31.12%</b> | <b>31.12%</b>  | <b>31.12%</b>  | <b>31.12%</b>   |
| Participation in company profits (bonus)                    | 15.74%        | 20.98%        | 20.98%         | 20.98%         | 20.98%          |
| <b>Non-wage labour costs (including bonus)</b>              | <b>45.04%</b> | <b>52.10%</b> | <b>52.10%</b>  | <b>52.10%</b>  | <b>52.10%</b>   |
| Severance pay ( <i>cesantias</i> )                          | 4.55%         | 36.72%        | 80.43%         | 120.65%        | 160.86%         |
| Pre-notice  | 4.90%         | 9.79%         | 9.79%          | 9.79%          | 9.79%           |
| <b>Maximum non-wage labour costs (in case of severance)</b> | <b>54.48%</b> | <b>98.61%</b> | <b>142.32%</b> | <b>182.54%</b> | <b>222.75%</b>  |

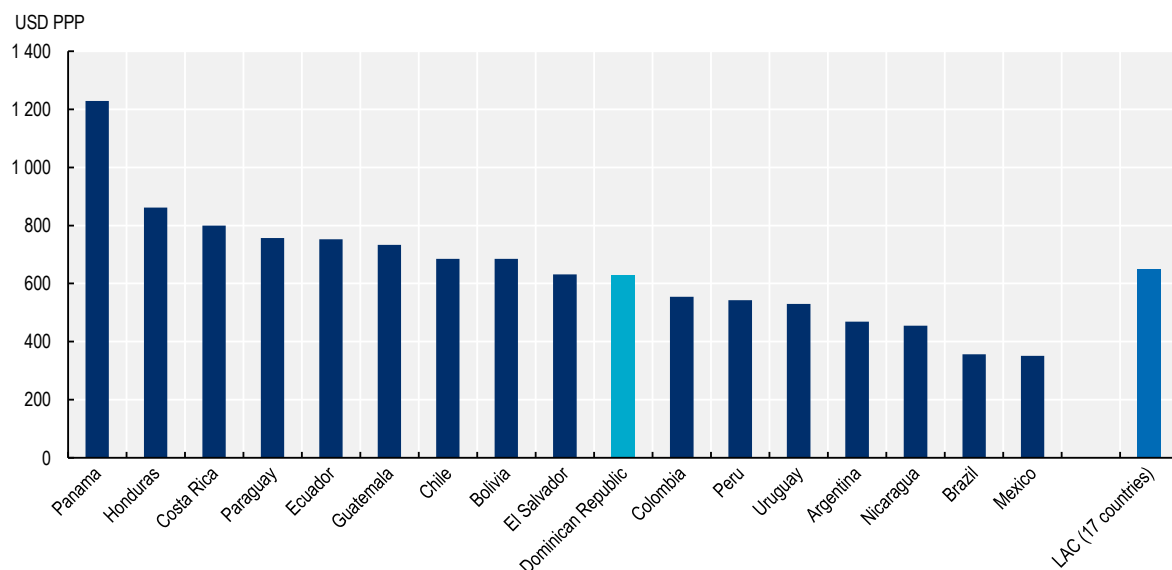
Note: Calculations, made by Collado Di Franco (2018<sup>[51]</sup>), are based on days paid according to the law, based on a working year consisting of 285.96 days.

Source: Collado Di Franco (2018<sup>[51]</sup>), based on Laws 16/92, 188/80, 87/01 and 188/07. Law 16/92 approved the Labour Code, establishing holiday pay, severance pay, the Easter royalty, bonus pay, and pre-notice pay. Law 188/80 created the INFOTEP, thus introducing the INFOTEP fee. Law 87/01 created the Dominican Social Security System, introducing occupational risk insurance. Law 188/07 amended Law 87/01 and introduced the current pension and family health insurance contributions.

On average, the real minimum wage in the Dominican Republic is in line with the average for the LAC region. In 2020, the nominal minimum wage was around DOP 13 400 in the Dominican Republic, which is equivalent to about USD 627 (United States dollars) PPP, considering the purchasing power of the Dominican peso. The average minimum wage across the LAC region<sup>9</sup> was USD 628 PPP in the same year (Figure 3.14) (Durán and Kremerman, 2020<sup>[54]</sup>).

**Figure 3.14. The real minimum wage in the Dominican Republic is in line with the LAC regional average**

Minimum wages in comparable USD PPP



Note: 2020 minimum wages in comparable USD PPP. The minimum salary in the Dominican Republic in USD PPP was calculated using a reference minimum salary of DOP 13 400 in 2020.

Source: Durán and Kremerman (2020<sup>[54]</sup>), using International Monetary Fund (IMF) data and official minimum wages. Their calculations were made using the PPP factor of the IMF's World Economic Outlook.

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More recently, the National Wages Committee changed the criteria used to set the minimum wage. Traditionally, collective wage bargaining was determined at the national and sectoral level rather than at the enterprise level in the Dominican Republic. During the 2021-22 minimum wage discussion, the National Wages Committee introduced two new variables to set a differentiated minimum wage: enterprises' sales before taxes and the number of employees (MTRD, 2021<sup>[55]</sup>). These two variables replace the previous criterion based on the company's assets. Also, this resolution added a new category for micro-enterprises, which have up to 10 workers and sales before taxes of DOP 8 million per year. In this way, the four categories were assigned to a differentiated minimum wage, ranging from DOP 11 900 for micro-enterprises to DOP 21 000 for large enterprises as of 1 January 2022.<sup>10</sup> On average, the non-sectorised minimum wage increased by 24% between 2021 and 2022.

The Dominican Republic completed the process of agreeing on the 2021-24 National Employment Plan and now faces the challenge of fully implementing it. The government made great efforts to agree on public policy guidelines for employment in the medium term in a tripartite construction process. This plan aims at revitalising the labour market, creating new formal jobs, narrowing the gender gap in the labour market, and strengthening the skills of the workforce, among others. The current challenge is to ensure its implementation, co-ordinating all the relevant actors and ensuring sufficient budget for the fulfilment of its goals (see Box 3.4).

### Box 3.4. The 2021-24 National Employment Plan

National Employment Plans have been conceived as a key tool for prospecting and co-ordinating public policies aimed at addressing the challenges of the labour market. The first National Employment Plan was created in 2013 to define key labour market policy strategies in line with the principles and axes of the 2010-2030 National Development Strategy.<sup>11</sup> In 2021, the government of Luis Abinader undertook the task of agreeing on a new National Employment Plan.

As in other labour matters, a National Employment Plan (PLANE) is the output of a tripartite construction process. Therefore, the national government, headed by the Ministry of Labour, the Ministry of Economy, Planning and Development, and the Ministry of Industry and Commerce, the trade union confederations, and the employers' organisations from different productive sectors were represented in its consultation and elaboration phases. Its elaboration relied on a technical team (PLANE Technical Committee) and a consultative space (the recently reactivated National Employment Commission (MTRD, 2021<sup>[56]</sup>). These participatory spaces included representatives from the academic sector, community organisations and international co-operation agencies, such as the European Union, EUROSocial+ (EUROSocial+, 2021<sup>[57]</sup>), AECID, and ProEtp2.

The 2021-2024 PLANE aims at both making the labour market more dynamic and catalysing a more inclusive path by establishing a series of major objectives and strategic action lines (MTRD and CONAEMPLO, forthcoming<sup>[58]</sup>). Its main objectives include: fostering the creation of 600 000 new formal jobs by 2024; reducing the unemployment rate to below 15%; closing the gender gap by increasing the employment rate of women to more than 55%; strengthening soft and hard skills; and promoting labour market insertion and reducing labour informality to 50%. The 2021-24 PLANE defines six national-level strategic action lines: (1) prospective employment and future work spaces, (2) incentives to sectors that generate formal employment, (3) strengthening of technical-professional training, (4) promotion of employability and decent and dignified work, (5) training for entrepreneurship and reduction of informal work, and (6) governance of the PLANE.

The 2021-2024 PLANE also establishes a series of specific objectives at sectoral and territorial level. At the sectoral level, the plan establishes policy objectives for twelve economic sectors: tourism and hospitality; trade and banking; construction; manufacturing; MSMEs and cooperatives; agriculture; housekeeping and domestic labour; energy and water; transport and storage; communications; mining; and public sector. At the territorial level, it establishes policy objectives for nine geographic regions: Cibao Norte; Cibao Sur; Occidental; Oriental; Sureste; Higuamo; Suroeste; Valdesia; and Enriquillo. Finally, the PLANE identifies two cross-cutting key elements to ensure success in the implementation of the plan: (1) the results monitoring and evaluation system and (2) the plan's governance and financing. The Monitoring and Evaluation System establishes a set of ten progress indicators, priority actors and baseline values. It also sets out the budgets in each of the strategic axes and those responsible for implementation.

Note: The PLANE draft was approved in April 2022 and is currently in the publication process (CONAEMPLO, 2022<sup>[59]</sup>).

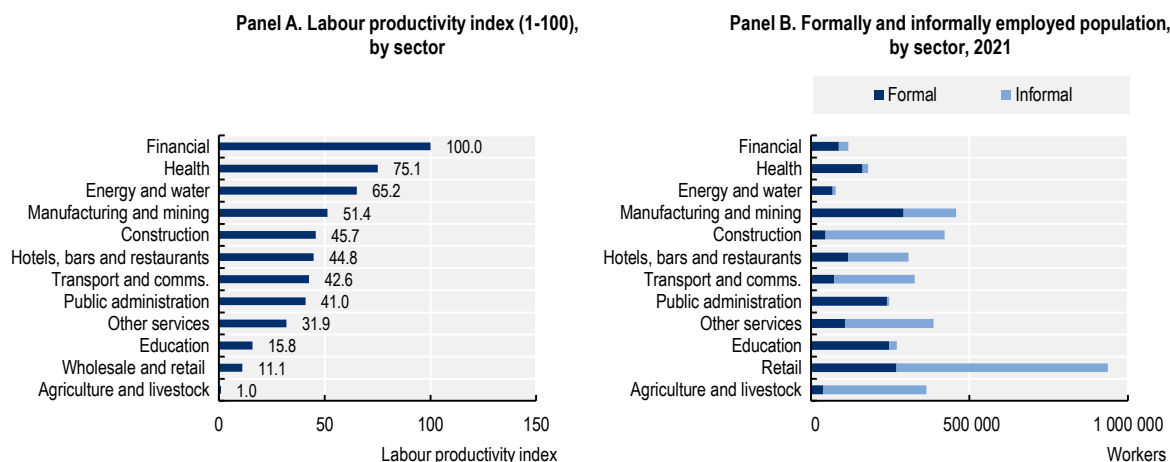
Source: Dominican Republic's National Employment Plan 2021-2024 (MTRD and CONAEMPLO, forthcoming<sup>[58]</sup>).

### ***While some highly productive sectors can afford the costs of formality, other less productive sectors are unable or unwilling to afford the transition to formality***

Most formal jobs in the Dominican Republic are concentrated in some sectors with high labour productivity. Highly productive sectors include the financial intermediation and insurance sector (73.8% formal), the health and social care sector (90% formal), and electricity and water (87% formal). In contrast, sectors with

a higher share of informal labour tend to be those with lower levels of productivity. These include the agriculture and livestock sector, with a formality rate of 10.5%, and the wholesale and retail sector, with a formality rate of 28.7% in 2021 (see Figure 3.15, Panel B). Other sectors, such as construction, hotels, bars and restaurants, and transport and communications, also have high levels of informality despite being relatively more productive. In short, the Dominican Republic shows significant disparities in terms of productivity and job formality across productive sectors. This highlights the importance of productivity growth and production transformation strategies as key catalysts for greater formalisation.

**Figure 3.15. Most formal jobs are created in economic sectors with high labour productivity**



Note: The health sector includes social assistance; the public administration sector includes defence; and the financial sector includes financial intermediation and insurance. Energy includes electricity and gas. Panel B: Employed population aged 15 years and over.

Source: Panel A: Authors' elaboration based on CNC and IDB (2019<sup>[40]</sup>). Panel B: Authors' elaboration based on BCRD (2022<sup>[2]</sup>).

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Free Trade Zones have been a key pillar of the Dominican Republic's growth strategy, but they have also contributed to a dual economy, with highly productive sectors co-existing with lower productivity sectors. Free Trade Zones were created in the 1960s with the aim of creating jobs and developing local industry. Initially, these zones focused mainly on labour-intensive manufacturing, especially footwear and textiles. Since their creation, Free Trade Zones have diversified from export-oriented manufacturing to export-oriented services, such as business processing offices. This reorientation has also led to a reduction in local demand for suppliers. At the same time, Free Trade Zones have become less relevant for generating employment in recent years. Whereas in the 1990s they accounted for around 7% of total domestic employment, in the early 2020s they account for around 4%. Free Trade Zones have not yet become catalysts of local development to the degree expected and, on average, local sourcing has been reduced over time (OECD/UNCTAD/ECLAC, 2020<sup>[60]</sup>). Creating linkages between the activities in these areas and the local economy is one of the potential areas for action to encourage formalisation and local economic development.

The potential of small and medium-sized enterprises to drive the country's economic growth has remained stagnant. MSMEs in the Dominican Republic are much less export oriented than their peers in OECD member countries. While MSMEs in OECD member countries account for 40% of total exports, in the Dominican Republic they only account for 23% of domestic exports (OECD/UNCTAD/ECLAC, 2020<sup>[60]</sup>). The large majority of microenterprises in the Dominican Republic are concentrated in less dynamic, less export-oriented sectors.

Although the Dominican Republic has consolidated progress in diversifying its trade structure in recent decades, it still lacks a diverse and innovative productive base. A more diverse productive base would allow the economy to build resilience to external shocks, such as the COVID-19 crisis. As the OECD, United Nations Conference on Trade and Development (UNCTAD), and Economic Commission for Latin America and the Caribbean (ECLAC) report *Production Transformation Policy Review of the Dominican Republic: Preserving Growth, Achieving Resilience* (OECD/UNCTAD/ECLAC, 2020<sup>[60]</sup>) highlights, the Dominican Republic has to focus efforts on progressing the upgrading processes and on improving the sophistication of local products, processes and enterprises. To this end, investments in innovation, branding and intellectual property, as well as the incorporation of new technologies, are key. In addition, worker training and institutional capacity building in the public and private sectors will be essential.

### **Challenges and opportunities to move from analysis to action**

The Dominican Republic faces the challenge of strengthening its productive apparatus to increase formal employment and achieve a better quality of life for Dominicans. The promotion of productivity, and especially that of small and medium-sized companies, will have to overcome some important institutional barriers and a legal framework that currently does not reflect the rapid changes that technological change has brought to the labour market. The government faces the challenge of negotiating new social agreements and implementing innovative measures that allow productivity to flourish but at the same time care about maintaining the quality of life and well-being of Dominican workers.

The OECD Development Centre team met in Santo Domingo with several government officials and other specialised actors from the labour sector to discuss the country's main challenges in this area and possible strategies to solve them. They shared their visions around the main challenges and opportunities. Table 3.4 shows the results of the discussions and summarises key policy recommendations.

**Table 3.4. Rethink the current institutional and policy framework to remove or alleviate existing barriers to formalisation**

| Policy recommendation  | Challenges and opportunities for implementation  |
|--|--|
| <b>2.1. Provide favourable conditions for formalisation, particularly among MSMEs</b>  |  |
| Encourage formalisation among MSMEs by providing them with special support and tax benefits. Incentives could be given to newly incorporated companies (e.g. by providing tax exemptions during the first years of operation).   | The next round of identification in 2022 brings an opportunity to better understand MSMEs and their needs. Creating guides on formalisation for MSMEs could contribute to socialise with them the benefits of operating formally.<br><br>Some examples for implementation are sectoral incentives, lower taxes for MSMEs, or the elimination of certain taxes (for example, the advance tax ("Anticipo") that was suspended during the pandemic).                                  |
| Continue efforts to simplify the taxation and regulatory administration of businesses, streamline bureaucratic procedures during formalisation and encourage more businesses to formalise. The Formalizate website should be strengthened and expanded in order to reach a larger number of companies and sectors. | Understanding better the incentives of Dominican companies to remain informal is key to designing formalisation strategies. The current <i>Formalizate</i> strategy needs further promotion among informal businesses. In addition, the digitisation of various processes could help facilitate this transit of informal companies. Finally, the creation of a single digital window beyond <i>Formalizate</i> for the transition to formalisation can contribute to this purpose. |
| Promote innovative mechanisms to foster the growth of small and medium-sized companies, such as business acceleration programmes, smart funds, and support in maintaining fiscal commitments. *  | Inter-institutional co-ordination with DGII to advise companies in filling out tax documents   |
| Expand the types of investment funding available (beyond loans) with an emphasis on independent workers. Linking quantity and cost to training indicators. *   | Co-ordinate a strategy involving the government (DGII's incentives), capital markets (e.g. crowdfunding, seed and angel capital), and regulators (SIB, SIMV, SIPSN). Adapting the regulatory framework to incorporate these new institutional and retail figures   |
| <b>2.2. Address main institutional barriers to the formalisation of workers and consider a reform of the Labour Code</b>   |  |
| Rethink the minimum-wage-setting process in order to strike a better balance between a more simplified system that favours its   | Reducing the number of minimum wages is crucial to facilitating companies' compliance with labour laws.  |

|  |  |
|--|--|
| application by employers and a sufficient number of minimum wages that accounts for differences across sectors and firms.  |  |
| Begin a process of reflection and technical discussion on the impact of severance payment on the levels of informality, in order to balance protection of the employee against flexibility in the labour market, resulting in greater levels of formalisation.           | It would be useful to have technical studies on the impact of this proposal. There is a great opportunity around the creation of unemployment insurance in the Dominican Republic. The challenge lies in the necessary tripartite discussion for its creation, between employers, workers, and the government.   |
| Appoint a team that works to align the conditions and stakeholders required for the effective implementation of the new National Employment Plan *   | Once the new National Employment Plan has been published, the current challenge lies in its socialisation, communication strategy and, especially, its implementation.   |
| Frame these discussions within a broader tripartite debate at the national level about the possibility of reforming the current Labour Code, considering the inputs from the new National Employment Plan.†  | The long-term tripartite discussion for the reform of the Labour Code should also include key discussions on the regularisation of migrants and the strengthening of the civil registry in the country.  |
| The COVID-19 pandemic has accelerated several megatrends, including digitalisation and its impact on the labour market. Whether within the framework of a new Labour Code, or independently, it is necessary to introduce a regulatory framework for digital platforms.* | There are challenges to unlocking the full benefits of digitalisation, such as training teachers in new technologies.  |
| <b>2.3. Strengthen policies to boost the creation of formal jobs in the economy</b>  |  |
| Align employment generation policies with industrial and production policies, strengthening connections between special economic zones and the local economy in order to promote greater formalisation.  | There is an opportunity in the generation of data from employment programs that can be taken advantage of. In addition, the creation of inter-institutional teams for joint work can contribute to this objective.   |
| Create sector-specific strategies to promote formalisation in sectors where this is particularly low.  | Advancing on the discussions around undocumented people (migrants and those lacking civil registration) would bring opportunities to advance in this regard. The implementation of sectoral studies can also contribute to decision making in this regard. Tripartite dialogue is perhaps the biggest challenge. |

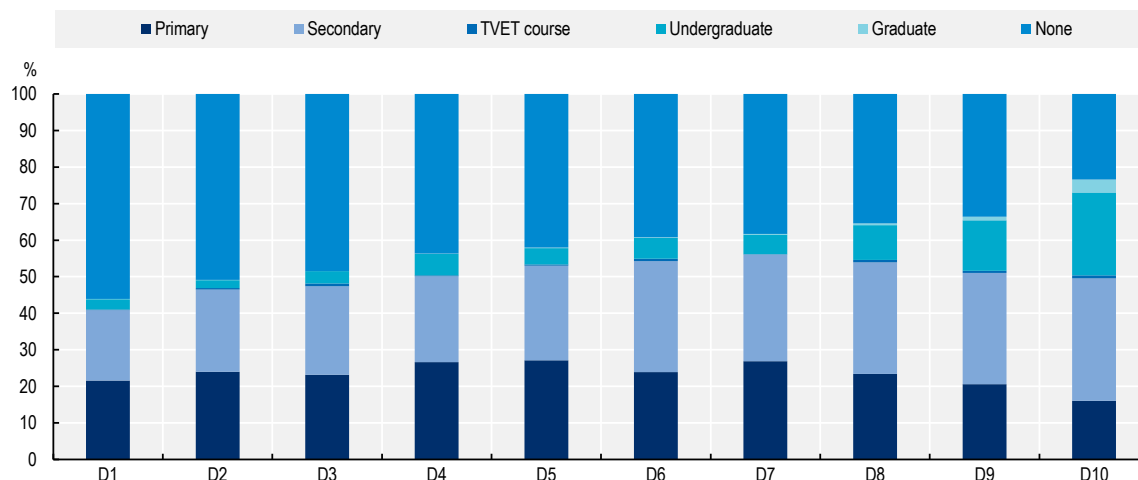
Note: Based on the meeting held on 23 June 2022, to discuss the draft analysis and policy recommendations with officials from the Ministry of Labour, the Ministry of Economy, Planning and Development (MEPyD), the Central Bank, the National Statistics Office (ONE), the Association of Industries (AIRD), CIEF Consulting/IFISD and the European Union. Recommendations marked with an asterisk (\*) were introduced by workshop participants. Recommendations marked with a dagger (†) incorporate modifications suggested by workshop participants.

Source: Authors' elaboration.

## Skills development is crucial to increasing labour productivity and promoting formal employment


Skills development can be a critical factor in greater formalisation. Skills can facilitate employability by providing workers with more opportunities to access formal jobs, which usually demand higher-level skills. Similarly, skills can increase productivity. At the individual level, this involves workers adding sufficient value to their roles to outweigh the costs of formality, hence making the choice of formalisation a viable option for employers. At the aggregate level, greater productivity and a wider pool of skills are more conducive to innovation, entrepreneurship, and productive transformation, which can lead to the expansion of sectors that create formal job opportunities, which in turn can attract a more skilled workforce. The available pool of skills in the Dominican Republic is still relatively limited, as suggested by low levels of educational attainment, particularly among lower-income groups. Despite progress in expanding education across the population, a significant share of the population still has no or low levels of education, even among high-income groups (Figure 3.16).

**Figure 3.16. Primary, secondary, and tertiary educational attainment remains limited in most income deciles in the Dominican Republic**



Note: Highest grade attained. Data are from Q3 2019.

Source: Authors' elaboration based on BCRD (2022<sup>[2]</sup>).

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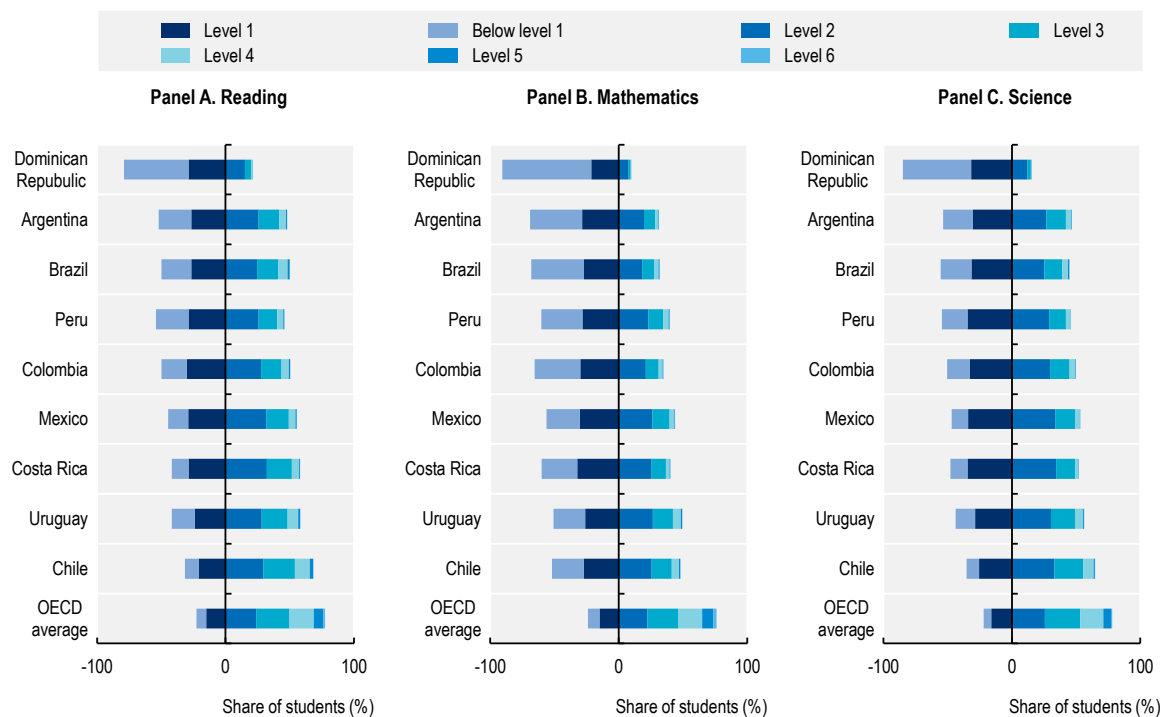
Learning outcomes among Dominicans remain low by international standards. As much as 79% of 15-year-old Dominican students fail to reach level 2 proficiency in reading, mathematics and science in the Programme for International Student Assessment (PISA) test, which is described as the minimum level of proficiency that all children should acquire by the end of secondary education. This places the country below all other LAC countries participating in the PISA test, and well below the OECD average (Figure 3.17). Mathematics is where Dominican students perform the worst, with 69.3% not reaching level 1 proficiency and 21.3% barely reaching level 1 proficiency in 2018 (OECD, 2018<sup>[61]</sup>). Quantitative skills in particular are essential for the development of technical skills that would contribute to boosting labour productivity in the country. However, all three of these basic skills are essential for building more complex skills in the workforce.

Upgrading the labour force's skills must be a non-deferrable aspect of the overall strategy to promote greater formalisation in the Dominican Republic. In the Dominican Republic, 29.1% of manufacturing companies identify an inadequately educated workforce as a major constraint, which represents a greater proportion than the manufacturing companies in the LAC as a whole (26.3%) and in OECD member countries (21.2%) (World Bank, 2016<sup>[44]</sup>). In fact, sectors with low education levels have shown a markedly downward trend in their labour productivity since 2014 (Figure 3.18, Panel A). These sectors include utilities, manufacturing, construction, and transport and communications. Other sectors have also seen a slight downward trend, such as the education sector and the wholesale and retail sector. One thing all these sectors (except for the education sector) have in common is an average number of years of schooling that falls short of completion of secondary education (i.e. ten years). The least productive of these sectors and the sector with the lowest average years of schooling is the agricultural sector, with an average of only 5.8 years of schooling (Figure 3.18, Panel B).

Three skills-related policy areas are highlighted in this section: 1) technical and vocational education and training (TVET), which has proved to have a positive impact on increasing productivity and formalisation; 2) the importance of developing mechanisms to better match the supply of and demand for skills; and 3) the transition from the education system to the labour markets, which is a key foundational step for achieving greater formalisation in the Dominican Republic.

**Figure 3.17. The Dominican Republic must improve training in basic skills, which are essential to building more specialised skills in the workforce**

Percentage of students in selected LAC countries at each level of proficiency in reading, mathematics and science on PISA tests, 2018

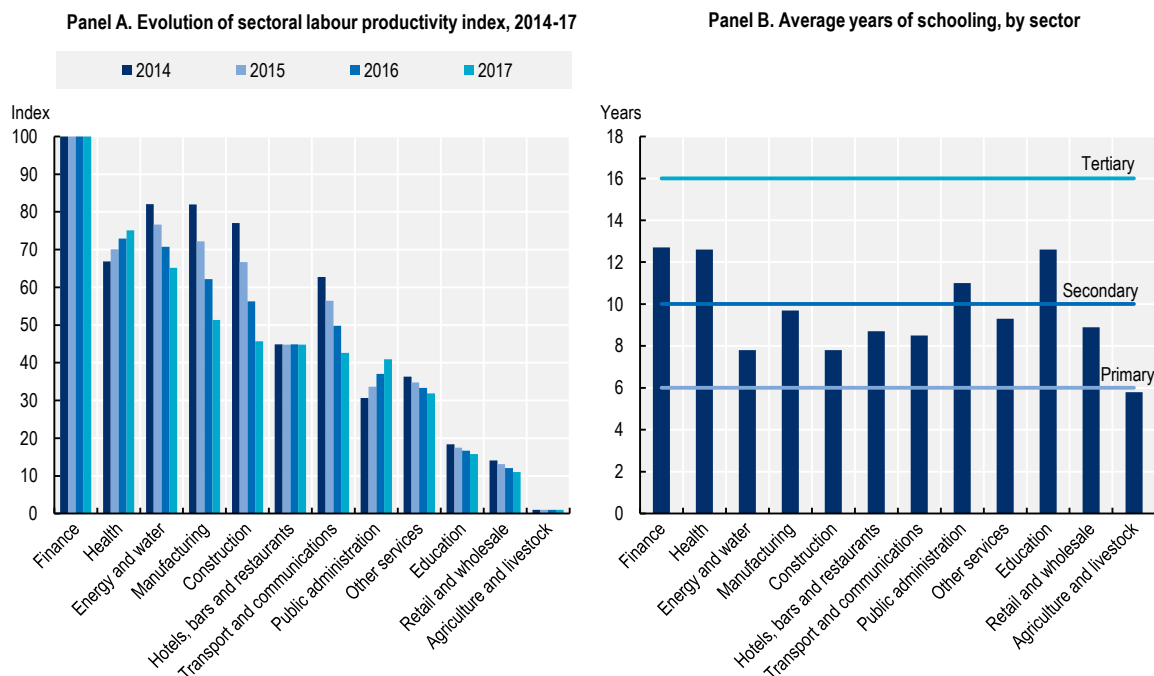


Note: Reading and science data for Argentina are from the paper-based version of the PISA test; mathematics data for Argentina, and all other countries' data, come from the computer-based version of the PISA test.

Source: Authors' elaboration based on PISA database (OECD, 2018<sup>[61]</sup>).

StatLink  <https://stat.link/8lv4k3>

**Figure 3.18. Sectors with a downward trend in labour productivity are primarily those with an average number of years of education that falls short of completion of secondary school**



Note: Panel A: The health sector includes social assistance; the public administration sector includes defence; and the finance sector includes financial intermediation and insurance. Panel B: According to Law 66/97, primary education lasts six years, secondary education lasts four more years, and tertiary education lasts six more years (CDRD, 1997<sup>[62]</sup>).

Source: National Competitiveness Council (Consejo Nacional de Competitividad; CNC) and Inter-American Development Bank (IDB) (CNC and IDB, 2019<sup>[40]</sup>), using data from the Central Bank (BCRD, 2022<sup>[2]</sup>; 2021<sup>[63]</sup>).

StatLink  <https://stat.link/s98q3b>

### ***TVET can play a critical role in increasing productivity, formalisation and social inclusion***

TVET can bring diverse socio-economic benefits. TVET is crucial to developing a skilled labour force that has a range of mid-level trade, technical, professional and management skills alongside high-level skills associated with university education (OECD, 2014<sup>[64]</sup>). TVET can also contribute to social cohesion and equity, as it offers an alternative to young people who have dropped out of school, providing them with specific job skills to increase their employability. In this sense, high-quality vocational education pathways, particularly in upper secondary education, can help those who have become disaffected with academic education to re-engage with the educational system. In several LAC countries, TVET programmes are also specifically targeted at students from poor households. TVET offers more attractive training for people who prefer more practical education, as well as for older workers seeking to improve specific vocational skills. TVET can be helpful for boosting training without abandoning work or for individuals who wish to return to the labour market after a period of absence (Quintini and Manfredi, 2009<sup>[65]</sup>). Tertiary TVET programmes can provide those with no appetite for academic education with practical skills that respond to the job market's needs (OECD/CAF/ECLAC, 2016<sup>[66]</sup>). Moreover, TVET has also been demonstrated to play a role in closing gender gaps. In the Dominican Republic, women have benefitted considerably from TVET, since more than 60% of TVET secondary students are women (OECD/CAF/ECLAC, 2016<sup>[66]</sup>; UNESCO, 2021<sup>[67]</sup>).

TVET can play an essential role in moving towards a more formal labour market. TVET programmes have demonstrated that they can have a significant long-term impact on formalising work among young people

(Ibarraran et al., 2015<sup>[68]</sup>). Training programmes work particularly well in more dynamic local contexts, where there is actual demand for the skills provided (Ibarraran et al., 2015<sup>[68]</sup>). However, evidence has shown that the long-term impact of job training programmes is different between men and women. While men have a better start to their careers in the formal labour market, women do not seem to have increased their participation in the formal sector. For youth in urban contexts, both men and women see a long-term increase in their earnings.

In the Dominican Republic, TVET provision takes place at three different levels: secondary (pre-higher) education, post-secondary (higher) education and the INFOTEP. The Ministry of Education of the Dominican Republic (Ministerio de Educación de la República Dominicana; MINERD) is responsible for secondary (pre-higher) education, which provides academic or technical secondary education and is governed by Law 66/97 on General Education (CDRD, 1997<sup>[62]</sup>). The Ministry of Higher Education, Science and Technology is responsible for higher (post-secondary) education and is governed by Law 139/01 on Higher Education, Science and Technology (CDRD, 2001<sup>[69]</sup>). Finally, the INFOTEP is responsible for providing technical and vocational training and is governed by Law 116/80 (CDRD, 1980<sup>[70]</sup>). The essential difference between technical and vocational education provided at the pre-higher and higher education levels and that provided by INFOTEP is that the former proposes to develop cognitive, socio-affective and technical skills simultaneously, whereas the latter concentrates on the development of the technical skills (Amargós, 2016<sup>[71]</sup>). The Ministry of Labour also takes part indirectly in the provision of TVET through its participation in the INFOTEP Board of Directors. Finally, the Ministry of Youth occasionally opens calls for training programmes for young people, such as CAPACITEC to encourage entrepreneurship or Punto Tecnológico to provide scientific and technological training through the Casas de la Juventud.

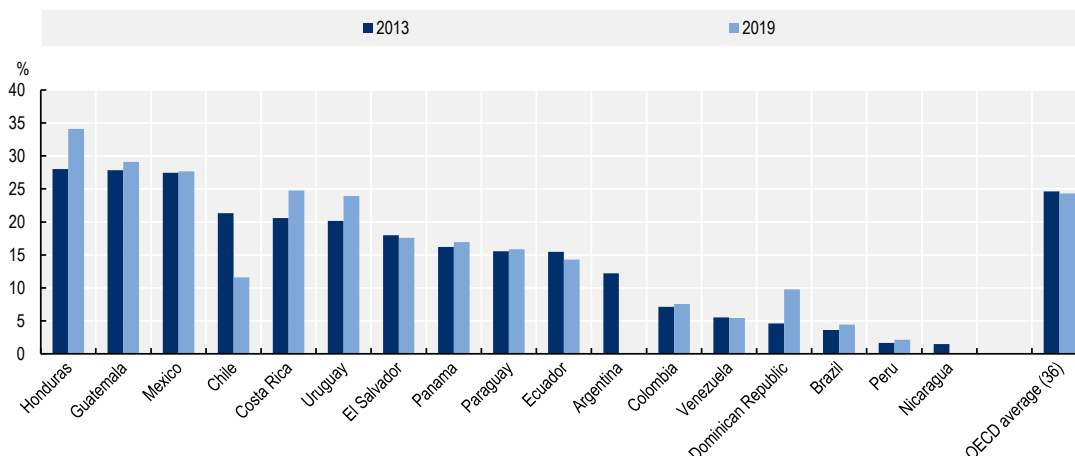
*Strengthening the coverage and quality of secondary and post-secondary TVET is key to building skills in the workforce*

Secondary education is the first tier of TVET. Secondary education serves a school population aged between 12 and 18 years and is composed of two cycles. The first, lower secondary, lasts three years and is common to all students. The second cycle, upper secondary, also lasts three years and offers three streams: academic, technical-vocational, and artistic (Amargós, 2016<sup>[71]</sup>). All streams have a common core of 40% of the academic curriculum, while the remaining 60% in the technical stream offers technology and workshop practice subjects. In addition, it includes training for the promotion of entrepreneurial practices and computer science. Graduates from the technical, academic or artistic streams in secondary education can continue education at university.

Secondary education TVET is still limited in the Dominican Republic. Despite a growing trend since 2013, only 9.8% of secondary school students in the Dominican Republic were enrolled in TVET programmes in 2019 (Figure 3.19). This figure is well below the averages for the LAC region and for OECD member countries (UNESCO, 2021<sup>[67]</sup>).

**Figure 3.19. While the number of secondary school students in the Dominican Republic enrolled in TVET programmes has grown since 2013, it remains well below LAC and OECD member country averages**

Students in secondary education enrolled in TVET programmes (as a percentage of total secondary students)



Note: Data for 2013 were used, except for Nicaragua (2010), Panama (2011), Paraguay (2012) and Honduras (2014). Data for 2019 were used, except for Brazil, Chile, Ecuador, El Salvador, Mexico and Uruguay (2018), Venezuela (2017), and Panama and Paraguay (2016). OECD average includes all members (36) except the United States and Costa Rica.

Source: Authors' elaboration based on UNESCO (2021<sup>[67]</sup>) and DiNIECE, Ministry of Education of Argentina (2013).

StatLink  <https://stat.link/0cfypr>

The development of post-secondary technical education is relatively recent in the Dominican Republic. Higher technical education requires a secondary school diploma and is aimed at preparing technicians for work in specific occupational areas over the course of approximately two years. The programmes offer “higher technician” titles in a given area (e.g. mechanics, informatics, tourism or gastronomy). The Ministry of Higher Education, Science and Technology has only approved nine training institutions nationwide. The statistics on enrolled students in the nine institutions authorised to offer higher technical education are not available (Amargós, 2016<sup>[71]</sup>), making strategic planning difficult.

INFOTEP's technical and vocational training offers flexible learning modalities for developing specific technical skills in a wide variety of domains. INFOTEP's curricular offering includes three types of education and training plans: technical courses (ranging from 30 to 250 hours), technical careers (ranging from 400 to 1 600 hours) and the training of technical masters (minimum of 1 400 hours). The content is generally organised in modules, and training is provided through on-site practice in workshops. INFOTEP awards a certificate of professional competence to those who complete each module, and a diploma to those who complete all the modules in a programme (Amargós, 2016<sup>[71]</sup>).

*The supply of TVET programmes is fragmented and would benefit from more co-ordination and strategic guidance in order to better respond to current and future demands for skills*

Strategic planning of the TVET system in the Dominican Republic could be improved, while co-ordination across its three existing providers could be strengthened. The three leading TVET providers (MINERD, MESCyT and INFOTEP) have defined their regulations independently, and have different governing laws and autonomous budgets. Therefore, all education and training programmes have different structures, without clear equivalences or complementarities across systems. On the employees' side, this institutional framework can make it difficult to set clear education and training objectives and pathways, as the various

systems tend to overlap. Fragmentation also hinders matching TVET programmes with companies' demand for skills. In order to effectively improve the TVET system, it is essential to differentiate between the qualitative and quantitative demand for skills.

The recent creation and ongoing implementation of the National Qualifications Framework (NQF) is a significant step towards aligning TVET with general secondary and tertiary education. Qualification frameworks, which classify qualifications into levels based on learning outcomes, standardise qualifications in order to facilitate the evaluation and comparison of skills across educational systems. In the LAC region, various countries are developing co-ordination mechanisms between TVET and general education programmes, including Chile, Colombia, Costa Rica, Ecuador and Nicaragua (OECD/CAF/ECLAC, 2016<sup>[66]</sup>).

In addition to co-ordinating between TVET and other programmes, NQFs facilitate the identification of the professional qualifications that are demanded in the national productive sector. By creating a modular catalogue of TVET programmes, an NQF facilitates the identification of the types of training offered and the specific qualifications or skills that are required. In the Dominican Republic, once the drafted NQF is approved by law, it will be a challenge to ensure continuity during its implementation. To this end, all educational and training institutions will have to update their educational training offerings in line with the guidelines defined by the NQF (see Box 3.5).

### Box 3.5. The National Qualifications Framework: An ongoing multi-stakeholder effort

The Support Programme for Professional Technical Education and Training in the Dominican Republic (Programa de Apoyo a la Educación y Formación Técnico Profesional en la República Dominicana; ProEtp2) co-operation project, financed by the European Union and the Spanish Agency for International Development Co-operation, created a national commission to design and implement an NQF. This inter-institutional initiative, co-ordinated by the Ministry of the Presidency, involved all relevant actors in TVET, including the MINERD; the Ministry of Higher Education, Science and Technology; the Ministry of Labour; and the Ministry of Economy, Planning and Development. The national commission led to the formation of a technical committee that drafted the NQF. The Ministry of Labour, for example, has provided valuable inputs to build the framework by extracting data from two key tools: the Labour Registration System (SIRLA) and the Digital Employment Board. Their data provide key insights about the skills that employers are demanding and those that the workforce is offering. Congress partially approved the bill containing the NQF in August 2019.

The NQF aims to narrow the gap between the supply and demand for skills in the Dominican Republic. Achieving this would transform how the relationship between jobs and education is understood and would focus on the Dominican Republic's specific skills needs. The bill sent to Congress included reference to the National Catalogue for Qualifications, which defines eight educational levels aligned with the European Qualifications Framework. It identifies three types of skills: basic skills (e.g. digital, agricultural, mining, and information and communications technology), specific skills and transferrable skills. The bill also included a section on the recognition of non-certified skills (i.e. workers who acquired skills through experience and have no certification of them).

A complete catalogue of qualifications available will provide valuable inputs for the strategic co-ordination of the supply of technical and professional education and training programmes in the country. Therefore, it will be a crucial tool for decision making aimed at closing the gap between supply and demand for skills in the labour market, and for efforts to anticipate future trends in this area.

Source: PROETP2 (2021<sup>[72]</sup>) and Aribizu Echávarri (2015<sup>[73]</sup>).

### ***A better match between the demand and supply of skills is critical for employability and job formalisation***

The Dominican Republic has scarce information on both the supply of skills and the private sector's demand for skills. The ENCFT and the National Multipurpose Household Survey (Encuesta Nacional de Hogares de Propósitos Múltiples; ENHOGAR) surveys provide valuable information on the main labour indicators, categorised by educational level and schooling. However, they do not include key questions such as the type of job-specific training a worker has received, or their years of experience in the job (Amargós, 2016<sup>[71]</sup>).

INFOTEP has researched the mismatch between the supply of and demand for skilled labour in several regions of the Dominican Republic. Since 2010, INFOTEP has produced a number of ad hoc studies in order to assess companies' needs and the demand for technical skills in certain areas (INFOTEP, 2018<sup>[74]</sup>). These studies have shown that companies do indeed require workers with some level of training, and that around 80% of workers are willing to receive technical training (INFOTEP, 2019<sup>[75]</sup>). INFOTEP's studies also provide evidence of the mismatch between workers' demands for training and companies' demand for skilled workers. On the one hand, the courses most demanded by workers are related to technical skills, such as computer skills, basic accountancy, mechanics and electrical services, and English. On the other hand, the skills most demanded by companies in 2020 were client service, teamwork, sales and conflict management. There is also wide heterogeneity across regions. While enterprises in the southern region require English and computer skills, those in the Greater Santo Domingo region require basic accountancy skills, mechanical skills, and computer skills (INFOTEP, 2020<sup>[76]</sup>). In addition, the Ministry of Economy, Planning and Development (Ministerio de Economía, Planificación y Desarrollo; MEPyD) has published a series of development plans for the provinces and regions, in which it analyses the skills needs identified in those areas (MEPyD, 2017<sup>[77]</sup>). Despite these efforts, a regionally fragmented approach hampers the comparability of data and therefore prevents the development of a complete picture of skills supply and demand across the country. A unified and systematic approach with nationwide coverage could contribute more usefully to the design of a national skills policy, also supporting the country's TVET strategy beyond INFOTEP's institutional catalogue.

Investing in better resources and methods for analysing the supply of and demand for skills can contribute to more effective education and training policies. Currently, the Dominican Republic does not have instruments that allow it to estimate the demand for skills in the labour market. Some of the potential methods for identifying the demand for skills (which are widely used in the LAC region and OECD member countries) include enterprise surveys, job vacancy and online vacancy analyses, administrative data analysis, employment and household surveys, and hybrid initiatives (OECD, 2016<sup>[78]</sup>).<sup>12</sup> On the supply side, the Dominican Republic has used PISA tests since 2015, which constitute a key tool for identifying the supply of skills in the country. PISA testing focuses on the core school subjects of science, reading and mathematics. In this regard, the most common methods for the identification of skill supply (i.e. education and training) include student skills analyses, graduate surveys, working conditions surveys and adult skills analyses (see Table 3.5). The Dominican Republic uses quantitative and qualitative tools for anticipating the future demand for skills. On the quantitative side, the MEPyD developed an econometric model in 2016 for the projection of labour demand during the period 2015-30, with the support of Cambridge Econometrics (2016<sup>[79]</sup>). This model makes a forecast based on the comparison of the demand for skills (based on a macroeconomic forecast of employment) with the supply of skills (based on population trends and skill patterns) (Gontero and Albornoz, 2019<sup>[80]</sup>). On the qualitative side, the MINERD and the Spanish Agency for International Development Co-operation carried out prospective studies on a variety of productive sectors in 2016, including health (MINERD, 2016<sup>[81]</sup>), safety and environment (MINERD, 2016<sup>[82]</sup>), and construction and mining (MINERD, 2016<sup>[83]</sup>).

**Table 3.5. The Dominican Republic has limited sources of information on the supply and demand of skills, and limited methods for anticipating the future demand for skills**

Methods used in the LAC region for skills identification and anticipation

| Country            | Identification (current) |   |                     |                                  |                    |                           |                  |                               |                         | Anticipation (future) |                     |
|--------------------|--------------------------|---|---------------------|----------------------------------|--------------------|---------------------------|------------------|-------------------------------|-------------------------|-----------------------|---------------------|
|                    | Demand                   |   |                     |                                  |                    | Supply                    |                  |                               |                         | Quantitative methods  | Qualitative methods |
|                    | Enterprise surveys       | Job vacancy and online vacancy analysis | Administrative data | Employment and household surveys | Hybrid initiatives | Student skills assessment | Graduate surveys | Surveys of working conditions | Adult skills assessment |                       |                     |
| Argentina          | X                        |   |                     |                                  |                    | X                         |                  |                               |                         |                       | X                   |
| Brazil             |                          |   |                     |                                  |                    | X                         |                  |                               |                         |                       | X                   |
| Chile              |                          |   | X                   | X                                |                    | X                         | X                |                               | X                       | X                     |                     |
| Colombia           |                          | X                                       |                     |                                  |                    | X                         | X                |                               |                         | X                     | X                   |
| Costa Rica         | X                        |   |                     |                                  |                    | X                         |                  |                               |                         |                       | X                   |
| Dominican Republic |                          |   |                     |                                  |                    | X                         |                  |                               |                         | X                     | X                   |
| Ecuador            | X                        | X                                       | X                   | X                                |                    |                           |                  |                               |                         |                       | X                   |
| Guatemala          |                          |   |                     |                                  | X                  |                           |                  |                               |                         |                       |                     |
| Honduras           |                          |   |                     |                                  | X                  |                           |                  |                               |                         |                       |                     |
| Mexico             | X                        |   | X                   |                                  | X                  | X                         | X                |                               |                         |                       | X                   |
| Panama             |                          |   |                     |                                  |                    |                           |                  |                               |                         | X                     |                     |
| Paraguay           | X                        | X                                       |                     |                                  | X                  |                           |                  |                               |                         |                       | X                   |
| Peru               | X                        |   |                     |                                  |                    | X                         |                  |                               |                         | X                     | X                   |
| Uruguay            |                          | X                                       |                     |                                  |                    | X                         |                  |                               |                         |                       | X                   |

Source: Gontero and Albornoz (2019<sup>[80]</sup>), based on OECD (2016<sup>[78]</sup>).

***Facilitating the transition from education to employment not only reduces the burden on companies but also supports young people in getting started on their career path***

Apprenticeships are a strategic way of easing the transition from school to work. Apprenticeships have recently become popular throughout the LAC region as a means of stimulating skills acquisition and promoting the smooth transition from school to formal employment. In addition, apprenticeships strengthen the role of enterprises, and the private sector in general, in training the labour force, contributing to the formal recognition of qualifications in the labour market (OECD/CAF/ECLAC, 2016<sup>[66]</sup>). In the coming years, the education sector needs to scale up its partnerships with the private sector. This will benefit increasing numbers of graduates, ease the transition from school to work, and reduce the time graduates spend looking for jobs. Work placement programmes also play a key role in getting young people into the formal labour market (ILO, 2016<sup>[84]</sup>).

Between 2002 and 2017, the Ministry of Labour ran the Juventud y Empleo programme as part of its active employment policies. Programme participants were young people living in poverty, unemployment, underemployment or inactivity, who are outside the formal education system and who have not completed secondary education. They received theoretical and practical job training in the classroom and their first work experience comes through internships with private companies. The programme also paid DOP 70 for each day of class attendance. Experimental impact evaluations have identified evidence of the positive and statistically significant effects of these measures on the quality of formal employment, with just some exceptions. Also, the programme also positively affected job formality for men (see Table 3.6).

Also, empirical evidence suggests that training and job placement programmes targeting women can help them join the labour market, having achieved higher educational attainment, in order to achieve equality with their male peers. It is often harder for women to enter the labour market, and to remain there, than it is for their male peers. Experimental evidence found that female participants of the Dominican Republic's *Juventud y Empleo* programme benefited more than male participants in terms of employment and wages (see Table 3.6). Moreover, women had substantially higher levels of soft skills and better labour market outcomes than men three years after programme completion (OECD/CAF/ECLAC, 2016<sup>[66]</sup>).

**Table 3.6. Available evidence on the impact of the *Juventud y Empleo* youth training programme**

| Authors                                  | Observation period            | Evaluation method | Employment effect |     | Formality effect |     | Earnings effect |     |
|--|-------------------------------|-------------------|-------------------|-----|------------------|-----|-----------------|-----|
|  |                               |                   | Women             | Men | Women            | Men | Women           | Men |
| Acevedo et al. (2017 <sup>[85]</sup> )   | 12-18 months                  | Experimental      | (+)               | (-) |                  |     | (+)             | ( ) |
|  | 42-48 months                  | Experimental      | ( )               | ( ) | ( )              | (-) | ( )             | ( ) |
| Ibarrarán et al. (2015 <sup>[88]</sup> ) | 6 years                       | Experimental      | ( )               | ( ) | ( )              | (+) | ( )             | (+) |
| Ibarrarán et al. (2014 <sup>[86]</sup> ) | 18-24 months                  | Experimental      | ( )               | ( ) | ( )              | (+) | (+)             | ( ) |
| Card et al. (2011 <sup>[87]</sup> )      | 10-14 months and 22-24 months | Experimental      | ( )               | ( ) | (+)              | (+) | (+)             | (+) |

Note: (+) Positive, robust and significant results; ( ) neutral or non-significant results; (-) negative, robust and significant results.

Source: OECD/ECLAC/CAF (2016<sup>[66]</sup>).

The *Juventud y Empleo* programme, now discontinued, was implemented in three different phases between 2002 and 2014. The first phase was implemented between 2002 and 2006, the second phase between 2006 and 2010, and the third phase was carried out between 2012 and 2014, as part of the IDB's Support Programme for the National Employment System (PASNE). During this last phase, *Juventud y Empleo* programme was financed under a loan contract signed with the IDB and implemented by the MTRD in alliance with the INFOTEP (Executive Branch of the Dominican Republic, 2012<sup>[88]</sup>). Since then, other programmes to support youth employment have been put in place, though of a smaller scale.

### ***Challenges and opportunities to move from analysis to action***

Having a more competitive workforce that, in turn, boosts the productivity of the productive apparatus, requires investing in the education and training of workers at all levels. The strengthening of education is a common goal of any country. In the Dominican Republic, specifically, the strengthening of technical education and training for professional life is a key objective. The investment must be strategic and respond to the demand for skills that companies currently have, and especially, anticipate future demand, taking into account technological change. To move towards change, it is necessary to strengthen the mechanisms and co-ordination strategy of the educational ecosystem, currently fragmented and uncoordinated.

The OECD Development Centre team met in Santo Domingo with several government officials and other specialised actors from the education sector to discuss the country's main challenges in this area and possible strategies to solve them. They shared their visions around the main challenges and opportunities. Table 3.7 shows the results of the discussions and summarises key policy recommendations.

**Table 3.7. Invest more effectively in the workforce, focusing particularly on skills and youth, in order to increase labour productivity and improve employability in the formal sector**

| Policy recommendation  | Challenges and opportunities for implementation   |
|--|---|
| <b>3.1. Strengthen connections between the education and training system and the demand for skills in the economy, in order to facilitate the transition to formality:</b>   |   |
| Strengthen TVET by investing in better and more modern infrastructure, teacher training and tools for identifying labour market needs.   | Some of the biggest obstacles to implementing this recommendation include societal challenges like teen pregnancy and overcrowded school classrooms.<br><br>Separating basic and secondary education from tertiary education. Improving the overall quality of basic and secondary education but investing on Technical and University Secondary education based on the needs of the economy (skills demand). |
| Ensure the continuity of the efforts to implement the NQF beyond political cycles, as this will be a key instrument in facilitating the identification of professional qualifications demanded by the labour market.   | The next step and the biggest challenge currently is the approval of the preliminary bill in the Congress   |
| Harmonise the fragmented TVET system.  | A policy table could be created around TVET in the country, considering the national survey of INFOTEP qualifications   |
| Encourage partnerships between the private and educational sectors, expanding programmes that combine classroom teaching with practical training and other active labour market services, and strengthening transition programmes from school to the workplace for young people.   | Currently, there is a programme for youth employability and first employment in the Ministry of Labour. Partnerships with tertiary education, especially universities, are crucial. However, other sectors such as NGOs, cooperatives, associations, among others, can be considered. The great challenge lies in communicating it effectively.   |
| Put in place regular skills supply and demand data collection systems. More and better data on the profiles and skills demanded by the labour market, as well as on the shortage in the supply of in-demand skills, are needed in order to develop educational programmes that are more responsive to the needs of the changing economy. Involving the productive sector and exploiting the benefits of digital transformation are key to building such information systems and bridging the skills gap. | The challenge lies in identifying the actors and communicating it effectively. The INFOTEP Technical-Professional Observatory can contribute with key inputs.   |
| Create formal entrepreneurship programmes in the last year of high school to increase the possibility of starting a formal work activity upon leaving school. *  | Students who do not finish basic education most likely end up in the informal sector  |

Note: Based on the meeting held on 23 June 2022, to discuss the draft analysis and policy recommendations with officials from the Ministry of Labour, the Ministry of Economy, Planning and Development (MEPyD), the Central Bank, the National Statistics Office (ONE), the Association of Industries (AIRD), CIEF Consulting/IFISD and the European Union. Recommendations marked with an asterisk (\*) were introduced by workshop participants.

Source: Authors' elaboration.

## Policy recommendations

### Box 3.6. Policy recommendations

#### 1. Policy objective 1: Consolidate a robust and sustainable social protection system in order to protect informal workers and their household members

##### 1.1. Strengthen social protection systems and build on the lessons learned during the COVID-19 pandemic:

- Improve interoperability across different existing registries, integrating all social protection information systems and strengthening the role of SIUBEN in order to reach vulnerable, informal populations, and exploiting the potential of digital technologies.
- Enhance the conditionality associated with social protection in order to make it a catalyst for better educational, economic and social inclusion.
- Adopt the household lens in order to better understand household composition, and thus better identify the right mix of interventions and develop integrated policy packages for each type of household.

##### 1.2. Make social protection contributions more flexible in order to include informal workers:

- Progress towards a system that allows more flexibility for workers to contribute to the social protection system, particularly for those who face difficulties in making regular contributions through traditional channels (e.g. those earning less than the minimum wage, working through digital platforms, or working in part-time jobs). This is particularly relevant for own-account workers (e.g. a flat rate for their contributions).

##### 1.3. Progress towards a universal and more sustainable social protection system:

- In the short to medium term, efforts should be made to extend coverage to categories of the population not covered by social protection and across all regions of the Dominican Republic.
- In the longer term, the Dominican Republic should move towards a universal social protection system. Technical and political discussion is required in order to assess the convenience of developing a system where coverage depends less on individuals' employment status, and where general taxes, instead of workers' contributions, gain relevance as a source of financing social protection systems.

#### 2. Policy objective 2: Rethink the current institutional and policy framework to remove or alleviate existing barriers to formalisation

##### 2.1. Provide favourable conditions for formalisation, particularly among MSMEs:

- Encourage formalisation among MSMEs by providing them with special support and tax benefits. Incentives could be given to newly incorporated companies (e.g. by providing tax exemptions during the first years of operation).
- Continue efforts to simplify the taxation and regulatory administration of businesses, streamline bureaucratic procedures during formalisation and encourage more businesses to formalise. The Formalízate website should be strengthened and expanded in order to reach a larger number of companies and sectors.

- Promote innovative mechanisms to foster the growth of small and medium-sized companies, such as business acceleration programmes, smart funds, and support in maintaining fiscal commitments.
- Expand the types of investment funding available (beyond loans) with an emphasis on independent workers. Linking quantity and cost to training indicators.

## **2.2. Address main institutional barriers to the formalisation of workers and consider a reform of the Labour Code:**

- Rethink the minimum-wage-setting process in order to strike a better balance between a more simplified system that favours its application by employers and a sufficient number of minimum wages that accounts for differences across sectors and firms.
- Begin a process of reflection and technical discussion on the impact of severance payment on the levels, in order to balance protection of the employee against flexibility in the labour market, resulting in greater levels of formalisation.
- Appoint a team that works to align the conditions and stakeholders required for the effective implementation of the new National Employment Plan.
- Frame these discussions within a broader tripartite debate at the national level about the possibility of reforming the current Labour Code, considering the inputs from the new National Employment Plan.
- Introduce a regulatory framework for digital platforms, whether within a new Labour Code or independently.

## **2.3. Strengthen policies to boost the creation of formal jobs in the economy:**

- Align employment generation policies with industrial and production policies, strengthening connections between special economic zones and the local economy in order to promote greater formalisation.
- Create sector-specific strategies to promote formalisation in sectors where this is particularly low.

# **3. Policy objective 3: Invest more effectively in the workforce, focusing particularly on skills and youth, in order to increase labour productivity and improve employability in the formal sector**

## **3.1. Strengthen connections between the education and training system and the demand for skills in the economy in order to facilitate the transition to formality:**

- Strengthen TVET by investing in better and more modern infrastructure, teacher training and tools for identifying labour market needs.
- Ensure the continuity of the efforts to implement the NQF beyond political cycles, as this will be a key instrument in facilitating the identification of professional qualifications demanded by the labour market.
- Harmonise the fragmented TVET system.
- Encourage partnerships between the private and educational sectors, expanding programmes that combine classroom teaching with practical training and other active labour market services, and strengthening transition programmes from school to the workplace for young people.
- Put in place regular skills supply and demand data collection systems. More and better data on the profiles and skills demanded by the labour market, as well as on the shortage in the supply of in-demand skills, are needed in order to develop educational programmes that are more responsive to the needs of the changing economy. Involving the productive sector and exploiting

the benefits of digital transformation are key to building such information systems and bridging the skills gap.

- Create formal entrepreneurship programmes in the last year of high school to increase the possibility of starting a formal work activity upon leaving school.

#### **4. Policy objective 4: Develop a broad, holistic strategy for formalisation**

- Embark on a broad-based discussion on a holistic strategy for formalisation in order to integrate formalisation efforts across different policy areas and levels of government.

## **Notes**

<sup>1</sup> All these figures are for the third quarter (Q3) of 2014, 2019 and 2020 based on Central Bank (BCRD, 2022<sup>[2]</sup>) data. This report uses these quarters due to the difficulties the Central Bank faced in collecting data during the strict confinement due to the COVID-19 pandemic. In the first quarter of 2020, there was regular data collection. As of the second quarter of 2020, the data was collected through telephone calls and the sample was no longer rotated (i.e. panel data). In other words, the households that responded in the first quarter of 2020 were the same until the fourth quarter of 2020. Traditionally, the household survey rotates 20% of the sample between quarters. From the third quarter of 2020, the surveys began to be mixed through both face-to-face and telephone interviews. The Central Bank conducted an assessment to check if the mixed modality of data collection was biasing the data, and no bias was found in the statistics. As of the first quarter of 2021, the surveys are once again wholly face-to-face, and the sample begins to rotate again.

<sup>2</sup> Before 2016, the Central Bank calculated the informal sector statistics using the ENFT. The definition of the informal sector was different, since it accounted for all salaried employees who work in establishments with less than five employees, in addition to self-employed workers and employers who belong to the following occupational groups: farmers and ranchers, operators and drivers, artisans and operators, merchants and vendors and unskilled workers. In addition, domestic service and unpaid workers were included (BCRD, 2022<sup>[89]</sup>). After this, the Central Bank started using the ENCFT.

<sup>3</sup> Data are from Q4 2020.

<sup>4</sup> These coverage figures were calculated using the Labour Force Survey (BCRD, 2022<sup>[2]</sup>) and may differ from coverage data from administrative records.

<sup>5</sup> This index benchmarks the evolution of gender-based gaps among four key dimensions: economic participation and opportunity, educational attainment, health and survival, and Political Empowerment.

<sup>6</sup> Panel B in Figure 3.10 identifies the informality rates among dependent workers over the whole of the income distribution scale and makes corresponding estimates of the theoretical costs of becoming formally employed. It shows the rates of informality (blue bars) by income decile, drawing on data from household income surveys. The analysis identifies the approximate location of the minimum wage in each country with a white bar. The figure also shows estimates of the theoretical costs of becoming formal (blue line) expressed as the proportion of their wages that workers would pay in social security contributions in order to become or remain formal. This measure can be taken as a lower bound, given that formalisation generally entails other monetary and non-monetary costs stemming from various pieces of legislation. For workers earning the minimum wage or more, this cost is defined as the amount of employee SSCs payable on their wages. However, many workers are excluded from social security programmes because their earnings are below the minimum wage, which commonly acts as a lower income threshold for these schemes. For these workers, the cost of becoming formal is the amount of SSCs payable at the minimum wage or at the lower earnings threshold, if that is different. As a result, the larger the shortfall between a worker's income and the established minimum threshold/wage, the higher the theoretical cost of formalisation that this individual faces. These costs are expressed as a percentage of the workers' actual wages in Panel B of Figure 1.9 (OECD/IDB/CIAT, 2016<sup>[36]</sup>).

<sup>7</sup> Data from the World Bank Enterprise Survey only for the sectors of manufacturing (all sub-sectors); construction; motor vehicle sales and repair; wholesale; retail; hotels and restaurants; storage, transportation, and communications; and IT. It only includes formal (registered) firms with ≥5 employees and a minimum of 1% private ownership. Small enterprises have 5-19 employees, medium-sized enterprises have 20-99 employees, and large enterprises have ≥100 employees.

<sup>8</sup> There are 16 sectoral categories for the minimum wage: non-sectorised private sector; Footwear sector, handbags, packages, straps, belts and other; Sugar industry; Construction sector and related (Man-Hour); Rod holders; Painters; Electricians; Plumbers; Carpenters; Heavy machines in the construction sector; Heavy machines in the agricultural sector; Non-profit institutions; Industrial Free Zones; Free Zones in depressed areas; Hotel sector; and NGOs providing health services.

<sup>9</sup> Including 17 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

<sup>10</sup> The other three categories under this regulation include small enterprises (from 11 to 50 employees and DOP 8 to 54 million), medium-sized enterprises (from 51 to 150 employees and 54 to DOP 202 million DOP), and large enterprises (more than 150 employees and above DOP 205 million).

<sup>11</sup> The 2013 National Employment Plan aimed at structuring the labour market policy making around the principles and axes of the National Development Strategy. First, it assigned central roles to the Ministry of Labour, the Ministry of Industry and Trade, and the Ministry of Planning, Economy and Development. Second, it maintained the tradition of the participation of the productive sectors, the main employers' associations or entrepreneurs. Although it does not clearly define whether its role is that of a negotiator, among equals, with the government or merely a consultative body. Third, it incorporated the National Employment Commission, with the functions of "approving the National Employment Policy" and "following up on the monitoring and execution of the plan".

<sup>12</sup> The Ministry of Labour has the Empléate Ya app and the official employment website. The Ministry of Youth has similar initiatives, such as Insértate and Banco de Empleo. However, the Dominican Republic currently lacks robust analyses of the aggregate demand for skills based on the data generated by these platforms.

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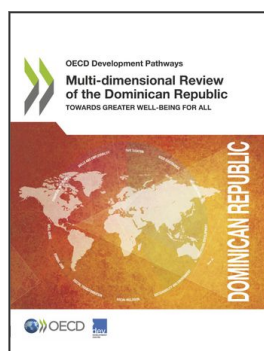
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