

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
AND THE INTER-AMERICAN INVESTMENT CORPORATION

DOMINICAN REPUBLIC

**IDB GROUP COUNTRY STRATEGY
2021-2024**

DECEMBER 2021

This document was prepared by Joaquín Zentner (CID/CDR), Claudia Grayeb (CID/CME), Neile Quintero (CID/CID), Fanny Vargas, Yocauris García, and Elizabeth Ochoa (CID/CDR) under the supervision of Katharina Falkner-Olmedo (CID/CDR), Miguel Coronado (CID/CDR), and Fernando Quevedo (CID/CID), in collaboration with Anneke Jessen and Marta Ruiz Arranz (CID/CID); María Cecilia Acevedo, Pablo Pereira, Paula Castillo, Adriana Valencia, Federico Bragagnolo, and Marcelo Paz (DSP/SPK); Jacqueline Bueso-Merriam (SPD/SDV); Smeldy Ramírez Rufino (IDB Lab); Carolina González Acero (SCL/SPH); Jennelle Thompson (SCL/EDU); María Teresa Villanueva (SCL/GDI); María Victoria Fazio (SCL/LMK); Michael Hennessey and Geovana Acosta (IFD/CTI); Juan Cruz Vieyra (IFD/ICS); Eduardo Sierra, (IFD/CMF); Luis Schloeter (CSD/HUD); Bruno Jaquet and Olga Gómez García (CSD/RND); Benoit Lefevre and Raúl Delgado (CSD/CCS); Héctor Baldivieso (INE/ENE); Manuel Rodríguez (INE/TSP); Sergio Pérez Monforte and Juan Alfredo Rihm Silva (INE/WSA); Ana Arias Urones and Matthew Shearer (INT/TIN); Ana María Sanz (SCL/MIG); Denise Salabie and Romina Kirkagacli (VPC/FMP); and Belinda Pérez and Ariel Zaltsman (IFD/FMM).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

EXECUTIVE SUMMARY

I.	COUNTRY CONTEXT	1
II.	IDB GROUP PRESENCE IN THE COUNTRY.....	6
	A. Implementation of the 2017-2020 strategy.....	6
	B. Main outcomes under the country strategy.....	8
	C. Portfolio in execution and lessons learned	12
III.	PRIORITY AREAS	14
	A. Improvement of public management and the institutional structure.....	15
	B. Sustainable and inclusive productive reactivation.....	17
	C. Strengthening of human capital	22
IV.	ESTIMATED FINANCIAL SCENARIO	26
V.	IMPLEMENTATION CONSIDERATIONS.....	26
VI.	RISKS	28
	ANNEX I: RESULTS MATRIX AND COUNTRY SYSTEM MATRIX.....	30
	ANNEX II. MAIN ECONOMIC AND SOCIAL INDICATORS.....	35
	ANNEX III. PRELIMINARY FINANCIAL SCENARIO FOR SOVEREIGN DEBT 2021 – 2024	36
	ANNEX IV. DEVELOPMENT EFFECTIVENESS MATRIX (SUMMARY).....	37
	ANNEX V. OVE’S XCPE RECOMMENDATIONS.....	38

APPENDICES

Proposed resolution

LINKS

1. [Dominican Republic. Country Development Challenges \(CDC\)](#)
2. [Technical Note on Fiduciary Considerations](#)
3. [Portfolio Summary](#)
4. [Consultations with Civil Society](#)
5. [Coordination with Donors](#)
6. [Dominican Republic Government Plan](#)

ABBREVIATIONS

AECID	Spanish Agency for International Development Cooperation
AFD	French Development Agency
BCRD	Central Bank of the Dominican Republic
CCRD	Cámara de Cuentas de la República Dominicana [Office of the Auditor General of the Dominican Republic]
CDEEE	Corporación Dominicana de Empresas Eléctricas Estatales [Dominican Corporation of State-owned Electric Utilities]
CNC	Consejo Nacional de Competitividad [National Competitiveness Council]
CNZFE	Consejo Nacional de Zonas Francas de Exportación [National Council of Free Trade Zones]
CREES	Centro Regional de Estrategias Económicas Sostenibles [Regional Center for Sustainable Economic Strategies]
DGCP	Dirección General de Crédito Público [Public Credit Bureau]
DGII	Dirección General de Impuestos Internos [Internal Revenue Service]
DGPLT	Dirección General de Política y Legislación Tributaria [Bureau of Tax Policy and Legislation]
DIGECOG	Dirección General de Contabilidad Gubernamental [Government Accounting Bureau]
ENDESA	Encuesta Demográfica y de Salud [Demographic and Health Survey]
ENHOGAR	Encuesta Nacional de Hogares de Propósitos Múltiples [National Multipurpose Household Survey]
ENI	Encuesta Nacional de Inmigrantes [National Survey of Immigrants]
FASE	Fondo de Asistencia Solidaria al Empleado [Solidarity Fund for Employee Assistance]
GDP	Gross domestic product
GIZ	German Agency for International Cooperation
IMF	International Monetary Fund
INAIFI	Instituto Nacional de Atención Integral a la Primera Infancia [National Institute for Early Childhood Care]
IPSAS	International Public Sector Accounting Standards
ITBIS	Impuesto sobre transferencias de bienes industrializados y servicios [Industrialized goods and services transfer tax]
JICA	Japan International Cooperation Agency
LAC	Latin America and the Caribbean
MEPYD	Ministry of Economy, Planning, and Development
MINERD	Ministry of Education
MOPC	Ministry of Public Works and Communications
MSMEs	Micro, small, and medium-sized enterprises
MSP	Ministry of Public Health
NDC	Nationally Determined Contribution
NFPS	Nonfinancial public sector
ONE	National Statistics Office
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PBL	Policy-based loan
PPP	Public-private partnership
RD\$	Dominican peso

SDL	Special development loan
SENASA	Seguro Nacional de Salud [National Health Insurance]
SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
SISDOM	Sistema de Indicadores Sociales de la República Dominicana [Dominican Republic Social Indicators System]
SIUBEN	Sistema Único de Beneficiarios [Consolidated System of Beneficiaries]
SMEs	Small and medium-sized enterprises
SNS	National Health Service
TFFP	Trade Finance Facilitation Program
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WEF	World Economic Forum
WEO	World Economic Outlook
WHO	World Health Organization
WTTC	World Travel and Tourism Council
XCPE	Extended Country Program Evaluation

EXECUTIVE SUMMARY

Country context	<p>In the last decade, the Dominican Republic was the third most dynamic economy in Latin America and the Caribbean, earning its classification as an upper middle income country. Between 2013 and 2019, the country grew at an annual average rate of 6% against a backdrop of macroeconomic stability. However, this growth was not based on productivity gains, and the institutional framework did not evolve at the pace of the economy. Despite improvements in equity and access to basic services, broad segments of the population continue to live in vulnerable conditions, a situation that has only worsened with the COVID-19 crisis. To overcome these challenges in the context of the pandemic, policies and programs must be pursued that address the impacts generated by the emergency situation and lock in the social, productive, and institutional strides made by the country.</p>
The IDB Group's presence in the Dominican Republic	<p>The 2017-2020 country strategy prioritized three strategic areas: (i) improving the quality and coverage of basic services; (ii) expanding productive opportunities; and (iii) improving the management of public finances, institutional strengthening, and transparency. During that country strategy period,¹ the Bank approved 13 sovereign guaranteed loan operations for US\$1.909 billion, of which US\$759 million corresponded to investment loans, US\$900 million to policy-based loans, and US\$250 million to an emergency loan (SDL). Disbursements totaled US\$1.772 billion, and 29 technical cooperation operations were approved for US\$9.65 million, as well as an investment grant for US\$1.46 million. IDB Invest approved operations totaling US\$657 million and issued its first bond in the capital markets, for RD\$500 million. IDB Lab approved nine technical cooperation operations for US\$4.8 million.</p>
Priority areas	<p>The 2021-2024 country strategy is aimed at helping the country return to a path of robust economic growth consistent with inclusive and sustainable development. To this end, the strategy focuses the IDB Group's activities on three areas: (i) improvement of public management and the institutional framework; (ii) sustainable and inclusive reactivation of production; and (iii) strengthening of human capital. The thematic emphasis under these three areas will be subject to the IDB Group's comparative advantages and its financial and nonfinancial positioning to provide solutions to the country's challenges. Considerations of gender and diversity, climate change adaptation, digitalization, institutional capacity, and rule of law with an emphasis on transparency will be addressed in a crosscutting manner.</p>
Estimated financial scenario	<p>The level of sovereign guaranteed approvals and disbursements for the 2021-2024 period is estimated at US\$1.845 billion and US\$1.724 billion, respectively. Under these assumptions, the debt to the Bank could account for 13% of the public external debt by the end of the period.</p>
Preliminary implementation considerations	<p>The current (legacy) portfolio is an integral part of the new country strategy. Accordingly, the Bank will continue to work on improving execution in areas such as procurement training, planning, and project management. The current context will require flexibility and technical assistance resources to provide relevant solutions to the country's challenges in a shifting landscape. The IDB Group will continue to explore synergies between the IDB, IDB Invest, and IDB Lab and will coordinate with the country's other active donors.</p>

¹ Includes approvals as of 31 August 2021, since 2021 is a transition year for the country strategy.

Risks

The main risks are associated with macroeconomic issues, natural disasters, and execution challenges, particularly under the restrictions created by the pandemic. While the country projects sound economic growth over the coming years, this growth will hinge on the pace of economic recovery in the United States, the Dominican Republic's main trading partner. In addition, the country could be forced to adjust its priorities to contain further outbreaks of new COVID-19 variants or in the event of a natural disaster, which would affect the implementation of activities in the areas of action set out in this strategy.

I. COUNTRY CONTEXT

- 1.1 In the last decade, the Dominican Republic was the third most dynamic economy in Latin America and the Caribbean, thus earning its classification as an upper middle income country. Coupled with improvements in social indicators, this placed the Dominican population at its highest level of welfare in recent history. Between 2013 and 2019, income per capita rose by a yearly average of nearly 5% and the poverty rate declined by 47%,² the steepest drop in the region. During this period, the country aimed its efforts at improving the provision of basic goods and services, expanding productive opportunities, and strengthening the public finances in a context of macroeconomic stability. The strides made in these areas have been considerable, but significant social, productive, and institutional challenges limiting the country's development persist and have become further entrenched as a result of the COVID-19 health crisis.³
- 1.2 Between 2013 and 2019, the country grew at an average annual rate of around 6%. This economic buoyancy was driven by an expansion in domestic demand and a favorable international environment that benefited investment and financing flows into the country. Inflation reached its lowest levels in the last three decades (2.3% annual average), the financial system's capitalization, solvency, and liquidity levels consistently exceeded the minimum regulatory requirements, and the external accounts remained funded and stable.⁴ However, consolidation of the fiscal accounts was slower than expected. Burdened by low revenue collection⁵ and by the structural deficits of the electricity sector and the Central Bank (BCRD), the public sector posted repeatedly negative balances of close to 4% of GDP,⁶ while the public debt increased from 45% to 50.5%⁷ of GDP between 2013 and year-end 2019.
- 1.3 From a social standpoint, the recovery in employment income, low inflation, and the rise in social expenditure (especially in conditional cash transfer programs) drove a reduction in monetary poverty from 39.6% in 2013 to 21% in 2019 (22% for women) and in extreme poverty from 9.3% to 3% over the same period, bringing these rates below the respective regional averages of 30% and 11.4%.⁸ Inequality, which was already lower than the average for the region, also declined, albeit not as sharply as

² The reported per capita income figures were estimated based on the IMF's World Economic Outlook (WEO) of October (2020), the BCRD (2020), and the MEPYD (2018), while the poverty figures are the result of calculations on the percentage of the population living below the national moderate poverty line (official line). Dominican Republic Social Indicators System (SISDOM), MEPYD (2020).

³ Dominican Republic. Country Development Challenges (2020 update); and Zentner and Vargas (2020) LAC Post Covid-19: Challenges and Opportunities for Central America, Haiti, Mexico, Panama, and the Dominican Republic, IDB.

⁴ The current account deficit remained close to 1% of GDP (1.4% in 2019), and this amount was financed by foreign direct investment flows (3.4% of GDP on average). In addition, at year-end 2020 the international reserves stood at more than US\$10.750 billion, the highest level in the country's history. BCRD statistics.

⁵ It averaged 13% of GDP in the last five-year period. BCRD and Ministry of Finance.

⁶ The BCRD deficit, which arises from the commitments undertaken by the government as a result of the 2003 financial crisis, ranges approximately from 1% to 1.3% of annual GDP.

⁷ In all, 52% of the consolidated debt is central government external debt, while most (57%) of the domestic debt is BCRD debt.

⁸ MEPYD (2019) and ECLAC (2019). The multidimensional poverty indicator (quality of life index) showed a similar trend, going from 30.9% to 22% between 2013 and 2019. Consolidated System of Beneficiaries (SIUBEN) (2019).

poverty: the Gini index calculated on income per capita dropped by about 9% between 2013 and 2019.⁹ Despite this drop in poverty and inequality, certain groups were left behind, including the rural population, women, and the youth population, these being segments that face a greater likelihood of living in poverty.¹⁰ The higher incidence of poverty among women and in households headed by women may be associated with lower labor market participation and greater uncertainty as to future income. In addition, poverty is particularly high among young people of working age. Approximately 18.9% of the 25- to 29-year-old population lives in poverty, and working-age women living in poverty outnumber their male counterparts.

- 1.4 The country's growth has not been based on productivity gains. Total factor productivity posted negative growth in the last decade,¹¹ as reflected in a stagnant export sector that is disconnected from the local economy and a segmented, uncompetitive productive structure.¹² All of this is associated with weak institutional capacity for an efficient allocation of resources,¹³ high energy and transportation costs, and limitations in access to finance and skilled human capital. The country's main productive activities, such as tourism and mining, which are based on natural resource exploitation, lack a sustainable infrastructure resilient to natural disasters and climate change in the short and medium term. As a result, they are associated with progressive environmental degradation and adverse impacts on biodiversity.¹⁴
- 1.5 The institutional framework has not evolved in pace with economic growth and is a major constraint on the country's development.¹⁵ In terms of its transparency and integrity agenda, the Dominican government recently implemented a series of far-reaching anticorruption measures and institutional reforms;¹⁶ however, significant institutional deficiencies persist in the public finance arena, hampering the fiscal consolidation process and an efficient delivery of public goods and services. The complicated tax system and absence of adequate audits have led to

⁹ The official Gini index of household income concentration for the population (official line) went from 48.0 in 2013 to 43.6 in 2019. SISDOM, MEPYD (2019).

¹⁰ The Ministry of Economy recently disclosed that more than 268,515 Dominicans joined the ranks of the poor in 2020 as a result of the COVID-19 pandemic. The proportion of women with earnings below the poverty line went from 22% to 24.6% in 2020, while the proportion of men went from 19.8% to 22%.

¹¹ Measured as total factor productivity (TFP); in the last 10 years, TFP growth turned negative (-0.55%). See Guzmán and Lizardo (2003), Mota Aquino (2012), and the National Productivity Index (CNC, 2019).

¹² Between 2010 and 2013, the rise in exports accounted for more than 47% of GDP growth. However, in 2019 it accounted for only 20%, and the contribution of exports to growth declined between 2014 and 2019. In the Dominican economy, capital-intensive, high-value-added sectors coexist with unskilled labor-intensive, low-value-added sectors that employ most of their workers in informal fashion. The country is ranked in 78th place out of 141 economies in the 2019 Global Competitiveness Index, below countries with similar per capita income. Country Development Challenges (2020).

¹³ Hofman, A. et al. (2017). Crecimiento económico y productividad en Latinoamérica; CNC (2019) National Productivity Index (INP).

¹⁴ Emma Fawcett (2016). Challenges for sustainable growth through tourism in the Dominican Republic.

¹⁵ According to the 2019 Global Competitiveness Index, the Dominican Republic is ranked in 86th place out of 141 economies in the institutions pillar, this being the area (together with the human capital pillar) in which it lags the most. Global Competitiveness Index (2019). World Economic Forum.

¹⁶ Under Decree 695-20 of December 2020, the government created the Cabinet for Public Expenditure Transparency, Prevention, and Control with a view to supporting public administration policies, guidelines, and mechanisms to address the challenges of public investment and expenditure ethics, transparency, efficiency, and effectiveness.

chronically high tax expenses (4% of GDP), making the country's tax burden one of the lowest in the region (14% of GDP in the Dominican Republic versus 20% of GDP in Latin America and the Caribbean). Similarly, the inefficiencies, rigidity, and lack of transparency of public expenditure are largely due to institutional shortcomings. This is reflected in limited development of the civil service,¹⁷ regressive subsidies to the electricity sector, targeting and undercoverage problems in social assistance and protection, and limited progress in government digitalization, with these inefficiencies having resulted in losses equivalent to 3.8% of GDP.¹⁸ The challenges in terms of corruption prevention and control affect the business climate, public trust in the government, the quality of public services, and citizen security. Also worth noting is the lack of implementation of a medium-term fiscal framework for fiscal sustainability, and of the public-private partnerships (PPP) law and its regulations, which has limited broader private sector participation in the financing and management of public projects.¹⁹

- 1.6 In this context, while significant advances have been made in terms of equity and access to basic services, broad swaths of the population continue to live in vulnerable conditions. Close to 40% of the population lacks adequate water and sanitation services,²⁰ and there are shortcomings in effective coverage of the social protection systems. Given the high level of job informality (55% of the economically active population), less than 20% of the population receives pension benefits and most of the population lacks any social protection for unemployment.²¹ In addition, the level of human capital is low, limiting the capacity for social mobility of the most disadvantaged segments as well as the country's productive development.²² The secondary education completion rate does not exceed 50%,²³ and while there are no gender gaps in education,²⁴ they do exist in the job market in terms of participation (53% for women and 79% for men in 2019) and unemployment (8.7% for women and 3.9% for men in 2019). Gender violence increased from 3% in 2016-2017 to 42% in 2018,²⁵ and women victims of violence continue to face barriers to access to justice, with just 1% of registered complaints reaching the judicial system. The country continues to have a high rate of adolescent

¹⁷ According to the 2019 institutional diagnostic assessment of the civil service, the Dominican Republic has a low score (41 points of a possible total of 100) in the Civil Service Development Index. IDB (2020).

¹⁸ IDB (2018). Better spending for better lives.

¹⁹ The fiscal framework is expected to be implemented by 2023, and the PPP law has been implemented for barely a year.

²⁰ National Multipurpose Household Survey (ENHOGAR) (2018).

²¹ Formal sector employees only receive severance pay, i.e., financial compensation from their employer upon termination of the employment agreement in the absence of cause.

²² The country was ranked in 101st place out of 157 countries in the 2018 Human Capital Index, thus below the average for Latin America and the Caribbean and other countries of similar income level.

²³ This figure is comparable to the regional average for Latin America and to the figures for Colombia (51.8%), Brazil (51.4%), and Mexico.

²⁴ On average, women have more years of schooling than men: women's enrollment rates are higher for all secondary education modalities.

²⁵ *La Violencia de Género en la República Dominicana, un enfoque desde las estadísticas provistas por el Estado Dominicano entre 2005-2018*, Justice and Gender Observatory (2018). The United Nations defines violence against women as any act that results in, or is likely to result in, physical, sexual, or mental harm or suffering to women, including threats of such acts, coercion, or arbitrary deprivation of liberty, whether occurring in public or in private life.

pregnancy, which is the most common reason for school dropout among adolescent women. The maternal mortality rate is also high, exceeding the regional average by 37%.

- 1.7 In addition, changes in the migration dynamics have resulted in an accelerated growth of the immigrant population, which expanded by 8% over the last five years to account for 5.6% of the total population.²⁶ This fast pace of growth is primarily due to an increase in the number of Haitian immigrants, drawn by the employment opportunities available in the Dominican Republic and the relatively low cost of emigrating. Furthermore, although starting from a smaller base, Venezuelan immigration has expanded rapidly since 2012, and Venezuelans are now the second largest group of immigrants in the country. From an economic standpoint, immigrants' contribution to the economy ranges from 3.8% to 9% of added value, depending on what assumptions on the relative productivity of immigrants are used in making the calculations.²⁷ At present, the main problem faced by the population of foreign origin is irregular migration.²⁸
- 1.8 From the standpoint of risks stemming from natural threats, the country has suffered human and material losses associated with hurricanes, floods, earthquakes, landslides, droughts, coastal erosion, and forest fires. According to the Emergency Events Database (EM-DAT), 73 major events were recorded between 1930 and 2020, resulting in a total of 5,457 deaths, 11,096 injuries, 7 million people impacted, 500,000 left homeless, and US\$3 billion in damage.²⁹ In the specific case of hurricanes and earthquakes, it is estimated that in the future the country could incur, on average, at least US\$667 million in disaster-related damage every 10 years (more than 1% of GDP).³⁰ If this is coupled with the potential effects of climate change on temperature and the uncertainty associated with the increase in extreme precipitation in certain areas of the country,³¹ much greater damage can be expected in sectors such as agriculture, energy, and road infrastructure. Events in recent years have shown the need for policies to address new problems, such as rapid coastal erosion affecting the tourism sector or droughts creating production losses in the agriculture and livestock sector.
- 1.9 The robust pace of growth in the country was abruptly interrupted in early 2020 by the impact of the COVID-19 global health crisis.³² To contain the spread of the pandemic and prevent a collapse of the healthcare system, the government

²⁶ Second National Survey of Immigrants (ENI 2017): Informe General. Santo Domingo, Dominican Republic: National Statistics Office (ONE).

²⁷ El aporte de los trabajadores inmigrantes a la actividad económica en la República Dominicana: Una primera aproximación. Serie de Estudios Complementarios, ENI 2012. Santo Domingo, Dominican Republic: United Nations Population Fund (UNFPA).

²⁸ Migration from Haiti is being particularly affected: close to 85% of non-Haitian immigrants have a passport, compared with 29.3% of Haitian immigrants (ENI 2017).

²⁹ EM-DAT database – Catholic University of Louvain (2021).

³⁰ Gestión Financiera y Aseguramiento del Riesgo de Desastres en República Dominicana (World Bank, 2015).

³¹ Results of the publicly circulated climate models contained in the Fifth Assessment Report of the United Nations Intergovernmental Panel on Climate Change (IPCC AR5).

³² The country's first case was recorded on 1 March 2020, and as of 21 September 2021 there had been more than 355,000 cases and 3,029 deaths. Ministry of Public Health (MSP) (5/6/2021). Special COVID-19 epidemiological bulletin.

implemented a series of measures that included restrictions on mobility, border closures, and a halt to nonessential economic activities. These actions, combined with a drop in exports of goods and services, dealt a severe blow to the economy, which contracted by 6.7% in 2020.³³ The employment rate fell by 4.9 percentage points (301,000 people)³⁴ and the monetary poverty rate rose by 2.4 percentage points with respect to its precrisis level to stand at about 24% by year's end.³⁵ The groups hardest hit by the crisis were young people, women and informal workers,³⁶ and micro, small, and medium-sized enterprises (MSMEs).³⁷ The containment measures were largely reversed within six months following the onset of the pandemic, although certain restrictions remain in effect.

- 1.10 The government's policy response to mitigate the health and socioeconomic effects of the crisis has been comprehensive. To address the vulnerable population, the government promoted interventions aimed at strengthening the healthcare sector's response and containing the impact on the continuity of education, while also expanding the scope and coverage of various social assistance programs. In addition, the government took action to alleviate the tax obligations of businesses and provide direct support for the hardest hit productive sectors (such as tourism and commerce) as well as for MSMEs. At the same time, the government implemented a monetary stimulus plan along with other regulatory measures designed to preserve the stability of the financial system, inject liquidity into the system, and channel credit to businesses and households during the crisis.
- 1.11 In 2021, the economy has shown signs of a recovery.³⁸ The recent improvement in economic activity has been driven by the recovery in the United States, the reopening of the domestic economy in the wake of progress in COVID-19 vaccination,³⁹ and the effect of the 2020 monetary stimulus measures. However, the duration and depth of the pandemic's effects on the social and productive fabric have expanded the structural lags, affecting the country's potential for long-term growth. Business closures and job losses have destroyed productive and labor capacities. In addition, the increased pressure on public finances has further reduced their leeway to support a post-crisis economic recovery and ensure macroeconomic stability. In fact, the decline in tax revenue intake, the increase in

³³ BCRD statistics.

³⁴ This drop took place between the fourth quarter of 2019 and the equivalent period in 2020. In addition to bringing about a fall in employment levels, the pandemic discouraged job searches, leading to a nearly 90% increase in the economically inactive population. This created a decline of only 1.5 percentage point in the open unemployment rate but of 5.11 percentage points in the broad unemployment rate, which includes the potential workforce. Labor market statistics, BCRD.

³⁵ Monetary poverty bulletin, 2020. MEPYD.

³⁶ In 2020, around 414,000 people fell into economic inactivity; of this total, 58% (about 241,000) were women. In other words, of every 10 people of working age who are inactive, 7 are women. Monetary poverty bulletin, 2020. MEPYD and labor market statistics, BCRD.

³⁷ In operational terms, 74% of these businesses closed down entirely, while 20% did so only partially. A large number of these businesses are in the formal sector, and there were layoffs in 52% of them. (UNDP, 2021).

³⁸ The Monthly Economic Activity Indicator shows cumulative annual growth of 3% in the first quarter of 2021 (BCRD). The projections indicate a growth rate of 5.5%-6% in 2021, forecasting that the economy will return to the precrisis GDP level in 2022 (IMF's April 2021 WEO and BCRD).

³⁹ As of 19 August 2021, 52.63% of the Dominican population had received at least one vaccine and 41.67% of the population was fully vaccinated. Our World in Data.

public expenditure, and the drop in GDP have brought the public sector deficit to 7.6% of GDP in 2020, with the consolidated public debt rising to 69.2% of GDP the same year.⁴⁰

- 1.12 Thus, supporting the incipient recovery, partly reversing the damage caused by the recession, and preparing the country for sustainable, resilient, and inclusive growth requires implementing an agenda of policies and reforms that simultaneously addresses the impacts of the health crisis and the lags in the country's social and development model. To achieve this requires reinforcing the institutional foundations, accelerating the digital transformation, strengthening transparency and integrity, strengthening human capital, addressing the environmental challenges to preserve the natural capital and boost resilience to climate change, and expediting implementation of the Nationally Determined Contributions (NDCs).⁴¹ These considerations are set out in the government's priority policies for the coming years and are identified in the Government Program and its 2010-2030 National Development Strategy.⁴²

II. IDB GROUP PRESENCE IN THE COUNTRY

A. Implementation of the 2017-2020 strategy

- 2.1 The 2017-2020 country strategy had the objective of promoting inclusive and sustainable growth compatible with the generation of quality jobs that would reduce levels of poverty and inequality in the country. To this end, it identified three strategic areas that would guide the actions of the IDB Group: (i) improve the quality and coverage of basic services; (ii) expand productive opportunities; and (iii) improve the management of public finances, institutional strengthening, and transparency. The areas for dialogue focused on the monitoring and evaluation of programs for affordable housing with basic service infrastructure, prevention and services for victims of violence against women, women's economic empowerment, and solid waste management, as well as on strengthening bilateral relations with Haiti to identify binational or border-area projects. Issues related to gender equality, environmental protection and climate change adaptation, and technology and innovation were addressed in a crosscutting manner.
- 2.2 Implementation of the Bank's 2017-2020 country strategy was facilitated both by the continuity of the government priorities that had been in place under the 2013-2017 strategy, allowing the Bank to continue and deepen its work in certain areas, and by the country's economic stability and social prosperity. Against this backdrop, the IDB Group used a combination of financial and technical support instruments and ongoing dialogue with all actors involved, enabling advances in each of the pillars of action and consolidating the Bank's position as a strategic partner and source of multilateral financing for the Dominican Republic. However, the implementation of the country strategy was hampered by delays in the Congressional ratification process for operations approved during the period due

⁴⁰ Fiscal statistics of the Ministry of Finance (2021) and the DGCP (2021).

⁴¹ The NDCs are the commitments undertaken by the countries party to the United Nations Framework Convention on Climate Change, to be implemented in order to intensify their action in the face of climate change.

⁴² Strategic guidelines for preparation of the Multiyear National Public Sector Plan 2021-2024. MEPYD.

to changes in priorities on certain issues, primarily in education⁴³ and energy. In addition, several of the portfolio projects include infrastructure components or procurement of complex goods entailing long preparation and execution timeframes. At the same time, some operations whose designs involve multiple execution agencies have been subject to slow execution. Furthermore, the emergency arising from the COVID-19 pandemic led to adjustments to the initially planned program in order to support the government's response to the health crisis, mitigate its social impacts and its effects on the productive fabric, and address financing needs in coordination with other donors.⁴⁴ A change in priorities, a greater need to mobilize resources, and the containment measures to prevent the pandemic from spreading affected the pace of execution of some IDB Group projects.

- 2.3 Between the date of approval of the country strategy⁴⁵ and 31 August 2021, the Bank approved 13 sovereign guaranteed loan operations for a total of US\$1.909 billion.⁴⁶ This amount consisted of US\$759 million in investment loans, US\$900 million in policy-based loans (PBLs), and US\$250 million in a special development loan (SDL). Disbursements totaled US\$1.772 billion, with a net cash flow for the country of US\$582 million. In addition, 29 nonreimbursable technical cooperation operations were approved for US\$9.65 million, mainly in education, social protection, tourism, and climate change, along with an investment grant in the health sector for US\$1.46 million.
- 2.4 IDB Invest approved nonsovereign guaranteed operations for US\$657 million. Four operations were for medium-term financing (US\$88 million) to support the tourism sector,⁴⁷ financial inclusiveness, gender equity promotion, and improved credit access for small and medium-sized enterprises (SMEs). Several operations,

⁴³ In the education sector, one operation was cancelled, and another was recently ratified after two years.

⁴⁴ In agreement with the government, operations originally scheduled for 2020 were postponed and the financing requirements were addressed through a budget support prototype operation to support the economic and social measures implemented by the government in response to the crisis (DR-L1144, US\$250 million, with AFD cofinancing for US\$250 million). In addition, an SDL operation (DR-L1145) was approved for US\$250 million and the Contingent Credit Facility for Natural Disaster Emergencies available to the country was reformulated to support the procurement of computer supplies and equipment and finance the procurement of COVID-19 vaccines through the agreement with the PAHO.

⁴⁵ The country strategy was approved in December 2017 and is in effect until 31 December 2021.

⁴⁶ This includes 2017-2020 approvals and four operations approved in 2021. Its breakdown by sector is as follows: 31.14% in energy; 27.8% in State reform and modernization; 18.3% in transportation; 7.9% in environment and natural disasters; 3.7% in education; 2.6% in agriculture and rural development; 6.0% in science and technology; 1.6% in financial markets; and 1.0% in social investment. In the final quarter of 2021, plans call for approving a programmatic policy-based loan (PBP) for US\$200 million in energy and an operation to support the Supérate program for US\$100 million.

⁴⁷ It is worth noting that the tourism operation ("Tropicalia Sustainable Tourism") was approved by the Board of Executive Directors on 14 December 2017 (IDB Invest financing for US\$40 million) but was subsequently canceled by the client due to changes in the investment plan. This cancellation also affected the cofinancing provided by IFC for this operation.

for a total of US\$477 million, supported foreign trade finance,⁴⁸ while short- and medium-term regional operations for US\$92 million contributed to the recovery of the tourism sector as part of the response to the COVID-19 emergency and the support to food value chains, agribusiness, and mezzanine financing. In addition, IDB Invest issued its first bond in the country's capital market for RD\$500 million⁴⁹ with a view to expanding credit access for small businesses in local currency. IDB Lab approved nine technical cooperation operations for US\$4.8 million through innovative initiatives that made it possible to: (i) bring healthcare services to isolated populations by means of drones; and (ii) develop electronic markets for waste exchange at an industrial level under a circular economy logic.

B. Main outcomes under the country strategy⁵⁰

- 2.5 With IDB Group support, the country achieved outcomes and made strides under each of the priority objectives set out in the strategy's matrix, as well as in the areas for dialogue. Under the priority area of **improving the quality and coverage of basic services**, the strategy proposed boosting the delivery of education and healthcare services, improving the efficiency of social protection expenditure, and promoting advances in the social security reform.
- 2.6 In **education**, the Bank provided technical support to the National Institute for Early Childhood Care (INAPI) to strengthen its monitoring and evaluation system and develop a quality management system, and to the Ministry of Education (MINERD) to develop policy, process, and procedure manuals and competency-based job description manuals with a view to improving and modernizing the management of education-related human resources. It also strengthened the evaluation system through the design and implementation of diagnostic and census based tests of student learning, and in training staff in statistical and econometric analysis. In addition, through IDB Lab, the Bank fostered partnerships between the public and private sectors that improved the technical capabilities of 22,262 young people with a view to integrating them into the labor market.
- 2.7 In **health**, the Bank sought to strengthen primary care, improve the provision of equipment and infrastructure, and reinforce the quality and efficiency of expenditure in the sector. In this regard, it financed the construction, rehabilitation, and procurement of equipment for 400 primary care facilities and 20 hospitals. In addition, it helped to improve maternal and child care by implementing a

⁴⁸ Using financial institutions belonging to the Trade Finance Facilitation Program (TFFP), support was provided for more than 134 individual foreign trade operations for a total of US\$477 million, of which US\$462 million through the issuance of credit guarantees in favor of four confirming banks (in Ecuador, Uruguay, and Spain) and US\$15 million in the form of A loans. It is worth noting that the small and medium-sized enterprise (SME) financing operation with Banco Múltiple BHD León, S.A. for US\$50 million had its financial closing in November 2019 despite having been approved in the previous strategy period and is thus not included in the reported amount of US\$657 million.

⁴⁹ Issuance in October 2019.

⁵⁰ This includes outcomes of the support provided by the Bank through the portfolio in execution and the legacy portfolio at the start of the country strategy period, as well as the approvals during the strategy period to 31 August 2021. The sovereign-guaranteed loan portfolio inherited at the start of the preceding strategy consisted of 23 operations for a total of US\$863.8 million, with an undisbursed balance of US\$432.4 million (50.1% of the total amount approved). In addition, the legacy portfolio included 3 nonsovereign guaranteed loan operations for US\$208 million in the transportation and energy sectors; 28 technical cooperation operations for US\$45.7 million; and 23 IDB Lab operations for US\$15.8 million.

- continuous improvement strategy under the project Centers of Excellence in Maternal and Child Health in the 12 public hospitals in which more than 40% of childbirths in the country are performed. The Bank also supported the procurement of equipment and supplies for vaccine storage under the expanded immunization program, strengthening the cold chain. With regard to financial and human resources, in terms of primary care it supported the definition of a care model, developed a clinical management system, and implemented a results-based financing model based on achievement of coverage and quality targets.⁵¹
- 2.8 With regard to the delivery of **water and sanitation services**, the Bank focused on improving access and quality by strengthening the service providers. Implementation was focused on Santiago de los Caballeros, the country's second largest municipality,⁵² achieving significant outcomes in terms of improvements in service continuity, cost reduction, and unbilled water.⁵³
- 2.9 In **social protection**, the Bank supported improvements in the targeting, management, and transparency of the conditional cash transfer program Progressing with Solidarity (PROSOLI).⁵⁴ In terms of targeting, the quality of the Consolidated System of Beneficiaries (SIUBEN) was certified and the data surveying capacity was bolstered, supporting the process of estimating the Multidimensional Poverty Index, which proved to be essential for expanding the cash transfer programs during the pandemic. With regard to the management of the program, the administrative and information management system was strengthened and solidarity points were created, operating as one-stop windows to serve beneficiaries and verify compliance with coresponsibilities. With regard to efficiency and transparency, the first impact evaluation was performed, and its results were used for decision-making on the program. The Bank also supported the implementation of the National Plan to Reduce Adolescent Pregnancies.⁵⁵
- 2.10 With regard to the priority area of **expanding productive opportunities**, the strategy proposed helping to strengthen productive linkages, adapting agricultural production to climate change, improving and enhancing the resilience of transportation, digital connectivity, and business electricity supply infrastructure, and boosting the employability of the population, with an emphasis on women's participation in the labor market.

⁵¹ The Bank also supported the National Health Insurance (SENASA) to create the basis for implementing the results-based financing model with the funds it pays to the public network. DR-L1067 Strengthening Results-based Management in the Dominican Republic's Health Sector; DR-L1069 Program to Support the Strengthening of Health Sector Management; DR-T1111 Support to the Implementation of the Health Sector Reform; and DR-T1207 Support to Strengthening the National Health Service.

⁵² DR-L1057 Santiago Water Supply Service Improvement Program.

⁵³ Between 2012 and 2020, the number of households receiving more than 12 hours of service was increased from 34% to 66%; the relative cost of energy declined from 29% to 22% of total cost for Santiago's water and sewer utility Corporación del Acueducto y Alcantarillado de Santiago; and unbilled water was reduced from 75% to 69%.

⁵⁴ DR-L1047, DR-L1053, and DR-L1059.

⁵⁵ [Social Policy Coordination Cabinet \(2019\)](#). The percentage of adolescent women (15-19 years old) who have children or have been pregnant during adolescence went from 20.5% in 2013 (ENDESA) to 19.1% in 2018 (ENHOGAR).

- 2.11 With regard to production considerations, in **tourism** the Bank promoted urban revitalization of the Colonial City of Santo Domingo.⁵⁶ This entailed comprehensively refurbishing streets and their environment, restoring façades, burying electricity wires in the monumental area, modernizing the Ozama fortress, Museum of the Royal Houses, and Columbus Alcazar, implementing the Museum of the Royal Shipyards, and establishing a monitoring and surveillance center. In addition, it included training 700 MSME owners and employees, developing 9 tourist circuits, and implementing action plans for waste management and mobility in the Colonial City. These actions helped to increase the percentage of tourists who stay overnight in the Colonial City (as a proportion of the total number of tourists who visit the Colonial City) from 13.9% in 2011 to 25% in 2018 and boost hotel occupancy rates in the Colonial City from 55% in 2014 to 74% in 2017. In the southwest of the country, support was provided to clusters for the development of sustainable tourism in the Southern Corridor.⁵⁷
- 2.12 In the **agriculture sector**, the Bank focused on improving market access for agricultural products, boosting sector productivity, and enhancing environmental sustainability and climate change adaptation. This was done taking into account that the agriculture sector is highly vulnerable to the impacts of climate change, particularly damage caused by storms, droughts, and floods, creating significant consequences in terms of employment and food security in the country.⁵⁸ The interventions⁵⁹ resulted in 2,200 hectares of agroforestry systems planted, 125 kilometers of interparcel roads built and/or rehabilitated, 900 rural properties in the process of land titling, and improved land registry information management in southwestern communities producing coffee, cocoa, and avocado. Also worth noting is the work carried out through IDB Lab to automate the agricultural exchange through a platform for performing business-to-business and business-to-consumer transactions, which succeeded in connecting small producers to the markets.
- 2.13 With regard to **productive sector financing**, the Bank focused its actions on enabling green financing and institutional strengthening of the Securities Market Superintendency, promoting the operationalization of the Securities Market Law.⁶⁰ In addition, it supported the BCRD, both in preparing a financial inclusiveness strategy based on the fintech ecosystem and in the Central Bank's financial system cybersecurity program.⁶¹ IDB Invest helped to expand the availability of foreign trade finance. Using 14 financial institutions belonging to the Trade Finance

⁵⁶ Operation DR-L1035 Program for Tourism Development in the Colonial City of Santo Domingo and IDB Lab operation DR-M1053 Urban and Commercial Revitalization: the Case of Colonial City – Santo Domingo.

⁵⁷ The Bank supported a study for a tourism land use plan for the Southern Corridor destination, identifying the tourist attractions and conceptualizing the destination and the investment projects.

⁵⁸ Since 2013, rainfall has been insufficient in many agricultural areas, giving rise to cumulative deficits that have adversely impacted soil moisture. This has helped to create a severe and prolonged drought in the country, leading to a decline in natural resources and in the raw materials used for agricultural production. Drought plan for the agriculture sector in the Dominican Republic (Ministry of Agriculture, 2018).

⁵⁹ DR-L1134. Sustainable Agroforestry Development Program.

⁶⁰ DR-T1154. Support to Productivity Improvement and Formalization in the Dominican Republic II.

⁶¹ Specifically, the IDB Group collaborated in developing a second-tier product to channel more extensive financing to MSMEs in the energy efficiency and renewable energy sectors through first-tier financial institutions.

- Facilitation Program (TFFP), IDB Invest facilitated export and import financing in the food, textile inputs, and manufactured products sectors.
- 2.14 In terms of **productive infrastructure, in transportation**, the Bank supported implementation of the Mobility Law, which provides for the biggest transformation of the sector in the last 50 years,⁶² including strengthening the institutional and regulatory framework and deploying the benchmark costs of freight transport. This will boost market transparency by making it possible to compare rates based on technical criteria and the rates in effect. In addition, the Safe School Environments Program was designed and implemented in three schools, two concessions to operate public transportation services were structured with a view to begin the transformation toward an integrated mass transport system,⁶³ the National Strategic Electromobility Plan was developed, and the first bike path in Santo Domingo was implemented along with an interoperable public transport electronic payment ecosystem.⁶⁴ A geoportal was designed to keep the inventory of infrastructure assets of the Ministry of Public Works and Communications (MOPC) up to date, and a methodology was developed to reinforce the investment planning system, taking into account the vulnerability to natural disasters and climate change, the 2020-2032 National Logistics Plan, and the manual of perishable product management to improve the cold chain.
- 2.15 Lastly, with regard to the strategic area of **improving the management of public finances, institutional strengthening, and transparency**, the Bank sought to assist in reducing the fiscal burden associated with the electricity sector while at the same time boosting tax revenue intake and transparency in the management of resources.⁶⁵
- 2.16 In the **energy sector**,⁶⁶ the Bank promoted efficiency of the **electricity service** by providing technical and financial support. Between 2014 and 2018, rehabilitating the electricity distribution utility networks and improving their metering, management, and commercial operation systems resulted in a significant reduction in losses in the targeted circuits, an improvement in the commercial recovery index (CRI) (losses + collections), and an increase in the quality of the

⁶² DR-L1132 Program to Support Mobility, Overland Transportation, and Road Safety in the Dominican Republic; DR-T1172 Support to the Strategic Plan to Transform Mobility in Santo Domingo; and DR-T1188 Support to the Implementation and Innovation of the Dominican Republic's National Logistics Plan.

⁶³ The concessions involve transforming the current informal system into an integrated public transportation system providing for electronic payment and complementing the metro train, Teleférico urban cable car, and public bus system.

⁶⁴ The system created a technology standard and a central payment system for the Metro/Teleférico/Oficina Metropolitana de Servicios de Autobuses [public bus system] (OMSA), allowing users to pay for all services with the existing card or credit cards. This project, financed through the technical cooperation operation DR-T1196 Support in Implementing an Interoperable Electronic Payment System for the Dominican Republic, was awarded the international prize at the 20th ITS Spain Congress 2020.

⁶⁵ This includes the use of technology tools (such as MapalInversiones) to reinforce transparency in public investment and monitor the use of public resources associated with the response to COVID-19.

⁶⁶ DR-L1034 Power Distribution Network Modernization and Loss Reduction Program; DR-L1058 Program for the Sustainability and Efficiency of the Electricity Sector II; DR-T1122 Support for the Power Distribution Network Modernization and Loss Reduction Program; DR-T1127 Institutional Strengthening of the Ministry of Energy and Mines; and DR-T1128 Regulatory Study to Optimize the Electricity Market.

service.⁶⁷ In turn, these outcomes had a significant impact on the aggregate balance sheet of the distribution utilities, which between 2016 and 2019 were able to trim their losses from 31.5% to 27% of purchased power. At the same time, improvements were initiated in the institutional framework that governs the sector's direction and planning. These improvements include creating a Ministry of Energy and Mines, preparing an energy efficiency bill, and establishing operating criteria for targeting subsidies and setting rates, in all cases with a view to making the electricity sector financially sustainable in the medium term.

- 2.17 In the **fiscal revenue and expenditure management** area, improvements were made in the organizational and regulatory framework of the tax administration, the operating processes, and the technological systems and infrastructure of the Internal Revenue Service (DGII); the basis for implementing electronic billing and risk-based audits of tax compliance was established; and progress was made on international taxation based on the country's commitments under the Global Forum on Transparency and Exchange of Information for Tax Purposes. In addition, the Bank helped to strengthen public finance planning and management by financing actions, still underway, to develop macro-fiscal planning tools⁶⁸ and improvements in the Integrated Financial Management System (SIGEF) and in the budget execution processes. To address the crisis brought about by COVID-19, the Bank supported the implementation of fiscally responsible spending measures that enabled timely execution of public resources and strengthening the countercyclical effect of fiscal policy. These measures notably include cash transfers to protect the income of vulnerable households, such as the *Quédate en Casa* program and the Solidarity Fund for Employee Assistance (FASE), steps to maintain business liquidity through temporary relief from tax obligations, and development of a COVID module in *MapalInversiones* to boost the transparency and integrity of the resources used to address the effects of the pandemic and foster an economic recovery.⁶⁹
- 2.18 With regard to the **areas for dialogue**, in terms of solid waste, the Bank collaborated with the Japan International Cooperation Agency (JICA) in updating the solid waste master plan for greater Santo Domingo and on a closure strategy for the Duquesa landfill to ensure that the process is safely managed from an environmental standpoint in the coming years.⁷⁰

C. Portfolio in execution and lessons learned

- 2.19 **Portfolio.** As of month-end August 2021, the Bank's active portfolio available to support the new strategy consists of 17 sovereign guaranteed investment loan operations for an approved amount of US\$1.2126 billion and an undisbursed balance of US\$858.9 million. In addition, there are 26 nonreimbursable technical cooperation operations for US\$9.3 million, with an undisbursed balance of US\$4.6 million, and

⁶⁷ Losses declined from an average of 58% to 20%, the CRI rose from 39% to 74%, and the number of users with 24-hour service availability increased from 5% to 82%.

⁶⁸ This includes, among others, the medium-term fiscal framework and a tool to simulate public employment and wage policy scenarios.

⁶⁹ <https://mapa-covid.transparenciafiscal.gob.do/covid/FichaCovid>, DR-L1144 Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in the Dominican Republic.

⁷⁰ DR-T1168 Institutional Reform and Updating of the Solid Waste Management Master Plan for Greater Santo Domingo.

2 investment grants for US\$36.5 million. The IDB Lab portfolio consists of 12 technical cooperation operations and a loan, for an approved amount of US\$8.8 million and with an undisbursed balance of US\$4 million, as well as an investment grant for US\$250,000. As of month-end October 2021, IDB Invest has an active portfolio consisting of 3 operations with a level of exposure totaling US\$27.7 million, concentrated in the transportation (US\$15 million), financial institution (US\$8.9 million), and corporate (US\$3.8 million) sectors.⁷¹

- 2.20 **Lessons learned.**⁷² At the **strategic level**, the priority work areas were relevant and became more so following the impact of COVID-19. The issues of access to basic services, management and public finances, and expansion of productive opportunities continue to be relevant for the country's development. However, it would be important to improve the targeting⁷³ within each pillar in view of the specific challenges created by the pandemic, the reduced fiscal space available, and the strategic positioning of the Bank and other cooperation agencies in critical sectors for the country's development. In addition, the efforts to improve management, particularly in basic services and productive infrastructure, should be reinforced to ensure a proper implementation of projects in these areas and achievement of the expected results. In this regard, it will be important for the new strategy to consider: (i) the need to continue to strengthen the institutional capacity of the State to accomplish the objectives of the country's structural reforms, supported by policy programs coordinated with sector-specific operations and technical cooperation projects; (ii) ensuring that the activities with the country emphasize the Bank's contribution in terms of knowledge and technical assistance to address major challenges faced by the country; (iii) improving corporate governance standards and environmental and social considerations on the part of private sector clients to make it easier to finance them, particularly in the case of smaller businesses as well as those in concentrated markets with limited financial opportunities; and (iv) addressing issues related to environmental and natural disaster risk management, taking into account the impacts of climate change and/or the social risks of projects with the public or private sector prior to financing.
- 2.21 At the **operational level**, in view of the country's favorable access to external financing, the following considerations should be given particular attention in the next strategy: (i) strengthen the dialogue with the government and Congress to monitor the approvals of the priority program and ensure prompt ratification and launch of projects; (ii) in providing services to the country, emphasize the IDB Group's capacity to promote innovative approaches and solutions to the country's challenges, both at the level of financed projects and in sector and policy dialogue; (iii) take advantage of the period between approval and legal effectiveness to move forward on studies and final design by means of technical assistance, so as to be ready to start immediately once the operation becomes

⁷¹ IDB Invest data as of 30 October 2021.

⁷² This section is based on the project completion reports (PCRs) completed during the strategy period, the portfolio meetings, and the preliminary version of the 2013-2020 Extended Country Program Evaluation: Dominican Republic prepared by the Office of Evaluation and Oversight (OVE).

⁷³ In the Extended Country Program Evaluation, OVE also makes a preliminary recommendation to better target the strategic objectives under the new strategy.

effective; (iv) ensure efficient application of the Bank's fiduciary policies,⁷⁴ which provide the government with a supplementary guarantee of transparency and good governance with respect to the allocated financial resources; and (v) continue to support strengthening of the relevant institutions during the execution of the projects to ensure the sustainability and resilience of the investments made, promoting maintenance of the works and continuity of the services. Supporting the private sector requires providing advisory services outside the context of a specific transaction to entities with the potential to become future clients, with a view to undertaking and carrying out successful operations. In addition, an offering of financial products that includes debt denominated in local currency, advisory services, and knowledge will help maximize the value added of IDB Invest support in the country.⁷⁵

III. PRIORITY AREAS

- 3.1 In line with the government priorities,⁷⁶ the objective of the Bank's country strategy for the 2021-2024 period is to assist the country in recovering a robust pace of economic growth consistent with inclusive, resilient, and sustainable development, focusing IDB Group action on three areas: (i) improvement of public management and fiscal institutional structure; (ii) sustainable and inclusive productive reactivation; and (iii) strengthening of human capital. Issues of gender and diversity, climate change adaptation, digitalization, institutional capacity, and rule of law with an emphasis on transparency will be addressed in crosscutting fashion. These areas provide continuity with respect to the IDB Group's work in the previous strategy period, albeit with a greater emphasis on considerations of productivity gains, inclusiveness, and institutional strengthening in the various priority dimensions.
- 3.2 The IDB Group's positioning proposal in the Dominican Republic is in line with the objectives of the Second Update to the Institutional Strategy 2020-2023,⁷⁷ [Vision 2025](#), the country's development challenges,⁷⁸ and the lessons learned from

⁷⁴ Ensuring that the executing agencies are trained in the Bank's fiduciary policies and thus achieving greater alignment between the Bank and the counterparts.

⁷⁵ IDB Invest has updated the Small and Island Action Plan (document CII/GN-354-2), including lessons learned. As a result, IDB Invest will seek to provide advisory services outside the context of any specific transaction to entities with the potential to become future clients, with a view to implementing successful operations. IDB Invest will continue to adapt its financial products to the needs of the country, building on its financing operations for SMEs in local currency (11807-04) and its issuance of the first bond in the local capital market.

⁷⁶ 2030 National Development Strategy Law.

⁷⁷ The priority areas and crosscutting issues under this strategy are aligned with the Bank's institutional strategy and with the priority areas of IDB Invest and IDB Lab, notably including institutional improvements for better private sector performance, financial inclusiveness, innovative business undertakings, and climate-smart agriculture. IDB Invest Action Plan 2020-2023 (document CII/GA-77-8) and IDB Lab Action Plan 2019-2021 (document MIF/GN-235-3).

⁷⁸ Dominican Republic. Country Development Challenges (2020 update). IDB. These challenges are: (i) shortcomings in terms of human capital and high-quality basic social services; (ii) productively stagnant traditional export sectors; (iii) limited access to productive financing; (iv) poor electricity service quality; (v) absence of consistent and coordinated actions to foster the use of technologies and innovation; (vi) mismatch between labor demand and vocational training; and (vii) institutional deficiencies limiting efficient and transparent delivery of public services.

the preceding strategy, including OVE's recommendations as set out in the XCPE.⁷⁹ In addition, the country strategy is included in the Dominican government priorities, as expressed in the four pillars of its National Development Strategy and in the strategic guidelines for formulating the Multiyear National Public Sector Plan 2021-2024.⁸⁰ Specifically, the country strategy is consistent with actions to achieve: (i) an efficient, transparent, and results-oriented public administration; (ii) equal rights and opportunities, such as universal access to health care and social security; (iii) development of a sectorally and territorially coordinated productive structure as the basis for a competitive, innovative, and environmentally sustainable economy that can create formal and sufficient employment; and (iv) environmental sustainability and climate change adaptation in an island country.

A. Improvement of public management and the institutional structure

- 3.3 The fiscal accounts have posted deficits for more than a decade, causing a sustained increase in the debt. The fast pace of economic growth provided leeway in managing the public finances, but the decline in GDP as a result of COVID-19, coupled with the fiscal response to mitigate the crisis and a medium-term growth outlook that, while positive, falls short of the previous decade's rates, have created a different environment in which fiscal sustainability has greater relevance. In the absence of reforms, higher debt levels could dampen the business climate and affect favorable access to international markets. In recent years, the government has made efforts to reverse this trend, strengthening the tax administration and controlling public expenditure. However, these efforts have not been sufficient: thus, between 2016 and 2019, the nonfinancial public sector (NFPS) deficit averaged 2.5% of GDP and the NFPS debt rose from 36% to 41% of GDP, increasing by close to 20 percentage points by year-end 2020.⁸¹ The main challenges to overcoming this situation are associated with high tax evasion and avoidance levels that reduce the tax burden, as well as with a rigid and inefficient public expenditure, which, incidentally, is among the lowest in Latin America and the Caribbean. These factors are compounded by the absence of a fiscal responsibility framework that can ensure the sustainability of the public debt.
- 3.4 With regard to **revenue**, the country's tax burden is one of the lowest in Latin America and the Caribbean, resulting from high evasion and tax expense levels arising from complex tax designs (particularly the ITBIS) that make them ineffective and difficult to audit.⁸² The industrialized goods and services transfer tax (ITBIS) evasion levels are on the order of 44%,⁸³ while tax expenses in 2020

⁷⁹ The OVE recommendations are pending. As of this date, the country program evaluation has not gone to Management for review.

⁸⁰ [MEPYD \(2020\)](#).

⁸¹ If the BCRD debt is included, consolidated debt went from 45% to 69% of GDP in 2021. DGCP (2021).

⁸² In the last five years, the country's tax burden has averaged 13% of GDP, compared with 23% of GDP in Latin America and the Caribbean (DGPLT, Ministry of Finance, and IMF's October 2019 WEO). The government attempted to increase tax collection in 2012, reducing the list of products taxed at zero rate under the ITBIS and reclassifying many products for taxation at the general rate. In addition, the government proposed expanding the income tax base, including all income and capital gains. However, subsequent modifications to this reform limited its impact.

⁸³ ITBIS (a value-added tax) evasion increased from 32% in 2007 to 44% in 2012, where it has remained ever since. Income tax evasion is estimated at about 61%.

reached an amount equivalent to 4.6% of GDP.⁸⁴ In addition, the tax system is not progressive,⁸⁵ as shown by the number of exemptions and waivers included in the design of taxes and the tax incentives available to large free-trade zone and tourism companies.⁸⁶

- 3.5 In terms of **public expenditure**, the country's public spending is low and inflexible and hampered by deficiencies that reduce its effectiveness. Between 2016 and 2019, expenditure averaged 15% of GDP, compared with 27% of GDP in Latin America and the Caribbean.⁸⁷ Moreover, close to 90% of the expenditure was already committed under special laws,⁸⁸ government payroll, and debt service. Public expenditure inefficiencies are estimated to range from 3% to 5% of GDP⁸⁹ and are most evident in (i) the wage bill; (ii) leakages and undercoverage in social protection programs;⁹⁰ and (iii) electricity sector subsidies,⁹¹ which have come to account for close to 1.5% of GDP. Particularly worth noting are the resources allocated by the government to the electricity sector: thus, in the 2012-2019 period, these resources were equivalent to 23% of the increase in the consolidated public sector debt.⁹²
- 3.6 According to the 2019 Global Competitiveness Index, the country was ranked in 86th place out of 141 countries in the institutions pillar, below Panama and Costa Rica; the worst-performing components were transparency, public sector effectiveness, future orientation of government, and checks and balances. With regard to **public sector efficiency**, public servants went from 3.8% of the population in 2014 to 4.7% of the population in 2019, particularly as a result of improvements in civil service management, while the wage bill increased from 4.4% to 5.2% of GDP over the same period, exerting pressure on public expenditure, without proportional improvements in the quality of services.⁹³ The efficiency problems are in part a consequence of low institutional capacity to establish priorities and execute policies, itself due to weaknesses in the government planning and coordination mechanisms, limited use of technology, and poor digital skills in the public sector. In addition, there are persistently large gender gaps in decision-making positions in government.⁹⁴ In the context of the COVID-19 crisis, these weaknesses are especially relevant in the delivery of basic

⁸⁴ It is estimated that by 2021 they will stand at roughly 4.44% of GDP. Ministry of Finance (2021).

⁸⁵ The wealthiest population quintile consumes more than 84% of the products that are exempted and taxed at zero rate, while the poorest quintile consumes less than 1% of those products.

⁸⁶ Country Development Challenges (2020 update). IDB.

⁸⁷ IMF Fiscal Monitor, October (2019).

⁸⁸ There are 29 special laws that allocate expenditures as fixed percentages of GDP or revenue.

⁸⁹ DIA, Better spending for better lives. IDB (2018).

⁹⁰ For example, contracting without adequate evaluation arrangements and flaws in the benefit allocation mechanisms in social programs, reviewed in section B.

⁹¹ Particularly, subsidies for residential rates and operational inefficiencies in distribution.

⁹² Between 2012 and 2019, subsidies to the electricity sector totaled US\$4.624 billion, while the consolidated debt increased by US\$19.863 billion. Ministry of Finance.

⁹³ IDB Economics (2020) and the Regional Center for Sustainable Economic Strategies (CREES) (2017).

⁹⁴ Only 17% of ministerial positions are filled by women. WEF, Global Gender Gap Report 2021.

- public health and education services through digital means, underscoring the need for initiatives to boost digital government.
- 3.7 With regard to **transparency and rule of law**, weaknesses are evident in the internal and external control institutions and systems, in the accountability system for public officials, and in the money laundering control and prevention system. This contributes to the high levels of perceived corruption, impunity, and opacity in the public administration. At the same time, there are persistent limitations in the delivery of security and justice services, primarily due to the limited effectiveness of the police forces, which lack capabilities, planning, adequate management, and resources to ensure citizen security, but also because the significant delays in the judicial system and in criminal investigations, coupled with perceived corruption and obstructionism, undermine confidence in the system.⁹⁵
- 3.8 Through both its active portfolio and new operations, the IDB Group will continue to support efforts to strengthen the institutional framework, improve public management, and consolidate the fiscal accounts. To this end, it will prioritize measures to reinforce the tax administration, improve expenditure efficiency, and implement a fiscal responsibility framework that includes a multiyear budgetary process operating under an approach that takes crosscutting issues such as gender into account.⁹⁶ Specifically, the IDB Group will support: (i) reviewing the framework for tax exemptions and improving expenditure transparency and efficiency; (ii) strengthening transparency and accountability in public resource management; (iii) improving the efficiency of human resource management in the public administration and strengthening the ability of public servants to adapt to the digital transformation; and (iv) improving the efficiency and quality of the judicial system. The electricity sector reform is essential for strengthening the public finances in view of the recurrent deficit of the electricity distribution utilities. All of the foregoing will be carried out with an emphasis on enhancing the efficiency of human resource management and the ability of public servants to adapt to the digital transformation with the proper security and protection levels, while ensuring that the public institutions introduce solid governance principles and gender and diversity considerations.⁹⁷

B. Sustainable and inclusive productive reactivation

- 3.9 The low contribution of productivity to growth, stagnation of the export sector, strong linkage to the availability of natural resources in the most important sectors, and growing risks of natural disasters in the wake of climate change are major challenges on the path to a post-COVID-19 reactivation leading to inclusive,

⁹⁵ The Dominican Republic was ranked in 129th place out of 180 countries in the 2018 Corruption Perceptions Index. It was ranked in 20th place out of 30 countries in Latin America and the Caribbean (102nd out of 128 countries globally) in order and security perceptions; in 23rd place out of 30 countries in Latin America and the Caribbean (104th out of 126 countries globally) in civil justice quality and efficiency perceptions; and in 20th place out of 30 countries in Latin America and the Caribbean (95th out of 128 globally) in criminal justice quality perceptions. World Justice Project (2020).

⁹⁶ For more information on incorporating the gender perspective into the budgetary process, see [Parro, Valencia, Zentner \(2021\)](#).

⁹⁷ DR-L1142: Program to Strengthen Civil Service Management in the Dominican Republic. The operation envisages the development of inclusive policies and tools to enable better management of human resources in the public sector.

- resilient, and sustainable growth. The exportable supply of goods has been concentrated on the U.S. market and, while diversified, is of limited complexity and has little added value.⁹⁸ With regard to service exports, the tourism industry has become consolidated as the country's main economic activity.⁹⁹ However, demand is highly concentrated in the international market (73%), making the sector very vulnerable to external shocks such as border closures in the event of a pandemic or recessive economic cycles in the principal outbound tourism markets. In addition, the high geographic concentration of the tourism offerings and their focus on sun and sand and all-inclusive products have created significant challenges for the country in terms of unequal territorial development, environmental sustainability, resilience to climate change, and economic returns.
- 3.10 COVID-19 caused market access and supply chain disruptions that primarily affected the large exporting companies in the free-trade zones (which account for more than half of the exports of goods).¹⁰⁰ However, we are seeing a reconfiguration of global trade flows due to the need of businesses to shorten and secure the supply chains in proximity to the final destinations. This creates new opportunities for the Dominican export sector, which can capitalize on its location advantages and better integrate into the regional value chains.¹⁰¹ Taking advantage of these opportunities requires overcoming the structural bottlenecks that have inhibited the country's export potential, including gaps in terms of sustainable and resilient infrastructure in energy, transportation, logistics, and connectivity; cost overruns owing to inefficient maintenance of existing physical infrastructure due to failures in governance; constraints on access to finance; and a difficult business climate.
- 3.11 In particular, despite recent progress, the **electricity infrastructure** continues to lag, leading to a deficient and high-cost service. In all, 11% of the country's demand for electricity cannot be satisfied, resulting in constant service interruptions. A full 40% of power generation is obtained from imported fossil fuels which, in addition to elevating the cost of the service, are a source of pollutant gas emissions. The key problem for the electricity sector is that of commercial and distribution losses. In addition, the sector is unable to bill or collect sufficient funds to pay for the power purchased from generators. The losses and costs have been borne by the State,

⁹⁸ The main exports are tourism services (35%) and free-trade-zone manufactured goods (54%), followed by locally produced minerals (18%) and agricultural products (7%) (BCRD). The Dominican Republic was ranked 79th out of 133 countries in the 2019 Economic Complexity Index, below countries with similar income per capita.

⁹⁹ In 2019, tourism-related income accounted for 36.4% of exports of goods and services.

¹⁰⁰ The pandemic has disrupted the global supply chains and has awakened the interest of businesses in reducing costs and logistic risks, boosting agility, and shortening time-to-market. (IDB, 2021); BCRD, Balance-of-payment results.

¹⁰¹ The country has advantages derived from its geographic location, human resources at competitive costs, multiple trade agreements, tax incentives, and macroeconomic stability.

- mostly in the form of subsidies, and while these subsidies have been trimmed since 2014, they averaged 0.5% of GDP between 2017 and 2020.¹⁰²
- 3.12 At the same time, the electricity sector has institutional governance problems at all levels: weaknesses in the independence of the regulatory agency, fragmentation and overlap of responsibilities, and lack of instruments for national energy policy planning and accountability.¹⁰³ In addition, it is important to continue to search for specific proposals for managing production, distribution, and consumption, and ultimately to pursue a low-carbon economy through the development of energy efficiency and through renewable energy initiatives.
- 3.13 The country's **transportation infrastructure** services are insufficient (particularly in the primary road system and the port logistics infrastructure not under concession). The fact that most of these services have not incorporated sustainability and climate resilience criteria in their design aggravates the problem.¹⁰⁴ To transport and export their merchandise, Dominican companies face high ground freight transportation costs and insufficient road connectivity between the production, distribution, and construction centers and the major logistic hubs,¹⁰⁵ with pronounced lags in the cold-chain infrastructure. These shortcomings are more evident in rural areas and in the country's north, where the absence of a comprehensive port and logistics complex with quality services and adequate ground connectivity prevents exporters from taking advantage of just-in-time logistic processes made possible by the shorter distance to the United States,¹⁰⁶ while also limiting rural development and the growth of agricultural exports.¹⁰⁷ The problems with the transportation infrastructure hinder the linkage between the export sector and the local economy. In addition, they hold back the country's agroforestry and tourism development and exacerbate the vulnerability of these sectors to natural and climate threats, since a lack of resilience elevates the risk of the productive and tourist areas being cut off from the rest of the country during an emergency. In the last decades, the country has suffered significant economic losses from flood events occurring due to overflowing rivers and hurricanes.¹⁰⁸ Consequently, the design of infrastructure projects should include a hydrological and hydraulic analysis that examines the potential effects of extreme precipitation

¹⁰² Close to 13 MtCO₂eq in 2017. The electricity sector is the biggest emitter of greenhouse gases, with an annual volume of about 30% of total greenhouse gas emissions in the country ([Berigüete et al., 2020](#)). Due to commercial management weaknesses and technical flaws, the distribution utilities handle losses that amount to roughly 33% of billing (compared with an estimated 15% for Latin America and the Caribbean). This problem has become more pronounced during the health crisis due to the decline in electricity bill collections. CDEEE and Ministry of Finance.

¹⁰³ Dominican Republic National Infrastructure Plan. Energy Sector Note. IDB (2020).

¹⁰⁴ Dominican Republic. Country Development Challenges (2020 update).

¹⁰⁵ The country was ranked in 10th place in terms of freight transportation cost, with an average ground freight transport rate of US\$0.14 per ton-kilometer. IDB (2015).

¹⁰⁶ Manzanillo Port Rehabilitation and Expansion Program, DR-L1141. IDB.

¹⁰⁷ Added to this is the lack of infrastructure services and equipment for plant and animal health control at ports. Agrifood exports are faced with problems in terms of access to major markets. Between 2014 and 2018, 1.2% of all containers of agrifood products exported to the United States were rejected due to chemical or microbiological contamination. Ministry of Agriculture and Agricultural Health and Innovation Project (DR-L1137). IDB.

¹⁰⁸ EM-DAT database – Catholic University of Louvain (2021).

- and floods, with a view to building a road infrastructure network that is resilient to these effects. Lastly, there are also significant deficiencies in urban public transportation that have led to high vehicle congestion rates, polluting emissions, and higher accident rates.¹⁰⁹
- 3.14 The **digital connectivity infrastructure** is insufficient, vulnerable to natural disaster and climate risks, and outdated, making it difficult to adopt digital technologies and for the productive and public sectors to adjust to a post-COVID-19 environment. The population's Internet access is limited, and this was made particularly evident during the pandemic. Because of the lack of infrastructure, fixed and mobile broadband penetration (respectively, 7.5% and 61%) is very low in comparison with the average for the region's countries (respectively, 13.6% and 72.7%).¹¹⁰ Furthermore, 95.3% of the nation's territory either lacks fixed fiber optic infrastructure coverage or has low-capacity coverage. The country has yet to implement digital terrestrial television; thus, there continues to be a limited spectrum allocation for the provision of mobile broadband services and low broadcasting service efficiency. Moreover, for profitability reasons, rural areas are typically left unattended.¹¹¹ Added to this are the weak digital skills of the population,¹¹² particularly the poor population,¹¹³ where there is additionally a wide gender gap.
- 3.15 The Dominican productive sector faces **limitations in terms of access to finance**. Credit to the private sector is among the lowest in Central America,¹¹⁴ and more than 50% of it is allocated to large companies, leaving little room for financing of MSMEs, which account for 99% of the business community and generate a significant portion of income (39% of GDP) and jobs (2.2 million). Most of the lending to the private sector is provided by commercial banks, with five institutions holding 75% of total assets. Lines of credit are short-term, and few of the available financial instruments fit the needs of businesses. This is especially true for export companies, which need long-term financial instruments, and for companies in the agricultural and innovation sectors, whose inherent risk restricts the availability of credit. In addition, there is a significant gender gap in all financial services, but particularly in the case of business loans.¹¹⁵ The capital market is still nascent and dominated by government bond transactions, and has failed to operate as an effective financing mechanism due to regulatory lags¹¹⁶ and a lack of innovative instruments and securities to allow companies to be publicly traded. This also limits private financing for infrastructure development.

¹⁰⁹ Dominican Republic National Infrastructure Plan. Transportation Sector Note. IDB (2020).

¹¹⁰ IDB (2019). Broadband Development Index for Latin America and the Caribbean.

¹¹¹ INDOTEL (2020).

¹¹² The World Economic Forum (WEF) gives the Dominican Republic a score of 3.6 of a possible 7 points in digital skills, ranking the country in 111th place in the world. The Global Competitiveness Report (2019). WEF.

¹¹³ According to the SIUBEN, more than half of the population living in poverty reported having no computer knowledge whatsoever. In addition, more than 40% of the rest reported having only basic knowledge.

¹¹⁴ It was equivalent to 27% of GDP in 2019, compared with 65% in Honduras, 61% in Costa Rica, and 50% in El Salvador. [BIDeconomics, RD](#).

¹¹⁵ Brecha de género en el acceso al financiamiento en Centroamérica y República Dominicana. IDB (2021).

¹¹⁶ The first modern piece of legislation in this regard (Law 249-17) was enacted in 2000.

- 3.16 In terms of the **business environment**, companies face cumbersome and costly formalities,¹¹⁷ inefficiencies in customs processes, and weak commercial facilitation and promotion mechanisms. In addition, the legal framework for foreign trade and investment is outdated;¹¹⁸ multiple public and private actors are involved in promoting trade and attracting investments, and their actions lack a strategic vision, resulting in fragmented and overlapping efforts; and the human capital specialized in these areas is insufficient. With regard to public-private partnerships (PPPs), while the country has recently strengthened the regulatory framework through the approval of a PPP Law and its implementing regulations, the framework still lacks operational maturity and the institutional capacity of the agencies involved needs to be strengthened.
- 3.17 To improve the Dominican Republic's productive potential, the IDB Group will help the country to: (i) develop a sustainable and resilient productive infrastructure in the electricity and the transportation and logistics sectors (in partnership with the private sector),¹¹⁹ with a view to reducing the operating costs of businesses and improving the quality, affordability, and sustainability of the service so as to take advantage of the opportunities created by the reconfiguration of the global and regional value chains; (ii) develop initiatives aimed at connecting producers with value chains; (iii) strengthen sector institutions as a pillar of sector transformation; (iv) accelerate the digital transformation, particularly by upgrading the connectivity infrastructure to leverage digital adaptation and rural development, supporting innovative digital businesses, and digitalizing traditional companies and MSMEs; (v) promote women's participation in the job market, especially in leadership positions; (vi) establish long-term financing mechanisms by means of innovative financial products and instruments and through the development of capital markets for corporate debt and thematic bonds, adapted to the inherent risks of the various productive sectors and MSMEs and informed by sustainability and gender equity criteria; (vii) facilitate a geographic deconcentration of tourism and a diversification of tourism offerings; (viii) promote public and private investments in medium-sized cities and sites with heritage value; (ix) promote the export sector through financial and advisory products aimed at expanding the exportable supply of products with greater value added and technological content; and (x) increase transparency and strengthen the institutional framework in accordance with the sector priorities identified in the National Infrastructure Plan.¹²⁰ The climate change mitigation and adaptation strategy will be addressed through designs that boost the climate resilience of the infrastructure and enable productive (agricultural and tourism) expansion with proper management of water resources, an increased share of

¹¹⁷ The Dominican Republic is ranked in 99th place out of 140 countries in the Burden of government regulation subindicator in the WEF 2018 Global Competitiveness Index. Completing a formality takes an average of 4.1 hours, thus longer than in Chile, where it takes an average of 2.2 hours.

¹¹⁸ Foreign Investment Law 16-95 was enacted 26 years ago. While it includes basic components of the treatment to be accorded to investors, it neither promotes strategic investment nor provides for incentives in line with the national development objectives. In terms of customs, the current law dates from 1953; the Senate has approved an updated bill, but it has yet to be implemented.

¹¹⁹ By means of the regulatory and institutional framework that encourages private sector participation in infrastructure financing, development, and operation.

¹²⁰ <https://mepyd.gob.do/publicaciones/Plan-nacional-de-infraestructura-2020-2030>.

renewable energy in the power matrix, and the protection and recovery of the country's natural capital (including mangroves, beaches, and forests).

- 3.18 In the PPP area, the IDB Group will continue to reinforce the institutional and regulatory framework (PPP regulations) and the technical capacity of the relevant institutions, with the two-fold objective of ensuring proper coordination between the investment and budget cycles, and with it the fiscal sustainability of the projects, and reinforcing the long-term nature of PPP contracts and the need to execute and implement them accordingly. The IDB Group will continue to analyze a potential structuring of economic and social infrastructure projects. It will continue with the program of training and dissemination of best practices through specialized PPP training courses, as well as with the participation of the country's relevant institutions in the Bank-coordinated network for analysis and best practices in public-private partnerships.

C. Strengthening of human capital

- 3.19 In the last decade, the country has made significant strides in raising the human capital level (IDH-2019: 0.756; 2010: 0.706) and reducing poverty and inequality. However, a high proportion of the population continues to live in vulnerable conditions, making a living from precarious jobs and facing restricted social mobility. The existing inequity in terms of access to social services and high-quality basic infrastructure limits human capital accumulation, social mobility, and competitiveness in the country. These gaps are wider for the poor, for women, and for residents of rural and border areas. The COVID-19 crisis, with the concomitant increase in health problems, loss of income for the population, and school interruptions, further exacerbated these limitations. The country's social challenges are multidimensional, but foremost among them are shortcomings in the quality of education, wide gaps in social assistance and protection coverage, and low coverage of high-quality basic services and health infrastructure.
- 3.20 The educational system faces challenges that restrict its effectiveness in improving the **quality and relevance of human capital**. Both traditional and technical-vocational schools have limitations in terms of the quality and quantity of the educational offering. This is due to poor teacher quality,¹²¹ little flexibility to adjust the availability of specialized training in response to the demands of the local productive sector/market, and the absence of a strategy to promote applied research and innovation.¹²²
- 3.21 The **social protection networks** have coverage gaps and weaknesses in their management and design. Between 2016 and 2019, the public expenditure allocated to social protection averaged 1.7% of GDP, an expenditure level that was insufficient even before the COVID-19 crisis. The most important initiative for making inroads into reducing poverty was the conditional cash transfer program

¹²¹ According to the 2017 teacher performance evaluation (EDD), 73% of the country's teachers, including technical-vocational schoolteachers, performed at a minimum or insufficient level.

¹²² Barely one third of businesses consider that their workforce is adequately educated for the job and only 22% of employees have post-secondary education (ENHOGAR 2018 tabulations). At the same time, 71% of business owners play little or no part in determining technical-vocational education skills (Gargiulo, 2018).

Progressing with Solidarity (PROSOLI),¹²³ which benefited close to 800,000 poor households¹²⁴ but had undercoverage and leakage problems¹²⁵ and has recently been replaced by the Supérate program. To cushion the magnitude of the pandemic's effects on poverty levels, coverage was expanded to include 760,000 further households through a temporary program known as "Quédate en casa." This program having concluded, a portion of the beneficiaries living in poverty transferred to the Supérate program. There are 22 other social protection programs that either do not apply or do not have official targeting criteria and are cumulatively allocated close to 41% of the social assistance resources.

- 3.22 With regard to **social security**, the government responded to the crisis by expanding coverage of the Family Health Insurance (SFS) to include 1.6 million people who joined the social security-subsidized system. With this expansion, more than 95% of the population has health insurance. However, this does not necessarily translate into better access to high-quality health services.¹²⁶ At the same time, because of the high level of informal employment, many salaried workers do not contribute to social security (health insurance and pensions) through their employer, and of those who do contribute, many fail to accumulate the minimum balance required to qualify for a pension upon reaching retirement age. The problems of pension coverage and sufficiency will increase due to population aging¹²⁷ and technological changes in the labor market. This points up the need to modify the institutional and governance framework for social security and introduce new protection arrangements, such as unemployment insurance.
- 3.23 The supply of **health services** is limited and of low quality. The insufficiency of available resources¹²⁸ is compounded by significant inefficiencies in the delivery of services due to lack of supplies, equipment, and human resources, technically inefficient expenditure (which is allocated to curative care in the absence of a primary care model that can operate as a gateway to the system), and the sector's institutional fragmentation, which has hindered sector governance and coordination between the relevant actors. In addition, the demand for health services has been rising, not only because of COVID-19 but also due to an increased prevalence of infectious and chronic diseases as well as to road accidents and intrafamily violence. There are significant gender gaps in health, owing to the country's limited progress in curbing maternal and infant mortality and

¹²³ PROSOLI is a conditional cash transfer program with social and educational assistance and linkage to State programs and services. PROSOLI Operating Manual (2015).

¹²⁴ Carrasco, H. et al. (2016). *¿Cómo se redistribuyen los recursos públicos en República Dominicana?*

¹²⁵ In 2014, 43% of the beneficiaries were not poor and 56% of the indigent population was not in the program. IDB calculations based on the National Workforce Survey.

¹²⁶ The coverage benefits are limited by copayments and caps on reimbursements, and since the contents of the Health Services Plan are out of date, adequate coverage of the main health problems is not assured. Cañón, O., Rathe, M., and Giedion, U. (2014). *Estudio de caso del Plan de Servicios de Salud PDSS de la República Dominicana*. Technical Note IDB-TN-683.

¹²⁷ The population aged 60 and older will go from 8.6% of the total in 2010 to 20% of the total in 2050. ONE, Social and demographic bulletin, 2020.

¹²⁸ Between 2014 and 2019, the government devoted about 2% of annual GDP to health, considerably less than the regional average of 4% of GDP. CEPALSTAT.

- the adolescent pregnancy rate, which continues to be among the highest in the region (100.6 per 1,000 live births).¹²⁹
- 3.24 The foregoing is compounded by health risks arising from the insufficient coverage and quality of **water and sanitation services**, which became more evident during the pandemic given the need for these services to contain the spread of the virus.¹³⁰ In most of the nation's territory, the drinking water system is insufficient and service is intermittent, with losses of about 60% of the injected volume.¹³¹ The poorest and rural populations are the most heavily affected, since their access to drinking water is only two thirds as high as that of the higher-income or urban population.¹³² With regard to sanitation, 81% of the rural population and 91% of the urban population have basic or non-shared access, but only 5% of the rural population and 22% of the urban population have access to sewer service, and the use of septic tanks is more prevalent (57%).¹³³ Furthermore, wastewater and stormwater sewer networks are deficient, and 95% of the collected wastewater is discharged untreated into rivers or coastal waters. The limited water infrastructure is vulnerable to floods and droughts and is insufficient to meet the demands of agricultural or tourist areas. The lags in this sector are partly due to financial and regulatory shortcomings of the water and sanitation system¹³⁴ and by the large proportion of precarious homes¹³⁵ built on informal settlements, making access to services problematic. In addition, the infrastructure for final disposal of solid waste is not conducive to the health of the population and the environment, as most of the landfills are open dumps and subject to little control.¹³⁶
- 3.25 The IDB Group will continue to help the country to improve its social protection mechanisms and create the conditions for expanding the human capital stock, with a priority focus on the income, gender, and territorial inequities. Through various technical and financial instruments, including the use of public-private

¹²⁹ The Dominican Republic has the highest adolescent pregnancy rate in Central America. PAHO Dominican Republic (2020).

¹³⁰ Given the gaps in coverage, the poorest urban periphery and rural areas have a high prevalence of acute diarrhea and respiratory disease as well as a high proportion of medical visits for reasons associated with sanitation services (12% in 2016). Ministry of Public Health (2016), Basic health indicators.

¹³¹ In 2017, only 54% of households had access to drinking water inside the home, and in 97% of cases the service was irregular and water quality was deficient. At the national level, more than half of all households have drinking water service one to three days a week. ENHOGAR (2018).

¹³² Poor and rural populations respectively account for 23.4% and 18.4% of the country's total population. In 2017, 31.6% of the rural population had access to drinking water inside the home, compared with 59.2% of the urban population, and there was 9.9% coverage for the poorest quintile, compared with more than 81.6% coverage for the wealthiest quintile. ENHOGAR (2019).

¹³³ Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (JMP). WHO (2017).

¹³⁴ The limitations include: (i) water utilities that are highly dependent on State subsidies; (ii) investment focused on increasing production rather than on network expansion and rehabilitation needs and the sustainability of the new facilities; and (iii) outdated legal framework, with the main laws dating from the 1960s.

¹³⁵ The housing shortage in 2018 was estimated at 824,829 homes. Of this total, 52% were homes with a qualitative shortage, while the remainder involved a quantitative shortage or a shortage of new homes. Dominican Republic Country Development Challenges (2020). To address this shortage, the government has launched the Plan Nacional de Vivienda Familia Feliz [Happy Family National Housing Plan], which will grant subsidies for new homes and home repairs to the poorest households and will foster the development of affordable housing together with the private sector.

¹³⁶ All of the country's 358 landfills (one for every 135 square kilometers, many of them on agricultural and hydrologically significant areas) are open dumps, and only two are considered controlled.

collaboration modalities, the IDB Group will promote: (i) initiatives to consolidate an effective and efficient social assistance and protection network, by expanding, improving the responsiveness of, and better targeting the existing social protection programs (Supérate) and progressively establishing a safety net that ensures equal opportunities; (ii) actions to enhance the efficiency, transparency, quality, and coverage of the health system, by promoting stronger institutions and stronger governance through the establishment of clear-cut responsibilities for the system's actors, including timely continuity-of-care and technical protocols and measurement of outcomes, and improving coordination between public health system networks to reinforce leadership responsibilities through a network performance evaluation, prioritizing low-income individuals; (iii) actions to test a disability assessment and certification system aimed at prioritizing care for the population with disabilities; (iv) investments and institutional strengthening in sanitation infrastructure to improve access to, and delivery of, water, sanitation, and solid waste management services under financial and environmental sustainability and climate resilience criteria; and (v) actions to improve the quality and coverage of educational services, with an emphasis on technical-vocational education and the development of skills among young people, with a view to achieving improvements in the technical abilities and skills of the workforce in line with productive sector needs and with an emphasis on reducing gender and income inequalities.

- 3.26 **Crosscutting issues.** Gender and diversity gaps, climate change adaptation, digitalization, and institutional capacity and rule of law with an emphasis on transparency will be addressed in crosscutting fashion. A gender and diversity perspective will be integrated into the design and implementation of projects, and deployment of the Gender Parity Initiative¹³⁷ will continue to be promoted, particularly in terms of closing the gaps in access to basic services and social security, in labor markets, and in access to credit. To foster diversity, the IDB Group will work on a pilot to test a disability assessment and certification system aimed at prioritizing care for the population with disabilities. In addition, work will continue on boosting universal access and the elimination of barriers for individuals with disabilities in the public transportation system. In adaptation to climate change, the IDB Group will emphasize alignment with the Paris Agreement, implementation of the Nationally Determined Contributions (NDCs), promotion of sustainable and resilient productive and social infrastructure, adequate management of water and marine resources, increase in renewable energy, and protection and recovery of the country's natural capital (including coastal resources, beaches, mangroves, and forests). In addition, the IDB Group will carry out actions aimed at continuing both to improve the digitalization of public services to bolster governance and transparency in public institutions, and to upgrade the connectivity infrastructure with a view to closing the digital gap. Lastly, efforts will be made to strengthen institutional capacity and the rule of law. In this regard, beyond what is described in the public management and fiscal institutions area, the IDB Group will identify opportunities for strengthening sector institutions in the productive reactivation area, while also working in the human capital area

¹³⁷ This initiative, coordinated by the Bank and IDB Invest, supports the public and private sectors in boosting women's positions of leadership and participation in the workforce and in closing the wage gaps between men and women.

on enhancing the transparency and targeting of the beneficiary systems, among other actions.

- 3.27 **Areas for dialogue.** The IDB Group will maintain a dialogue with the country on public-private coordination to foster innovation and entrepreneurship, justice and citizen security, monitoring and evaluation of affordable housing programs, and migration.¹³⁸

IV. ESTIMATED FINANCIAL SCENARIO

- 4.1 According to the fiscal projections prepared by the Ministry of Finance, the gross financing needs of the NFPS for 2021 and 2022 will be 5.9% and 6.5% of GDP, respectively. These needs will be covered primarily with external financing, mainly global bonds. Against this backdrop, the indicative sovereign financing scenario assumes average annual approvals of US\$461 million, for a total of US\$1.845 billion for the 2021-2024 period, and average annual disbursements of US\$431 million (for a total of US\$1.724 billion), the final amount being subject to the Bank's Ordinary Capital resource allocation exercises. The net flows for the country are expected to total US\$284 million for the period. Under these assumptions, the debt to the Bank could amount to 13% of the external public debt at the end of the period (see Annex III).

V. IMPLEMENTATION CONSIDERATIONS

- 5.1 **Portfolio execution.** The portfolio, including projects currently in the process of Congressional ratification, is an integral part of the new country strategy. To ensure it is implemented promptly and contributes to the results identified in Annex I, the Bank will continue to support the executing agencies and work on improving their capacity to handle project procurement, planning, and management tasks. In addition, the Bank will coordinate with the Ministry of Finance to prioritize the interventions and secure adequate budget allocations within the current fiscal restrictions.
- 5.2 **Program flexibility.** The uncertainty regarding the post-COVID-19 recovery will require both flexibility in the allocation of resources and the provision of technical assistance to offer relevant solutions to the conditions to be faced by the Dominican Republic. Accordingly, the IDB Group's contribution should be approached comprehensively, identifying opportunities where value can be added based on the Bank's existing strategic positioning in the country and the changes in the context.
- 5.3 **Synergies within the IDB Group.** In the current context, it is essential to identify and explore avenues for joint work between the Bank's windows to take advantage of opportunities in areas such as integration into value chains and PPPs with a view to boosting outcomes. To improve public-private coordination and maximize the impact of the operations implemented by the IDB Group as a long-term partner in the development of the Dominican Republic, the IDB, IDB invest, and IDB Lab

¹³⁸ The Bank is currently conducting a study of Haitian migration in the country and preparing a technical cooperation operation to support migrants and their descendants, including carrying out the National Survey of Immigrants 2022 and supporting interinstitutional coordination.

will continue to promote a coordinated dialogue with the authorities, while at the same time pursuing operational synergies. Four areas where the IDB Group will seek to strengthen the synergies among its constituent institutions are: (i) digital transformation; (ii) low-income housing; (iii) tourism; and (iv) strengthening of the institutional framework and implementation of projects under the PPP modality.

- 5.4 **Coordination with other donors.** The Bank coordinates with both bilateral and multilateral cooperation agencies active in the country with a view to creating synergies and devising a coordinated approach to the challenges arising in each sector of activity. To this end and in the context of the new strategy, the Bank proposes intensifying this coordination with certain partners in key sectors. Specifically, the Bank will collaborate more closely with the AFD (transportation, social protection, gender and diversity, water and sanitation), AECID (water and sanitation), Central American Bank for Economic Integration (CABEI) and Korea (energy), JICA (energy, solid waste management), GIZ (solid waste management), and USAID and the World Bank (energy, fiscal issues, water, health, housing, and social protection), at all times promoting the government's leadership in each of these sectors to facilitate coordination between cooperation agencies.
- 5.5 **Use of country systems.** The IDB Group will continue to support strengthening the governmental control function by means of efforts aimed at promoting greater alignment with international standards and best practices, greater transparency, and efficiency in managing public finances, through: (i) support for the Office of the Auditor General of the Dominican Republic (CCRD) to strengthen and enhance its capacity to adhere to best practices and adopt international standards; (ii) support in putting the Treasury Single Account into use for managing external resources; (iii) strengthening of the government's transparency and integrity agenda by promoting public policies to optimize internal control, foster open government and public ethics, and support targeted transparency policies to ensure efficient management of public expenditure (DR-L1150); (iv) improvements in the Integrated Financial Management System (SIGEF) (DR-L1117¹³⁹); and (v) dialogue with the Ministry of Finance's Government Accounting Bureau (DIGECOG) to support the implementation of International Public Sector Accounting Standards (IPSAS).
- 5.6 The Bank will continue to support strengthening the national government procurement system to ensure it is aligned with international standards and best practices in public procurement. The following activities will be supported: (i) modernization of the legal framework by updating Law 340-6 and its supplementary texts; (ii) strengthening of the role of the Procurement Bureau in training the various State procurement agencies and establishing a training/professionalization program aimed at these agencies and at State providers; (iii) ongoing development and improvement of the electronic system for managing procurement processes (transaction portal); and (iv) implementation of the actions identified in the most recent evaluation of the country system, including support for merging the public procurement system into the State financial management system and coordinating between the various State control entities (Table 1).

¹³⁹ DR-L1117. Program to Enhance the Efficiency of Tax Administration and Public Expenditure Management in the Dominican Republic.

5.7 Environmental and social governance country systems. The Dominican Republic has a sound legal framework for maintaining and protecting the country’s natural resources and regulating their use in a sustainable manner. However, the institutional and technical capacity needs to be strengthened. Accordingly, in view of the country’s exposure to climate risks and to protect against potential social and labor risks, support will be provided to develop the capacities required to comply with the Bank’s new Environmental and Social Policy Framework, including: (i) developing asset management tools and building the capacity to update them; (ii) developing upstream planning tools and methodologies; (iii) building capacity to ensure country ownership and supporting the development of an institutional framework to ensure that these aspects are integrated into the decision-making processes; and (iv) updating infrastructure design, construction, and maintenance regulations to include disaster risks associated with climate change.

Table 1: Country systems

Use of country systems*	Baseline 2021	Estimated use 2024	Planned actions during the country strategy period
Budget	100%	100%	There are no planned actions.
Treasury	100%	100%	Support for ongoing implementation of use of the Treasury Single Account in Bank-financed projects.
Accounting and reporting	100%	100%	Dialogue for support in the implementation of International Public Sector Accounting Standards (IPSAS). Inter-regional dialogues, e.g., FOCAL, FOTEGAL.
Internal auditing	0%	0%	Support for the Comptroller General’s Office to strengthen the regulatory and procedural framework.
External auditing	0%	0%	Update of the CCRD performance evaluation using the SAI Performance Measurement Framework and preparation of a roadmap for improvements. Support for implementation of the strengthening actions identified in the evaluation.
Information system	100%	100%	Support based on the actions identified in the country system evaluation process and in the diagnostic assessment of the electronic procurement portal.
Shopping	5%	100%	Support based on the actions identified in the country system evaluation process and in the provisions for implementation set out in the technical aide-mémoire between the DGCP and the Bank.
Individual consultants	5%	5%	Support based on the actions identified in the country system evaluation process.
Partial national competitive bidding (NCB)	5%	5%	Support based on the actions identified in the country system evaluation process.
Advanced NCB	5%	5%	Support based on the actions identified in the country system evaluation process.

* Does not include policy-based loans.

VI. RISKS

6.1 Macroeconomic risks. Being a small and open economy, the Dominican Republic is highly vulnerable to external shocks that could affect government priorities and the implementation of activities under the action areas of this strategy. The country is exposed to the uncertainty of the global environment and the volatility of

international commodity prices. A decline in growth in the United States, which is the leading market for the country's exports and the main source of remittances and tourism flows, would have detrimental effects on the economy. Moreover, a significant rise in oil prices could exert pressure on public expenditure (due to higher transfers to the electricity sector), weaken the current account balance, and create inflationary pressures, with negative impacts on the poverty level. Lastly, the country could be forced to reintroduce restrictions to contain outbreaks of new COVID-19 variants, which would affect economic growth. To mitigate these risks, the Bank will work with the government on revenue collection and expenditure management issues, and will closely monitor the trends in the main indicators through macroeconomic safeguard mechanisms, with a view to helping to identify corrective action in a timely manner. In addition, the Bank will continue to work in close coordination with other multilateral agencies to ensure synergies between the various programs and the needs for reform and prioritization of investments in the framework of any potential adjustments that may be required based on the macroeconomic context. At the same time, the Bank will monitor progress in administering COVID-19 vaccines in the country, identifying actions that could assist the government in this process.

- 6.2 **Execution.** The prolongation of the pandemic and the need to keep adjustment measures in place to address it could affect the pace of portfolio execution. In addition, it could take time to effectively apply the Bank's new risk management framework and newly expanded procurement policies to projects. To mitigate these risks, the Bank will expand the training initiatives available to the staff of the executing agencies in the areas of project management, risk-based management, and procurement policies. Another risk arises from the complexity of the national process for registering government-signed contracts at the Comptroller General's Office. To mitigate this risk, the Bank will intensify its dialogue with the Comptroller General's Office with a view to establishing a procedure for ad hoc inspection and registration of contracts financed with resources from the Bank's loan operations. Lastly, the risk of delay in the ratification of projects could set back the start of their execution. To mitigate this risk, the Bank will engage in an ongoing dialogue with the authorities to ensure that approved operations are given priority.
- 6.3 **Natural disasters and climate change.** The Dominican Republic is highly exposed to various natural threats that give rise to major economic and social consequences and will increase with the effects of climate change. The occurrence of a significant event could alter the country's programming priorities and the prospects for recovery after the pandemic. In accordance with the Bank's operational policy OP-704 and in implementing the methodology for assessing disaster and climate change risk, the IDB Group will seek to help mitigate these risks by making the Bank's knowledge, mechanisms, and instruments for addressing such events available to the authorities and incorporating elements favoring natural disaster risk prevention, mitigation, and management into the planning,¹⁴⁰ preparation, and design of the various operations.

¹⁴⁰ For example, the Bank developed the Blue Spot Analysis methodology to identify and prioritize investments and policies designed to strengthen the resilience of the Dominican transportation network. <https://blogs.iadb.org/sostenibilidad/en/blue-spot-analysis-can-strengthen-the-resilience-of-transport-against-natural-disasters-in-the-dominican-republic/>

ANNEX I: RESULTS MATRIX AND COUNTRY SYSTEM MATRIX

1. Results matrix

Government priority	Priority area of the country strategy	Strategic objective of the IDB	Expected results	Indicators	Baseline (source and year)
Efficient, transparent, and results-oriented public administration	Public management and fiscal institutional framework	Increase the efficiency of the tax system	Increased tax collection due to administrative and policy measures	Tax collection / GDP (%)	13.3% (2019, Ministry of Finance)
			Reduced tax expenses	Tax expenses (income tax and ITBIS) ¹⁴¹ / GDP (%)	4.6% (2020, Ministry of Finance)
		Increase the efficiency of public expenditure	Better targeting of public expenditure	Social assistance expenditure allocated using official targeting criteria (%) ¹⁴²	8.39% (2021, DIGEPRES)
			Reduced fiscal burden associated with the electricity sector	Electricity sector subsidies / GDP (%)	0.5% (2019, Central Bank)
				Revenue effectively collected / Amount billed ¹⁴³ (%)	94.4% (2020, CDEEE performance report)
		Improve the quality of the civil service and enhance transparency in public management	Improved human resource management in the civil service	Total number of central government public employees (including SNS) ¹⁴⁴ / Total population	4.7% (2019, SASP, SIGEF, and ONE projections)
			Increase in number of women filling managerial positions in the executive cabinet	Ministry portfolios in a presidential term or administration of a prime minister filled by women (%)	14.3 (Last presidential term, ECLAC)
			Increased transparency in public resource management	Corruption Perceptions Index ¹⁴⁵ value (0-100)	28/100 (2019, CPI)

¹⁴¹ Tax expenses are estimated as the tax revenue amount that the government treasury has waived by granting preferential tax treatment not provided for in the tax legislation in order to benefit specific areas or taxpayers. Tax expenses typically take the form of exemptions, deductions, credits, or deferred payments (Ministry of Finance). They are calculated ex post as the proportion of income taxes, taxes on industrialized goods and services, and other direct and indirect taxes (net worth tax, selective hydrocarbon consumption tax, other selective consumption taxes, and taxes on the use of properties and licenses) not collected in a given fiscal year, over GDP.

¹⁴² These criteria are managed through the Consolidated System of Beneficiaries (SIUBEN), which is the institution responsible for identifying those in need to ensure their access to social programs and cash subsidies in line with their degree of need.

¹⁴³ Collection effectiveness in electricity distribution. Electricity distribution utilities. Revenue collected is the amount effectively collected by the distribution utilities, while the amount billed is the total value of the power billed to users for electricity service (Electricity Compact Resolution SIE-061-2021).

¹⁴⁴ Servicio Nacional de Salud [National Health Service].

¹⁴⁵ Index prepared by Transparency International, ranking 180 countries based on the perceived level of corruption in the public sector.

Government priority	Priority area of the country strategy	Strategic objective of the IDB	Expected results	Indicators	Baseline (source and year)
			Increase in number of digitally transformed public services	United Nations E-Government Development Index ¹⁴⁶	0,6782 (2020, EDGI, UN)
Sustainable, inclusive, and competitive economy	Sustainable and inclusive productive reactivation	Improve support services for the productive sector, with an emphasis on strengthening linkages, competitiveness, and resilience	Increased linkage of export activities to national production and the local economy	Annual local expenses of free-trade zone companies incurred from local companies / Total free-trade zone imports (%)	42% (2019, CNZFE) ¹⁴⁷
				Spending by international visitors over total exports (%)	38.2% (2019, WTTTC)
			Increased financing facilities for MSMEs	Commercial loan portfolio allocated to MSMEs (% of GDP)	4.2% of GDP (2019, SB) ¹⁴⁸
			Improved quality of transportation and logistics infrastructure	Score in the infrastructure component of the Logistics Performance Index ¹⁴⁹	2.36 (2018, World Bank)
			Improved road conditions	Percentage of secondary roads in good condition (IRI<=3)	20% (2015, Ministry of Public Works and Communications)
			Increased energy generation from renewable sources and improved quality of supply ¹⁵⁰	Power generated from renewable sources / Total power generated in the system (%)	15.3% (2020, Annual report of the coordination mechanism, OC)

¹⁴⁶ The index shows the state of e-government development in United Nations member countries, reflecting how countries use information technology to promote access and inclusiveness for their population.

¹⁴⁷ Calculated as total local expenses incurred by free-trade zone companies as a proportion of the value of their imports in a given year. Source: Annual Statistical Reports by the CNZFE.

¹⁴⁸ Superintendency of Banks and BCRD.

¹⁴⁹ The Logistics Performance Index is an indicator estimated by the World Bank for 160 countries. It is intended to identify the relative level of logistics competitiveness and trade facilitation in these economies, as well as assess the resulting challenges and opportunities. Specifically, the score in the infrastructure component of this index reflects the perceptions of logistics in a country as a function of the quality of their trade- and transportation-related infrastructure. The index ranges from 1 to 5, where a higher score denotes better performance (WDI, World Bank in <https://datos.bancomundial.org/indicador/LP.LPI.OVRL.XQ>).

¹⁵⁰ Increase in installed capacity for renewable energy that would contribute to the 17.62% emission reduction target with respect to the 2030 BAU scenario for the energy sector indicated in the country's NDC.

Government priority	Priority area of the country strategy	Strategic objective of the IDB	Expected results	Indicators	Baseline (source and year)
Society with equal rights and opportunities	Strengthening of human capital			Electricity service supply ratio ¹⁵¹ (proportion of satisfied demand in the electricity system) (%)	96.0% (2020, CDEEE Performance Report)
				Electric power distribution losses / Total power available for distribution ¹⁵²	33.5% (2020, CDEEE Performance Report)
			Improved and upgraded digital connectivity infrastructure and creation of digital capabilities	Networked Readiness Index ¹⁵³ value	45.77 (2020, NRI INDOTEL)
				Broadband subscriptions per 100 inhabitants	8.86 people (2019, World Bank WDI)
		Improve human capital formation	Improved educational options to support youth integration into the labor market	Number of young graduates of INFOTEP in-person, blended, or online training per year	880,368 people (2019, INFOTEP)
		Strengthen the social protection networks	Increase in number of household beneficiaries of the conditional cash transfer programs	ICV-I and ICV-II households receiving conditional cash transfers ¹⁵⁴ (%)	45% (2018, Supérate)
Improve the efficiency, quality, and coverage of health services	Reduced maternal mortality	Maternal mortality ratio (per 100,000 live births)	126 (2020, Ministry of Public Health)		
	First level of care strengthened	Percentage of financial resources allocated to primary healthcare over estimated needs according to the model of care ¹⁵⁵ (%)	35% (2019, SNS Institutional Strategy Plan)		

¹⁵¹ This indicator reflects the total power purchased in the system by the distribution utilities (R_t) as a proportion of total demand for power, which includes power purchased and power not supplied by the distribution utilities ($R_t + NA_t$). Formula: $R_t / (R_t + NA_t)$. (Indicator established in Electricity Compact Resolution SIE-061-2021.)

¹⁵² This is the difference between the total amount of power purchased by the distribution utilities in the system (R_t) and the power billed to users by the distribution utilities (EF_t), as a proportion of the total power purchased by the distribution utilities in the system. Formula: $(R_t - EF_t) / R_t$. (Indicator established in Electricity Compact Resolution SIE-061-2021.)

¹⁵³ This is a composite index intended to measure the level of countries' technological readiness to face the digital challenges of the future. The index ranks 134 economies based on 60 variables grouped into four pillars: technology (Internet and fixed and mobile broadband access, digital content and technology development); persons (number of Internet service users and subscribers, investment in digital skills, digitalization of processes); governance (confidence in digital services, regulatory quality); and impact (impact of connectivity on the various SDGs and on the quality of life of the population).

¹⁵⁴ The SIUBEN identifies and classifies households according to the quality-of-life index (ICV). Households living in extreme poverty and in moderate poverty are respectively classified as ICV-I and ICV-II category households, and the score within each category varies based on whether the household resides in a rural, urban, or metropolitan area (2020, Supérate).

¹⁵⁵ The model of care describes the optimal means of organizing healthcare actions so as to satisfy the requirements and demands of the community and sector (PAHO).

Government priority	Priority area of the country strategy	Strategic objective of the IDB	Expected results	Indicators	Baseline (source and year)
				Population protected by governmental health insurance (%)	93% (June 2021, SISALRIL)
			Increased immunity against COVID-19	Population fully vaccinated against COVID-19 (%)	45.58% (September 2021, Ministry of Public Health)
		Boost access to improved water and sewer services	Improved delivery of water, sewer, and solid waste management services for the vulnerable population	Percentage of the population with access to safe drinking water	81.9% rural, 85.4% urban (2015, WDI)
				Percentage of the population using improved sanitation facilities (sewer connections)	5% rural, 27% urban (2017, UNICEF, PAHO) ¹⁵⁶

2. Country system matrix

Strategic objective	Expected result	Indicator	Unit of measure	Baseline	Baseline year	Main objective	Frequency	CRF alignment
Increase in the use of country systems	Maintain use of the budget subsystem	Active portfolio using the budget subsystem	Percentage of the active portfolio	100%	2021	100%	At the end of the strategy period	Institutional capacity
	Maintain use of the Treasury Single Account	Active portfolio using the Treasury Single Account	Percentage of the active portfolio	100%	2021	100%	At the end of the strategy period	Institutional capacity
	Maintain use of the accounting and reporting subsystem	Active portfolio using the accounting and reporting subsystem	Percentage of the active portfolio	100%	2021	100%	At the end of the strategy period	Institutional capacity
	Increase use of the shopping subsystem	Active portfolio using the shopping subsystem	Percentage of the active portfolio	5%	2021	100%	At the end of the strategy period	Institutional capacity

¹⁵⁶ Progress on household drinking water, sanitation, and hygiene: 2000-2017. Special focus on inequalities. United Nations Children's Fund (UNICEF) and World Health Organization (WHO), 2019.

Strategic objective	Expected result	Indicator	Unit of measure	Baseline	Baseline year	Main objective	Frequency	CRF alignment
	Maintain use of the information subsystem	Active portfolio using the information subsystem	Percentage of the active portfolio	100%	2021	100%	At the end of the strategy period	Institutional capacity
Strengthening of country systems	Use of the Single Treasury Account to manage external resources	Implementation of the Treasury Single Account in Bank-financed projects	Percentage of the loan portfolio	70%	2021	100%	At the end of the strategy period	Institutional capacity
	CCRD evaluated under the SAI Performance Management Framework (SAI PMF)	Final SAI PMF evaluation report	SAI PMF report	0	2021	1	At the end of the strategy period	Institutional capacity
	Implementation of the action plan for adopting the International Public Sector Accounting Standards (IPSAS)	Participation in inter-regional events/dialogue	Number of events attended	1	2021	4	At the end of the strategy period	Institutional capacity
	Strengthening of the regulatory and procedural framework for the Comptroller General's Office	Training in the Internal Audit Technical Framework (MTAI)	Number of public officials trained in basic internal control standards	0	2021	200 users; one training course per central government institution	At the end of the strategy period	Institutional capacity
	Implementation of the action plan resulting from the MAPS evaluation	Progress in implementing the action plan	Percentage of progress in implementing the plan	20%	2021	80%	At the end of the strategy period	Institutional capacity

ANNEX II. MAIN ECONOMIC AND SOCIAL INDICATORS

Economic indicators	2016	2017	2018	2019	2020
Real GDP growth	6.6	4.6	7	4.9	-6.7
GDP (US\$ billions)	75.8	80.1	85.6	89.0	78.7
Nominal GDP per inhabitant (US\$)	7,521	7,875	8,341	8,596	7,530
Gross fixed capital formation (% of GDP)	23.0	22.5	25.8	26.0	25.6
Gross national savings (% of GDP)	21.9	22.3	24.4	24.7	22.4
Inflation (end of period, %)	1.7	4.2	1.2	3.7	5.5
Exchange rate (average, RD\$/US\$)	46.1	47.5	49.5	51.3	56.6
Real effective exchange rate (year-on-year % change) *	-0.9	-2.2	-3.3	-1.2	-5.2
Current account deficit (% of GDP)	-1.1	-0.2	-1.4	-1.4	-2.0
Trade deficit (% of GDP)	-10.0	-9.5	-10.9	-10.2	-8.6
Remittances (% of GDP)	6.9	7.4	7.6	8.0	10.4
Foreign direct investment (% of GDP)	3.3	4.7	3.1	3.4	3.3
Portfolio investment (% of GDP)	2.4	2.3	3.3	2.0	7.2
Net int'l reserves (US\$ billions, end of period)	6.1	6.8	7.6	8.7	10.8
Nonfinancial public sector balance (% of GDP)	-2.8	-2.9	-2.4	-2.3	-7.6
Central Bank balance (% of GDP)	-1.3	-1.2	-1.1	-1.0	-1.4
Consolidated primary balance	-0.2	-0.1	0.4	0.8	-4.2
Nonfinancial public sector debt (% of GDP)	35.3	36.9	37.6	40.4	56.7
External debt (% of GDP)	23.2	23.5	25.2	26.3	37.8
Internal debt (% of GDP)	12.1	13.4	12.4	14.1	16.2
Consolidated public sector debt (% of GDP)	45.0	46.5	47.9	50.5	69.2
Social indicators					
Population (millions)	10.1	10.2	10.3	10.4	10.5
Open unemployment rate	5.5	5.1	5.2	6.2	7.4
Poverty rate	30.5	25.6	22.8	21	23.4
Extreme poverty rate	6.5	3.8	2.9	2.7	3.5
Life expectancy at birth (years)	73.5	73.7	73.9	74.1	n/a
Infant mortality rate (per 1,000 live births)	25.4	24.80	24.1	23.5	n/a

ANNEX III. PRELIMINARY FINANCIAL SCENARIO FOR SOVEREIGN DEBT 2021 – 2024

(in US\$ millions and percentages)

	Country strategy 2017-2020				Total	Country strategy 2021-2024				Total
	2017	2018	2019	2020	2017-2020 ¹⁵⁷	2021	2022	2023	2024	2021-2024
Approvals*	366	795	339	500	2,000	545	600	350	350	1,845
Disbursements	115	344	464	780	1,702	270	433	506	515	1,724
Repayments	139	139	144	172	594	183	230	271	467	1,152
Net lending flow	(24)	204	320	607	1,108	87	203	235	48	573
Interest and fees	75	92	111	82	360	80	64	61	56	261
Net cash flow	(99)	113	209	526	748	7	139	174	(8)	312
Debt to IDB	2,965	3,170	3,491	4,100		4,202	4,232	4,261	4,073	
IDB debt / GDP (%)	4%	4%	4%	5%		6%	5%	5%	5%	
IDB debt / Public external debt (%)	16%	15%	15%	13%		14%	14%	14%	13%	
IDB debt / Total public debt (%)	10%	10%	10%	9%		10%	10%	10%	9%	

* Approvals in 2021 do not include US\$30 million in disbursements under the Contingent Credit Facility (DR-L1149) or US\$50 million in cofinancing by Korea.

¹⁵⁷ The approvals in this period include all 2017 approvals.

ANNEX IV. DEVELOPMENT EFFECTIVENESS MATRIX (SUMMARY)

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p>	
COUNTRY STRATEGY: DOMINICAN REPUBLIC	
STRATEGIC ALIGNMENT	
<p><i>Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.</i></p>	
EFFECTIVENESS	
<p><i>This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.</i></p>	
Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- That provide corresponding policy recommendations	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	
- The CS has vertical logic	yes

ANNEX V. OVE's XCPE RECOMMENDATIONS

Management's response to the recommendations of the Extended Country Program
Evaluation: Dominican Republic 2013-2020 (XCPE)

OVE recommendation	Management response
<p>Recommendation 1</p> <p>Focus the new country strategy on key challenges for the country on which the IDB Group has amassed experience and is able to provide continuity toward their resolution. The objectives were overly ambitious and not focused enough. The greatest contribution was made in areas in which the country undertook to carry out a reform process and the IDB Group was able to provide continuous support for its implementation. Therefore, OVE recommends:</p> <ul style="list-style-type: none"> i. Focusing the objectives of the next country strategy on a few areas in which the IDB Group has already amassed experience of value to the country, including through the portfolio in execution and programmatic series that have not yet been closed; and ii. in the event of interruption of the reforms needed to achieve these objectives, explain the reasons for this in the annual programming exercises and propose actions aimed at resuming their continuity. 	<p>Agreed</p> <p>General comments</p> <p>The two strategies covered by this evaluation were the result of dialogue with the authorities, which identified the country's priorities to which the Bank could contribute its technical and operational expertise. Changes to those priorities during implementation made it difficult for the Bank to be able to continue to move forward with certain operations, and some of the challenges identified remain valid today and have been prioritized by country authorities.</p> <p>We agree with OVE that, indeed, the Bank's greatest contribution was in areas in which the country remained committed to the sector reform processes and projects, which enabled the IDB Group to provide timely support for their implementation. At all times, the Bank continued to follow up on areas in which priorities changed in key sectors for the country's development, offering its technical expertise to resume those agendas when the authorities deemed fit.</p> <p>Actions proposed by Management</p> <ul style="list-style-type: none"> i. Over the last year, the Bank has maintained dialogue with the new authorities to agree on areas for the new country strategy. ii. Several criteria were considered in setting the priority areas of the country strategy, including the country's main development challenges that had been identified, the agenda of the government's priority initiatives, and the Bank's potential contribution both in technical and financial terms, the legacy portfolio and lessons learned, operations recently ratified that are to begin execution, the open programmatic series, and potential coordination with other donors. iii. The country strategy in preparation recognizes the importance of improving targeting within each pillar, in response to the specific challenges brought on by the pandemic and in light of the reduced fiscal space available. In addition, coordination with different donors to identify synergies and avoid duplication will continue to be promoted. iv. If any reform processes associated with strategic objectives agreed on with the authorities in the strategy are interrupted, changes in priorities will continue to be reflected in the programming agreements with the authorities and in adjustments to the annual program of outputs with the country, and additional actions will be considered, bearing in mind the country context.

OVE recommendation	Management response
<p>Recommendation 2</p> <p>Boost the role of knowledge products in supporting the country to resolve key issues for its development. The country has achieved high growth levels and enjoys broad financing access in the markets. In this context, the Bank has shown that it can also add value through knowledge products such as its recent survey of infrastructure needs or its assistance with the country's digital transformation plan. Therefore, OVE recommends:</p> <ul style="list-style-type: none"> i. Ensuring that the country strategy sets strategic objectives in areas in which the IDB Group is also able to add value based on knowledge; and ii. Given the potential of this knowledge for the IDB Group's contribution, ensure that the programming envisages its production, facilitates its dissemination, and boosts its use in agreement with the country. 	<p>Agreed</p> <p>General comments</p> <p>We agree with OVE that the Bank has demonstrated that it can add value with knowledge products and technical assistance to engage in technical dialogue on the country's development challenges that leads to concrete policy and investment solutions. During implementation of the previous strategies, the IDB Group used a blend of financial and technical support instruments and ongoing dialogue with all stakeholders, which allowed for progress on the pillars of action and which consolidated the Bank's position as a strategic partner for the Dominican Republic.</p> <p>During implementation of the 2017-2020 country strategy, and as noted in OVE's XCPE, the Bank supported the creation of a bank of projects for infrastructure needs, which served as a basis for a National Infrastructure Plan; support was provided for development of the National Broadband Plan; and the National Road Safety Strategy was developed, among other things. Moreover, the technical cooperation provided additional technical elements to underpin dialogue in the fiscal, electricity, health, transportation, water and sanitation, and logistics sectors, among others.</p> <p>Actions proposed by Management</p> <ul style="list-style-type: none"> i. The new country strategy will stress the importance of the contribution of the Bank's technical expertise, which is based on the capacity to promote innovative approaches and solutions in the investments and services it finances and through policy dialogue on major challenges facing the country. ii. In dialogue with the country, priority will be given to the importance of the technical contribution and identifying a program of technical cooperation operations as part of the annual programming exercises. iii. There will be an effort to disseminate knowledge products to bolster their use in developing policies and designing project.
<p>Recommendation 3</p> <p>Recover IDB Invest's participation in supporting a majority of the priority areas identified in the country strategy. The country strategies envisaged a role for IDB Invest that failed to materialize: In a high-liquidity context, IDB Invest did not succeed in making any contribution beyond the financial sector, despite having broader value adding potential. In particular, the recent approval of a regime for PPPs could unlock new opportunities. Moreover, in line with its attempts to date at providing support and with the country's needs, IDB Invest could support a socially responsible private sector that promotes gender perspectives and climate change mitigation. Therefore, OVE recommends:</p>	<p>Agreed</p> <p>Actions proposed by Management</p> <p>It is important to highlight that the IDB Group country strategy is the only specific document IDB Invest prepares to establish its priority areas and value proposition in a given country. In preparing the country strategy, IDB Invest, as part of the IDB Group, promotes its catalytic role in furtherance of the objectives established therein.</p> <p>IDB Invest's strategic actions in the country and its value proposition are consistent with the recent Small and Island Action Plan Update (S&I Action Plan; document CII/GN-354-1). In that update, Management ratified the target of 10% of total financial commitments per year for this group of countries, which includes the Dominican Republic[1], and it also committed to strengthen the S&I team, increase upstream support for new operations through advisory services, create a space to process small operations more efficiently and manage risk, as well as develop knowledge products and implement communication efforts on IDB Invest's value proposition in the country.</p>

OVE recommendation	Management response
<ul style="list-style-type: none"> i. More effectively outlining in the country strategy how the IDB Group will promote the catalytic role of IDB Invest in support of the strategic objectives; and ii. Ensuring that IDB Invest has or, if necessary, develops a comprehensive value proposition that emphasizes the nonfinancial additionality considerations that are valued by the Dominican private sector. 	<p>Accordingly, aside from what is included in the Bank's country strategy, no other specific documents are expected to be prepared to outline a value offering and separate additionality for the Dominican Republic.</p> <p>[1] Applying a floor of 10% separately among commitments.</p>
<p>Recommendation 4</p> <p>Improve the evaluability of the new country strategy, ensuring that it is monitored in a timely fashion and the planned evaluations are conducted. Monitoring posed challenges with respect to 75% of the indicators selected under the country strategy, partly because these indicators were based on ad hoc surveys that are not frequently updated. Along similar lines, several initiatives supported by the IDB Group included planned final evaluations that were not performed, and the program had a high prevalence of country ownership challenges, partly due to a lack of evidence on the effectiveness of various approaches. Therefore, OVE recommends:</p> <ul style="list-style-type: none"> i. Improving the evaluability of the results framework in the new country strategy, ensuring that the progress indicators selected for monitoring can be measured as frequently as necessary; and ii. Ensuring that the evaluations planned under the program are carried out and encouraging the continued use of this evidence to improve future actions and boost country ownership of the successful intervention models promoted by the program. 	<p>Agreed</p> <p>Actions proposed by Management</p> <p>The Bank agrees on the need to improve the results matrix in the new country strategy, identifying indicators that are duly available and reliable, to allow for better monitoring of results.</p> <ul style="list-style-type: none"> i. In preparing the results matrix for the new country strategy, care will be taken to ensure that the output indicators are well defined (SMART) and have appropriate periodicity in order to improve country strategy evaluability. ii. It will be ensured that operations have a sound monitoring and evaluation plan and that lessons learned are used as input in designing new interventions.