2 Elements for a forward-looking policy agenda in the Dominican Republic

The Dominican Republic has developed a national development strategy to achieve sustainable and inclusive growth by 2030. The national development model based on special economic regimes that has been driving growth since the 1960s, requires an update, especially in light of the COVID-19 pandemic. This chapter assesses current policies to transform the economy and identifies avenues for reforms based on the PTPR peer review process.

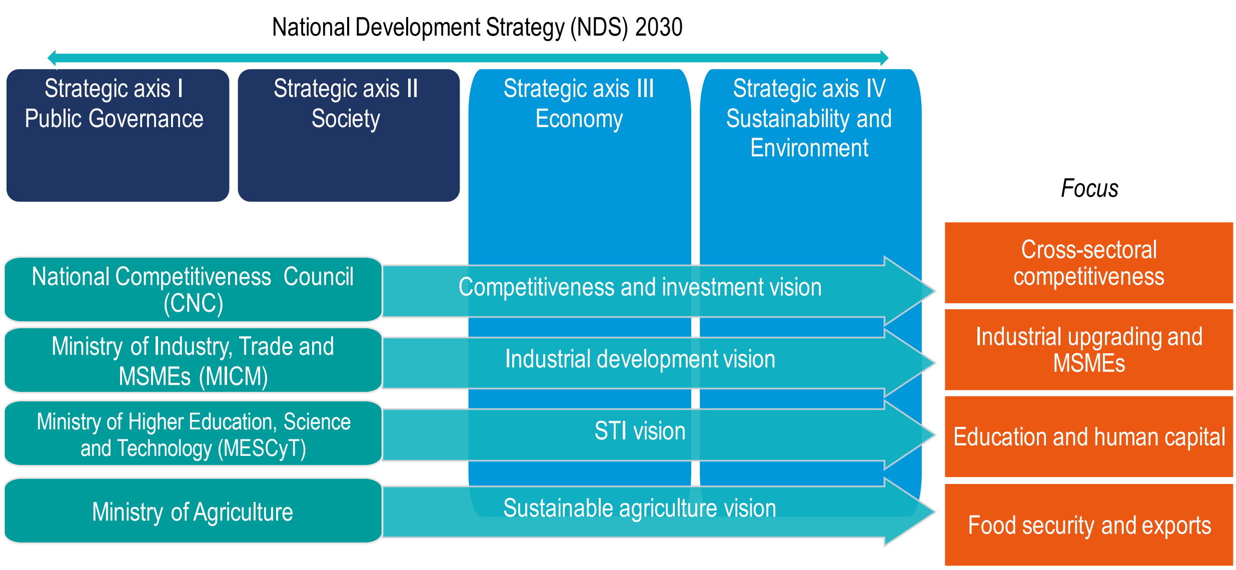
Introduction

The Dominican Republic needs a new approach to national development that begins to address growing demands for a more equitable society. This chapter provides an analysis of the country's current transformation strategy. Based on peer learning and review process carried out in the framework of the PTPR, it provides an overview of the institutions and agendas linked to competitiveness, trade, investment, and innovation. It also analyses the current policy mix and indicates elements for future reforms.

Sustainable and inclusive development are at the core of the national development vision

The National Development Strategy (NDS) 2030 establishes the long-term priorities for the Dominican Republic (MEPyD, 2012[1]). This strategy, co-ordinated by the Ministry of Economy, Planning and Development (MEPyD) in co-operation with the National Council for State Reform (CONARE), was approved by law in 2012 (Law 1/2012) and lays out priorities for public investment. Over the years, a growing number of institutions and ministries elaborated multiple sub-strategies for achieving the objectives included in the NDS. These include the competitiveness and investment agenda led by the National Competitiveness Council (CNC), the industrial development agenda of the Ministry of Industry, Trade, Micro and SMEs (MICM), the agenda of the Ministry of Higher Education, Science and Technology (MESCyT) and the sustainable agricultural vision of the Ministry of Agriculture (MINAGRI) (Figure 2.1).

Figure 2.1. The pillars of the 2030 national development strategy in the Dominican Republic



Source: Authors' illustration based on official information from the NDS (MEPyD, 2012[1]) http://economia.gob.do/mepyd/wp-content/uploads/archivos/end/marco-legal/ley-estrategia-nacional-de-desarrollo.pdf

Government and private sector commitment are key to transform the economy

Fostering industrial development, competitiveness and innovation in the Dominican Republic fall under the responsibility of several institutions (Figure 2.2):

- Created in 1935 as the State Secretary for Industry and Tourism, the MICM was granted ministerial rank in the constitutional reform of 2010. The reform of 2017 reinforced its mandate to also promote the development of micro, small and medium enterprises (MSMEs). In 2019, it employs around 2 500 professionals and has a total budget of USD 120 million in 2019 (0.7% of total national budget).[1] Currently, the MICM manages two main overlapping agendas that depart from the NDS: the Strategic Sectoral Plan for Industry and Trade 2018-2030 *(Plan Estratégico Sectorial de Industria y Comercio – PESIC)* and the Institutional Strategic Plan 2018-2021 *(Plan Estratégico Institucional 2018 – 2021- PEI-MICM).* At present, the MICM counts with five vice-ministries: domestic and foreign trade, industrial development, MSMEs and Free Trade Zones (FTZs). Thirteen implementation and regulatory bodies fall under the MICM, including:
    - The National Council of Free Trade Zones (CNZFE). Created in 1978, it is the independent authority under the MICM that regulates the functioning of FTZs and approves the applications for firms willing to operate within their boundaries and rules.
    - Proindustria, set up in 2007 as the successor of the Industrial Development Corporation (CFI), is in charge of developing the local manufacturing industry, hosts the business register and is in charge of granting the incentives for the local industrial sector.
    - The Export and Investments Centre of the Dominican Republic (CEI-RD), created in 2003, merged the Export Promotion (CEDOPEX) and the Office of Promotion of Investments of the Dominican Republic (OPI-RD) and today is responsible for attracting investment and export promotion.
    - The National Council for the Promotion and Support of Micro, Small and Medium Enterprises (PROMIPYME), created in 1997, provide financing and technical assistance to MSMEs.
    - The National Office for Industrial Property (ONAPI), created in 2000, is responsible for intellectual property in the country.
- MESCyT was set up in 2010 in the constitutional reform as an upgrade to the Secretariat for Higher Education, Science and Technology. In 2019, it had a budget of USD 290 million (1.8% of total national budget). The ministry includes an affiliated research institute, the National Institute for Biotechnology and Industry (IIBI). In 2007, to strengthen the institutional framework for science, technology, and innovation and to support the research and education agenda, the government created the National System for Higher Education, Science and Technology (SNESCYT), and the National System of Innovation and Technological Development (SNIDT). These co-ordinating bodies, chaired by the MESCyT, have similar, overlapping organisation structures that limit their autonomy, their budgetary decisions and implementation capacity, especially in the area of technology and innovation.
- The Ministry of Agriculture is one of the oldest institutions in the country, founded in 1945. The ministry manages the Agricultural Development Bank (Banco Agricola) and oversees the National System of Agricultural and Forestry Research (SINIAF).
- The Ministry of Labour, in addition to promoting and implementing employment-related policies and programmes, similarly to other countries in Latin America, oversees the National Institute of Vocational Technical Training (INFOTEP). This institute operates as an autonomous agency that provides on-the-job training to almost one million people annually through its network of six regional training centres. INFOTEP is mainly financed through a 1% earmark on monthly salaries of all formal workers, and through a 0.5% deductible from annual earnings that employees receive from the company.

In the Dominican Republic, the private sector plays an important advocacy role for public policies. Besides contributing to the strategic decision of the CNC as well as seating in several councils such as CNFZE and ProIndustria, it stimulates the public policy debate by proposing reforms and discussions within the business convention. The National Council of Private Enterprise (CONEP), created in 1962, is the biggest business association in the country that gathers both single enterprises or sectoral business associations with high advocacy power. Other relevant associations are the Dominican Republic Industries Association (AIRD), ProIndustria, and the Dominican Association of SEZs (ADOZONA), which supports stakeholders involved in the development of SEZs such as operators, firms and investors.

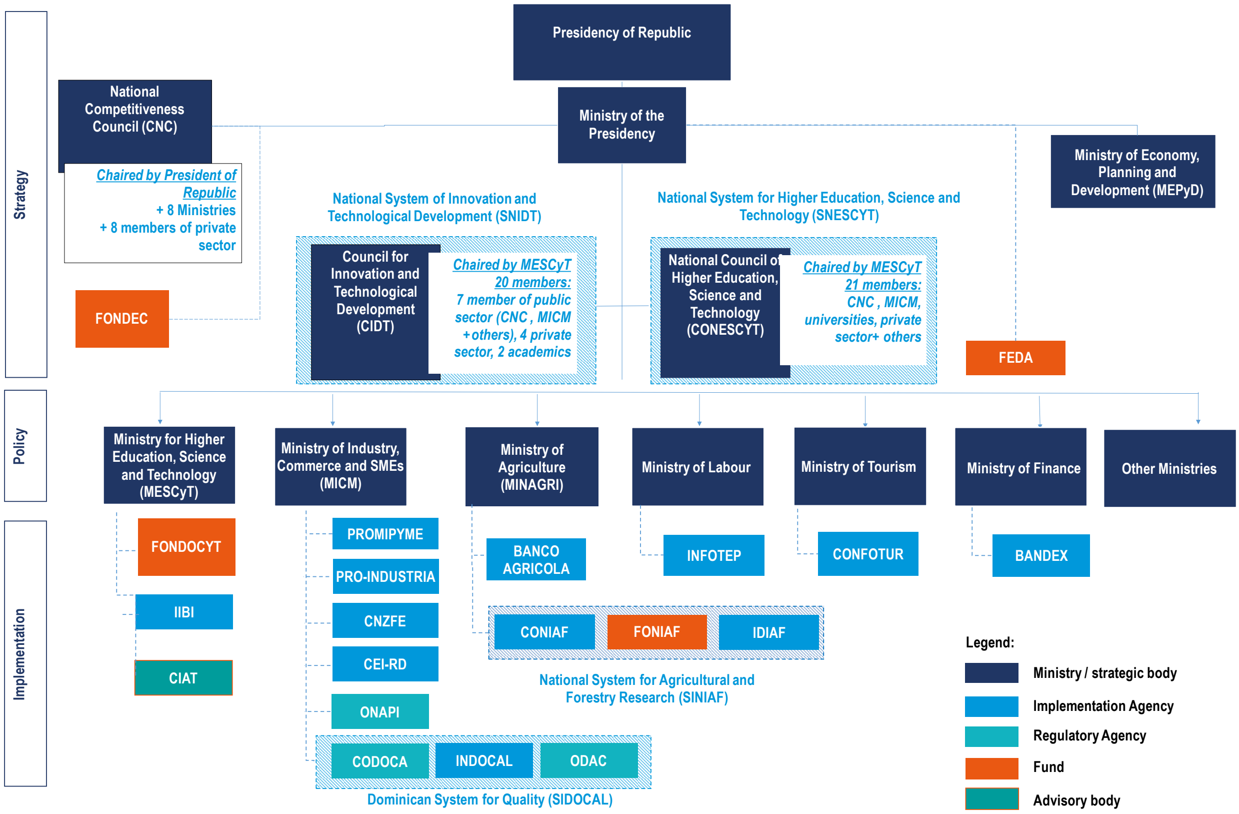
The institution in charge of facilitating public and private dialogue is the National Council for Competitiveness (CNC). The CNC is chaired by the President of Republic and composed of eight ministries and eight representatives of the private sector. It was created in 2001 to manage the Competitiveness Fund (FONDEC). The FONDEC, financed by the IADB, provided resources that required private matching funds to set up industrial clusters. From its inception until 2012, the fund co-financed the creation of 45 clusters for a total of USD 13.5 million (16 clusters in agro-food, 15 in tourism, and 14 in manufacturing). The co-financing from the private sector was 14% of the total investment, lower than expected. The IADB's evaluation stressed that the most successful clusters (mangos, organic coffee) were those that emerged in response to private-sector demand and supported by the international technical assistance of the United States Agency for International Development (USDA) (IADB, 2010[2]). Once exhausted its mission of managing the FONDEC, the CNC remained and evolved into a strategic body. In 2018, it formulated an agenda, Competitive Dominican Republic (*Dominicana Competitiva),* pointing to specific reforms needed to diversify domestic production and increase local value-added. The agenda has identified five priority areas and industries for the country, and includes 37 priority actions with an estimated budget of USD 542 million (0.7% of GDP), of which 63% is devoted to implementing actions in agro-food, 28% in tourism and 8% in manufacturing.

Table 2.1. Priority areas and sectors for action in the DR Competitive agenda, 2018-20

	Agro-food	Mining	Manufacturing	Tourism	FTZs
Number of priority actions	6	6	14	7	4
Objectives	• Support the development of prioritised products. • Facilitate financing for producers and exporters. • Improve the quality infrastructure system for standards and certification	• Expand exploration permits	• Facilitate financing for SMEs and exporting firms • Improve the quality infrastructure system for standards and certification • Improve logistics and transport • Reduce red tape • Foster skills and human capital • Promote exports	• Environmental sustainability • Develop tourism in Santo Domingo • Attract new tourist from untapped regions (i.e. Asia)	• Reduce red-tape • Adopt digital technologies • Foster skills and human capital
Involved public institutions	Presidency; MINAGRI; Banco Agricola, BANDEX; Ministry of Finance	Presidency; Ministry of Finance; Ministry of Energy and Mining	Presidency; BANDEX; MICM; CEI-RD; Proindustria; Customs agency; INFOTEP; INDOCAL; CNC	Presidency; Ministry of Tourism; Ministry of Finance; Ministry of Energy and Mining; Ministry of Culture; CEI-RD	DGII; Ministry of Finance; INFOTEP, CNZFE,CNC
Expected associated budget- USD (share of total)	343 (63%)	N/A	45 (8%)	153 (28%)	1.1 (0.2%)

Source: Authors' calculations based on the information provided during the first mission in the context of the PTPR, Santo Domingo, July 2019.

Figure 2.2. Dominican Republic's governance for production transformation, 2019

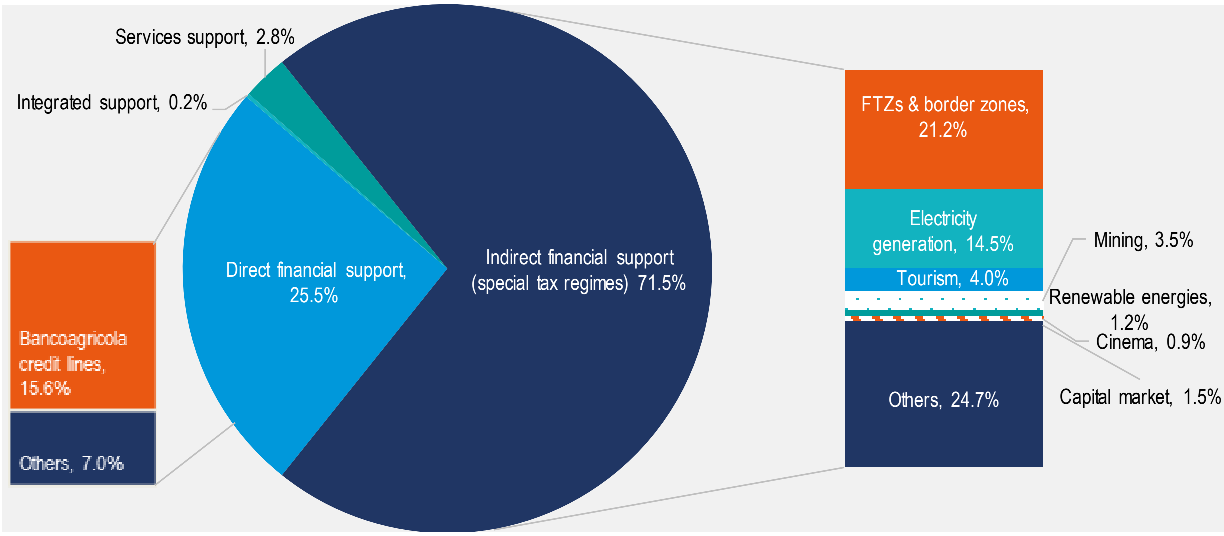


Note: CIAT: The International Advisory Commission of Science and Technology; FONDEC: National Competitiveness Fund; FONDOCYT: National Fund for Innovation and Scientific and Technological Development; FONIAF: National Agricultural and Forestry Research Fund; PROMIPYME: National Council for the Promotion and Support of Micro, Small and Medium-sized Enterprises; CEI-RD: Export and Investment Centre of the Dominican Republic; INFOTEP: National Institute of Vocational Technical Training; CNZFE: National Council of Free Trade Zones; INDOCAL: Dominican Institute of Quality; ONAPI: National Office for Industrial Property; DIGENOR: General Office for Norms and Quality System; IIBI: Institute for Innovation in Biotechnology and Industry; IDIAF: Dominican Institute for Agricultural and Forestry Research. The figure does not include all institutions in the Dominican Republic, only the principal ones linked to policies for production development and innovation.
Source: Authors' illustration based on questionnaire replies during the field missions of the PTPR process, July and December 2019.

Special economic regimes play a prominent role in the policy mix in the Dominican Republic

Creating an effective policy mix for development is not an easy task. It requires a multi-ministerial and multi-agency co-ordination, and in the Dominican Republic, as in other countries, there is not a comprehensive and consolidated official budget. Primary sources of information such as the national budget and tax revenues data along with a survey carried out during the PTPR process, allowed to tackle this task. In 2019, the country had 109 instruments, managed by different institutions, for a total estimated cost of USD 2.4 billion which amounts to 2.9% of GDP (Figure 2.3).

Figure 2.3. Estimated government expenditure for production transformation, by type of instrument, 2019



Note: Indirect financial support are estimated figures and do not consider exemption on personal income taxes.
Source: Authors' research based on questionnaire replies during the PTPR process, General Directorate for National Budget https://www.digepres.gob.do/estadisticas/gastos/, and General Directorate of Internal Taxes (DGII), Estimate for the General Government Budget, https://dgii.gov.do/publicacionesOficiales/estudios/Documents/2019, 2019.

The distinctiveness of the policy mix in the Dominican Republic stems from the prominence of indirect financial support in the form of special fiscal regimes. The emergence of these special regimes dates back to the 1960s. The Industrial Incentive Law (299) of 1968 is the first attempt to spur the industrialisation process of the country by creating the first special regime to attract FDI in sectors where capital and local knowledge was limited. The fiscal incentive packages favoured imports of capital and intermediate goods such as machinery and equipment and led to the creation of the first Free Trade Zone (FTZ) in *la Romana* in 1969 (Pons, 1990[3]; AIRD, 2012[4]). In 2019, the country had 13 special regimes that accounted for more than 71% of the total budget, or roughly 2.1% of GDP (Table 2.2). Each regime offers differentiated tax rates to firms depending on their size, economic sector, geographical location, and main destination of their production.

Among special regimes, the FTZs are the most relevant with 695 beneficiaries – 0.8% of total firms – for a total of roughly USD 500 million in tax expenditures, or 21% of total budget for production development. Another 10% of total budget is linked to special economic regimes for specific industries, including tourism, local manufacturing, and creative industries whereas simplified income tax for micro and SMEs account for roughly USD 500 million (20% of total budget (DIGEPRES, 2019[5]).

Specific institutions are in charge of granting the targeted special regimes. The National Free Zones Council, created in 1978 as an independent authority under the ministry of industry, is the public agency that approves the requests of investments in the FTZs and the creation of new ones. Similarly, in the case of tourism, it is the Tourism Promotion Council (CONFOTUR) affiliated with the Ministry of Tourism that approves and administers the tax incentives.

Table 2.2. Main fiscal regimes for selected production activities, Dominican Republic, 2019

	Legislative framework	Incentive package	Beneficiaries	Responsible institutions	Conditionalities
Targeted to specific industries					
Tourism	Law 158-01 and subsequent modification (Law 184-02 – law 266-04)	• 100% exemption for local and national taxes on registration, construction, gross sales and transfer of industrial goods (e.d. VAT) • Deduction of investment cost from other taxable income at the rate of 20% per year for five years	All domestic and foreign investors Number of beneficiaries: 111	CONFOTUR, Ministry of Finance	• From 2013 the application of the regime only in specific touristic poles is removed
Creative industry	Law 108-10	• Tax credit of 25% of all expenses incurred • 100% VAT exception • Temporary duty-free access to imported goods and services	All domestic and foreign investors Number of beneficiaries: N/A	Intrasectoral council for the promotion cinema activities (CIPAC)	• Minimum investment USD 500 000 • Productions must have a minimum of a 25% Dominicans members
Renewable energies	Law 57-07	• Duty-free access to imported inputs and capital goods • 100% exemption for taxes on gross sales and income taxes until 2020 • 5% tax relief for interest on loans for the development of projects	All domestic and foreign investors Number of beneficiaries: 5	National commission for energy (CNE)	• Equipment, parts, and systems must be produced locally with a minimum aggregate value of 35% • Invectives are subject to maximum installation capacity depending on the energy source
Territorially targeted					
FTZs and border zones	FTZs: Law 8-90 and subsequent modification (Law 56-07- Law 139-11) Border zones: Law 28-01	• Duty-free access to imported inputs and capital goods (15-years for regular FTZs, 20 years for firms located in border zones) • 100% exemption for taxes on registration, construction, gross sales and transfer of industrial goods (e.d. VAT) • 50% exemption of fees for use of ports and airports	Operators, firms, and investors of FTZs Number of beneficiaries: 671 for FTZ and 83 for border zones	CNFZE, Ministry of Finance	• Access to domestic is subject to import duty, 3.5% tax on gross sales and 18% VAT • Non-FTZ firms in priority sectors (textile, footwear, and leather industries) have similar package to those available to the FTZ and enjoyed duty-free access to 126 HS 6-digit key imported inputs. • Renewable at the discretion of CNFZE
Fiscal incentives to foster competitiveness of local firms					
Simplified income tax	Law 11-1992 subsequent modification (Regulation 1521 of 2004 and Regulation 758 - 08)	The definition of the taxable income for income tax and VAT is a function of intermediated purchases for businesses or the income for natural person	Micro and SMEs Number of beneficiaries: N/A	Ministry of Finance	• Eligibility is subject to the firm size
Local industry (ProIndustria)	Law 392-07 and subsequent modification [law 542-14 law 690-12]	• 50% discount of VAT on imported machinery and capital goods; differed VAT scheme and exemption on other taxes • 50% exemption of customs duties for imports and re-exported goods from and to FTZs	Local manufacturing firms	Proindustria, Ministry of Finance	• Applicable to manufacturing firms that obtain the *industrial qualification* subject to 0.1% fees on capital equity

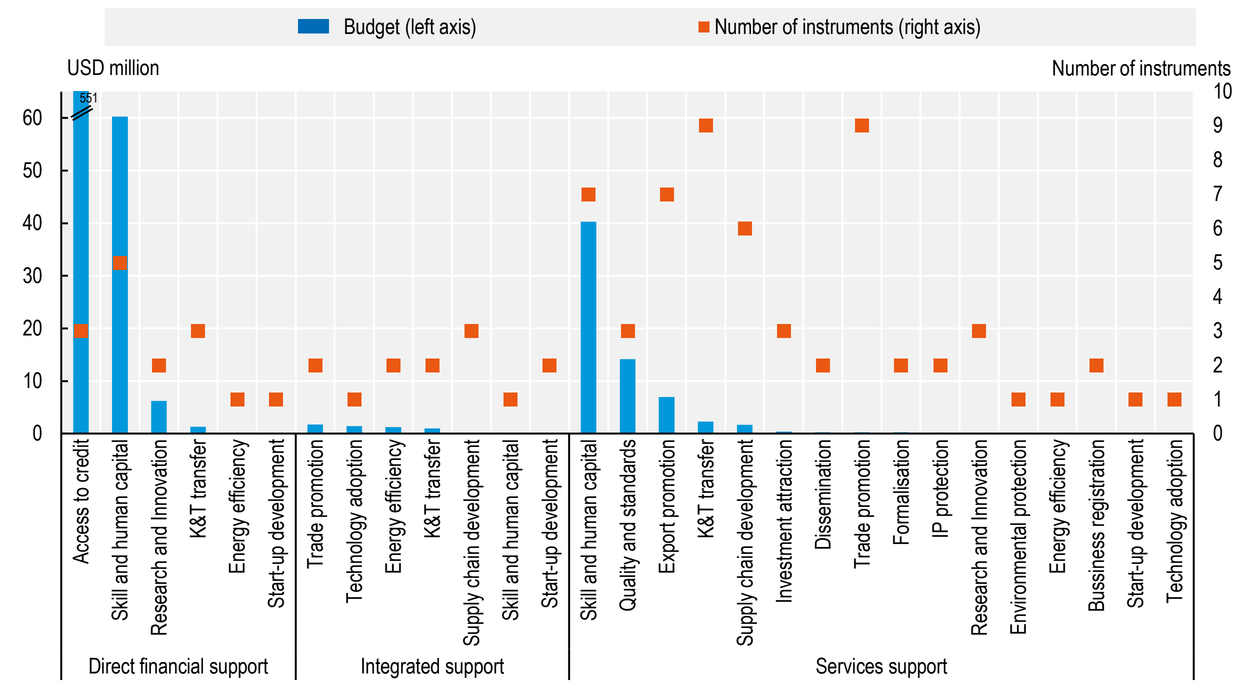
Note: The table is not meant to be complete. It reports only the main tax regimes and incentives schemes relevant to this report. The complete set of tax regimes are available at https://dgii.gov.do.

Source: Authors' compilation based on interviews during the field mission of the PTPR process and General Directorate of Internal Taxes https://dgii.gov.do.

The remaining 29% of the total budget allocated to the policy mix are in the form of direct financial support, services, and integrated support (Figure 2.4). More specifically:

- Direct financial support is mainly driven by the agricultural credit lines of the Bancoagricola, which in 2019 had a portfolio of credit lines worth USD 480 million and is responsible for 55% of the total credit to agriculture. Its beneficiaries are mostly medium and small producers, and agricultural co-operatives. It is followed by the credit lines from Banca Solidaria. Established in 2012, is a second-tier institution managed by PROMIPYME under the MICM that dispenses preferential credit between USD 100 and 10 000 for MSMEs at a subsidised rate of 8%. In 2019, the total credit lines of the bank amounted to USD 123 million. Other direct support includes specific programmes of the MESCyT such as the National and International Scholarship Programme, with a total budget of USD 49 million, followed by the English Immersion Programme with USD 9.5 million and National fund for Innovation, Scientific and Technological Development (FONDOCyT) with USD 5.6 million. Created in 2001, the FONDOCYT is currently the national fund for fostering research. It financed 432 projects between 2005 and 2018 for a total of USD 57 million. The top three beneficiaries accounted for 50% of total disbursed funds: the Autonomous University of Santo Domingo (UASD) with 110 projects for 26% of the total budget, the Pontifical Catholic University (PUCMM) with 15% and the Santo Domingo Institute of Technology (INTEC) with 9%. The main areas of investigation are biotechnology and food safety (30%) and basic science (27%).
- Services and integrated support account only for 3% of the total budget, scattered among the 72 exiting policy tools. The country spent USD 40 million on skill and human capital development, led by the vocational training provided by INFOTEP. However, the majority of instruments have little budget and overlap in terms of actions and objectives. For example, there are 11 ad-hoc instruments for both knowledge and technology transfer, and trade promotion. The bulk of these instruments provide training and mentoring services managed by either the MICM or associated agencies and focus mainly on MSMEs. For example, the CEI-RD as well as the vice minister for MSMEs of the MICM are managing parallel instruments to foster export promotion through the establishment of ad-hoc programmes aimed at new export opportunities. The MICM in 2011-19 inaugurated 24 MSMEs Centres (*Centros Mipymes*) in 14 regions. Each centre, developed in partnership with local universities, provide ad-hoc services and technical support for MSMEs in areas such as formalisation, financing options, internationalisation, and digital technologies. The programme, built on the US experience with support for SMEs with the Small Business Development Center (SBDC) had a total budget of USD 2.4 million in 2018. In 2011-19, the centres supported 3 218 MSMEs firms, or 4% of total MSMEs enterprises in the country. Of those, 41% of firms were in services activities, 17% in commercial activities, and 11% in manufacturing (MICM, 2019[6]). Finally, support for research and innovation and for investment attraction is limited to only three instruments, with a total budget of USD 100 000 and USD 400 000 respectively.

Figure 2.4. Policy tools by budget and objective, 2019



Source: Authors' tabulations based on questionnaire replies during the PTPR process, General Directorate for National budget https://www.digepres.gob.do/estadisticas/gastos/, and General Directorate of Internal Taxes (DGII), Estimate for the General Government Budget, https://dgii.gov.do/publicacionesOficiales/estudios/Documents/2019, 2019.

The Dominican Republic has taken steps to foster competitiveness

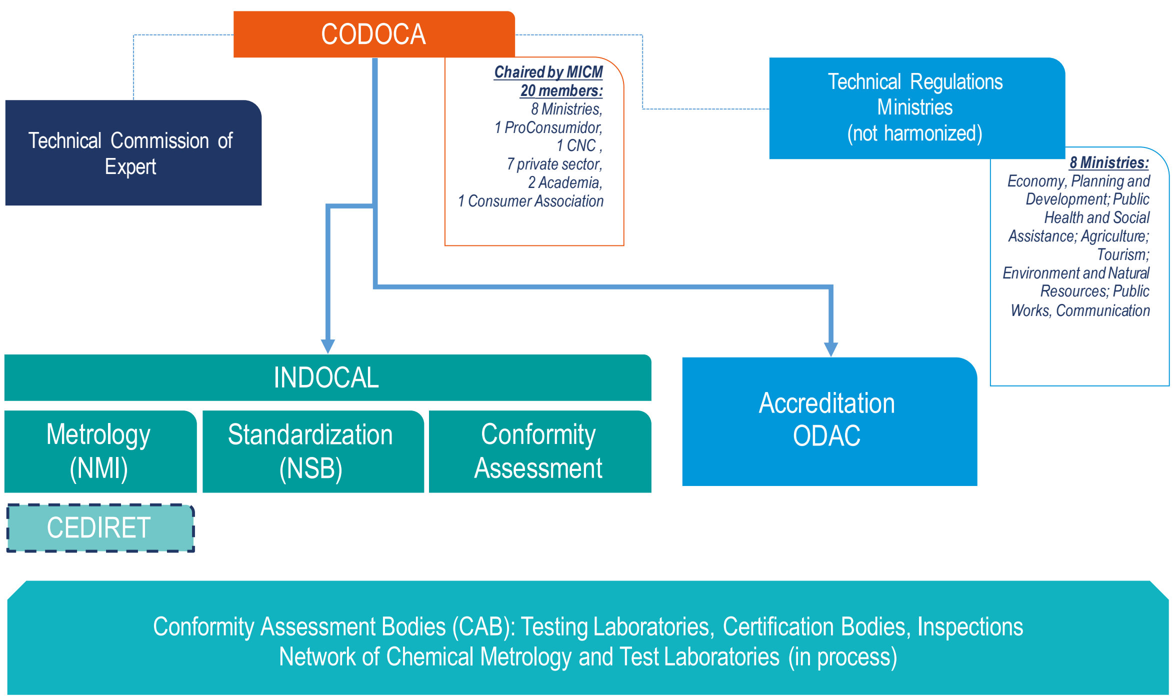
Recently, the Dominican Republic has improved policies and regulatory frameworks to enhance local business development. Three reforms are of particular importance:

1 The country has defined a national digital strategy. The Ministry of the Presidency, with an annual budget of USD 1.3 billion in 2019 (8.6% of total national budget) has defined the national digital agenda (*República Digital*) since 2017. It is structured around four pillars: e-government, education, employment and productivity, and connectivity. In 2019, the digital agenda had a budget of USD 133 million, most of which, 93%, is devoted to fast-tracking the use of digital technologies in primary and secondary schools. The remaining 7% goes towards the adoption and development of digital technologies in productive sectors (DIGEPRES, 2020[7]).

2 The government has recognised the need to simplify the regulatory framework for business development. In 2019, the CNC in co-operation with the Mexican National Commission for Regulatory Improvement (CONAMER), identified more than 1 800 different administrative procedures to set up and run a business (CNC and CONAMER, 2019[8]). The CNC has set up an on-line platform to streamline legal requirements, reduce red tape, and facilitate access to information. In the near future, the platform should be able to help identify and reduce redundant and overlapping administrative barriers that impede business. The Dominican Republic already has some one-stop shops for specific issues, as for example for FDI (*Ventanilla Única de Inversión*, managed by the CEI-RD) and trade (*Ventanilla Única de Comercio Exterior* managed by the Customs Office), among others. Advancing simplification and developing a unified platform would aid these efforts.

3 The country has improved and harmonised its national quality infrastructure system (QIS) under a unique framework. In 2012, the Dominican Republic has established a System for Quality Infrastructure (SIDOCAL) (Law 166-12), reforming and upgrading the former General Direction for Norms and Quality System (DIGENOR). Within the system, the Dominican Council for Quality (CODOCA) co-ordinates all actions; it is chaired by the Vice Minister of Industrial Development of the MICM and, in line with international practices, is composed by representatives from public institutions, private sector, consumer associations and academia, and it is supported by a technical experts' commission. The CODOCA overseas the work, technical functions and competences of two institutions: the Dominican Institute for Quality (INDOCAL) in charge of metrology, standardisation and conformity assessment, and the Dominican Accreditation Body (ODAC) (Figure 2.5). The advancements in this area have benefited from international technical co-operation, notably from the German National Metrology Institute (PTB), the United States National Institute of Standards and Technology (NIST), and the European Union (EU). Moving ahead the country has the opportunity to improve the QIS by strengthening co-ordination and increasing traceability (Box 2.1).

Figure 2.5. Dominican System for Quality (SIDOCAL)



Source: Karl-Christian Göthner, German National Metrology Institute (PTB), *Quality Infrastructure Services for National and Global Value Chains*, presentation at the PTPR Peer Learning Group (PLG) of the Dominican Republic, Lima, 1 April 2019.

Box 2.1. Continuing strengthening the national quality infrastructure system: Lessons from Germany

The Peer Learning Group for this project identified the following areas of reforms as critical:

- *Strengthening the technical expertise of CODOCA:* Setting up an executive secretariat with technical experts and ad-hoc working groups in specific areas.
- *Modernising and strengthening the testing infrastructure.* National testing and measurement laboratories require more sophisticated equipment. For example, calibration testing exists only for basic measurement instruments and for legal metrology.
- *Harmonising technical regulations*. Currently, best practices are anchored to national standards and technical regulations often do not correspond to international standards and this may impede access to foreign markets.
- *Improving traceability capacities and accreditation process*. Since 2016, the country has benefited from the co-operation of the European Development Fund to improve its traceability capacities. Strengthening co-operation with other institutes in Latin America and the Caribbean is advisable, as is improving the accreditation process within the framework of the International Accreditation Forum (IAF) and International Laboratory Accreditation Forum (ILAC) of international standards for food safety (ISO 22000), energy management (ISO 50001) and information security (ISO/IEC 27001) to improve the services provided to companies operating in the country.
- *Ensuring greater institutional co-ordination with food security*. The relationship between the three main ministries (Agriculture, Health and MICM) in charge of assuring a proper quality assessment is weak. Future development could focus on securing greater synergies between quality infrastructure and food security. In this context, greater co-ordination between SIDOCAL and the National System for Food and Nutrition Independency and Safety (SINASSAN) is desirable [SINASSAN need to be operative]. For example, in Germany, the National Metrology Institute (PTB)-Germany (PTB) and the Institute for Consumer Protection and Food Security (BVL) defined mechanisms of mutual co-operation in which a representative of the BVL is a member of the advisory board of the National Metrology Institute (PTB)-Germany in order to secure co-ordination and continued co-operation.

Source: Peer Learning Group (PLG) Meeting of the PTPR of the Dominican Republic, hosted by the Government of Peru in April 2019 and presentation by Karl-Christian Göthner of the German National Metrology Institute (PTB).

Key elements for future reforms

Diversifying economically, innovating, and better sharing the gains of growth is not easy. Every country has different visions and aspirations, a unique historical trajectory, and an institutional legacy that shapes how it defines strategies and implement policies. A common trait of successful transformation strategies is high-level leadership to foster business development in new activities. Learning how to perform new tasks and run successful businesses, trading abroad, and attracting FDI require work on multiple fronts, including infrastructure building, fiscal reforms, and incentives targeted to firms. It also requires reconciling interests of actors that operate in response to different incentives (the scientific community, local firms, and multinational companies, among others). A committed government with a clear strategic focus is essential to ensure policy coherence towards a common goal.

The PTPR process of the OECD has identified five pillars that influence the capacity for defining and implementing an effective strategy for economic transformation (OECD/UN, 2018[9]; OECD/UN/UNIDO, 2019[10]; OECD, 2017[11]). The five pillars include:

- The capacity to anticipate future scenarios and think long-term when defining major national objectives and strategies;
- The existence of mechanisms to enable reforms quickly when unexpected consequences appear or when the context changes and requires a change in direction or policy instruments. Crucial to this capacity is the existence of feedback processes and monitoring and evaluation mechanisms;
- The existence in the strategy of elements that foster learning and upgrading in all firms, with a special emphasis on small and medium-sized enterprises;
- The capacity of the national government to work beyond silos and to offer one-stop shops to beneficiaries to enable easy access to public policies and regulatory framework, and the existence of policy tools that enable and reward co-operation in the production and innovation system, for example between universities and firms;
- The capacity of public policies to deliver outcomes to all territories and agents in the national economic system, minimising the changes to create enclaves or economic systems that advance at different speeds.

The peer learning process implemented through the PTPR of the Dominican Republic resulted in an assessment of the existing institutions and policy framework, and has clarified priority reforms going forward, as reported in (Table 2.3).

Table 2.3. Transforming the economy of the Dominican Republic: A governance assessment based on the PTPR framework, 2020

Governance dimensions		
Anticipation capacity	√	**Long-term agenda**. The country has a Ministry of Planning with high convening capacity and with routines to define long-term agendas. At present, the country has a National Development Strategy with a 2030 horizon.
	x	**Foresight and scenarios.** The planning process is carried out in a traditional way. There is institution in charge of scanning for possible future and anticipating new trends. Increasing the capacity to anticipate potential disruptions is increasingly more important in the current, fast-changing, interconnected global economic landscape, where events that could influence the national economy, in positive or negative ways, could come potentially from anywhere in the world. This function could be assigned to the Ministry of Planning, or could be nested in the CNC but with a formal channel to link it to the national development strategy process.
Adaptation capacity	≈	**Formal feedback between monitoring and evaluation and policy definition.** The country could increase accountability by easing access to public information on support for economic transformation. Establishing a channel for which monitoring and evaluation feed the policy design phase would improve the quality of the policy process.
	≈	**Going beyond the special regimes approach.** Over the decades, the country has developed an economic model based on granting special fiscal regimes to areas of priority and peculiar interest, including manufacturing, tourism, and creative industries, among others. While this approach has enabled the development of new activities in the economy, the country needs to shift the type of government support that would achieve the national vision of inclusive and sustainable development. This change should include a fiscal reform, as highlighted in the NDS 2030.
Learning and upgrading potential	**x**	**Addressing the policy mix and institutional gap for innovation and local production development.** The country needs to advance in strengthening the institutions for innovation. While there is a consensus that innovation matters for development, there is a gap in terms of resources devoted to innovation and the typology of policy tools to foster it. A potential way forward would be the identification of resources for financing innovation, the modernisation of the policy mix for innovation, notably by introducing mechanisms to foster innovation in firms, and the creation of an agile agency devoted to innovation, endowed with the mandate to manage these resources. The country should also identify how the banking sector could foster production development and innovation in firms and increase co-ordination with the incentives for SMEs managed by the MICM.
	≈	**Activating learning from MNCs and FDI.** The country would benefit from actively fostering learning spillovers from MNCs and FDI to the local economy. Cybernetic Park provides an interesting example that could be replicated. Industrial parks and zones, as well as the layout organisation and their management, can connect foreign investors and capabilities and local skills and entrepreneurial talent.
Interconnectedness propensity	√	**With the private sector.** The local private sector has a tradition of organisation for public policy advocacy. Going forward it would be advisable to foster the development of new local start-ups and channel their views into public policies. Associations of entrepreneurs in Latin America in recent years have proved to be effective in fostering policy reforms.
	≈	**Within the government.** The country has a planning ministry and several bodies for policy co-ordination. In practice however, there is limited co-ordination as some functions, especially the ones linked with FDI, are scattered among several instiutions. A stronger planning ministry, filling major institutional gaps, and the empowerment of one single body to ensure policy co-ordination for production development are necessary. Reforming the policy mix and shifting towards one-stop-shop platforms for accessing government support for production development would also be desirable.
	≈	**With foreign partners.** **Prioritising FDI quality and impact.** Strengthening the role of attracting FDI of the CEI-RD would also benefit the country. It would allow the country to attract FDI in areas of priority interest and negotiate upfront conditionalities that benefit the local economy. **Technical co-operation with traditional partners.** The country has well-established partnerships for development co-operation in the areas of production development mostly with the United States and the European Union. In the future, the country should clarify priority areas for technical co-operation, for example upgrading in specific value chains such as agro-food and tourism, and define new modalities of co-ordination with the Vice Ministry of International Co-operation of the MEPyD. **Learning to co-operate with new partners.** The recently established diplomatic relationship with China will require targeted efforts to define a national strategy to benefit from the partnership with China.
Embeddedness potential	**x**	**Territorial development.** Apart from the special economic regimes for firms operating at the border zone with Haiti, the country lacks a place-based approach to policy making. Integrating regional and territorial development in the planning process is a fundamental priority for the country to effectively update its economic model and make it more inclusive and sustainable. Identifying how to address regional and territorial development issues in national strategies will be key in delivering results to all citizens and identifying new sources of growth.

Note: √: positive progress; ≈: margin for improvement; **x**: reform needed.

In particular, this review has identified three key areas that can shape the future development agenda of the country :

Strengthening and modernising planning

The fast-changing global landscape requires a capacity to think and plan long-term and to look at national options and challenges from many perspectives. As citizens and the global market broaden their definition of progress and prosperity and start to value sustainability and inclusiveness more fully, planning becomes crucial. Planning is not only deciding what to do and how do to it. Planning is strategic and forward-looking thinking, matched with consensus-building capacity. It is increasingly linked to the capacity to identify possible futures, clarify what is desirable and what is risky, and having back-up plans to act in case of sudden and unexpected changes.

The Dominican Republic has a well-established process for defining a multi-year national development plan supported by bodies for multi-stakeholder co-ordination. However, it would benefit from an updated planning process so it can identify major game-changers for the economy and the society. Different countries manage this prospective and planning function in different ways. In some cases, there is an office within the Presidency taking charge; in other cases, it is the Ministry of Planning. In the case of the Dominican Republic, multiple solutions are possible: The Ministry of Economy, Planning and Development could host a new division, which could be responsible for forecasting and developing scenarios in co-operation with public-private bodies, like the CNC, and with the participation of civil society. These institutional arrangements can all work, provided that the scenario-setting capacity is included among the priority actions for national development planning and that some good principles are applied. Among them, it is important to take into account the following principles:

- National leadership needs to value prospective work. In Finland, for example, the Parliament requests scenario planning from the government. In the United States, each new President receives a file with potential scenarios from the National Intelligence Council (NIC).
- A dedicated unit needs to be in charge. There is no unique model and each country needs to identify the solution that best fits its institutional governance and culture. But someone needs to be in charge and accountable for scenarios and foresight.
- An open process for scenario elaboration. The unit in charge needs to set up a consultation mechanism with different stakeholders. The perception of risks and opportunities is highly heterogeneous among the different constituencies of a country. The process needs to be open to be relevant.
- A mechanism to update scenarios and transform them in policy guidance needs to be in place. Demanding prospective analyses and tasking a team to do them are only preliminary steps. It is important to define a mechanism through which these prospective analyses can shape the process of strategy definition and policy implementation. Co-ordination with all ministries and agencies and at all levels of government is needed.
- Informing and training government staff and citizens. To make scenarios relevant in public policy management, leaders must include elements of scenarios and foresight in the overall training for government officials.

Strengthening planning would also require shifting towards a place-based approach to policy making. Apart from the special economic regimes for firms operating at the border zone with Haiti, the country lacks a place-based approach to policy making. Integrating regional and territorial development in the planning process is a fundamental priority for the country to effectively update its economic model and make it more inclusive and sustainable. Identifying how to address regional and territorial development issues in national strategies will be key in delivering results to all citizens and identifying new sources of growth.

Filling operational gaps

Over the decades, the country has developed an economic model based on granting special fiscal regimes to areas of priority and peculiar interest, including manufacturing, tourism, and creative industries. While this approach has enabled the development of new activities in the economy, the country would benefit from an update in the approach to achieve the national vision of inclusive and sustainable development. To do so, the country would need to:

Identifying mechanisms to foster learning and spillovers from FDI

- **Improve the strategic attraction of FDI.** Setting up of a targeted body in charge of FDI attraction would help implement a pro-active and selective approach. While there are multiple bodies which deal with FDI in the Dominican Republic, one, unique co-ordinating agency able to scout out potential partners and providing a whole range of services is missing. Each zone offers a package to the investing companies, but a national co-ordinated approach is missing. There is no unique best type of institutional setting, and the country can identify what would work best based on its current framework. A type of private and non-profit institution like the Costa Rican Investment Promotion Agency (CINDE) could work well (OECD, 2012[12]). In the Dominican Republic, existing institutions could perform this function if properly modernised and reformed. The CEI-RD could strengthen this function if backed with a stronger mandate for FDI attraction and improve the co-ordination and convening capacities with other relevant bodies as the MICM and the CNZFE. Shifting to a more proactive approach in FDI attraction would enable the Dominican Republic to better negotiate which type of investment and which conditionalities could best serve the interest of both the investing company and the local economy. To perform effectively, the agency in charge needs to be able to operate quickly, have timely access to decision-making processes and needs a pro-business and private sector-oriented staff. This requires also improving the overall quality of public service and making the profession appealing for the best talents.
- **Fostering learning from FDI and multinationals.** The country would also benefit from actively fostering learning spillovers from MNCs and FDI. The existing experience of Cybernetic Park provides an interesting example that could be replicated.
- **Capitalising and updating technical co-operation with traditional partners.** The country has well-established partnerships for development co-operation in the areas of production development mostly with the United States and the European Union.
- **Learning to co-operate with new partners**. While the United States is the main economic partner of the Dominican Republic, the country would benefit from directly investing in developing and effectively managing relations with emerging and potential prospect partners. The recently established diplomatic relationship with China will require targeted efforts to define a national strategy. Strengthening ties with Latin America and the Caribbean would also be beneficial.

Fostering innovation

- **Innovation is the weakest pillar in the national strategy for economic transformation.** While there is a generalised consensus that innovation matters for development, the country falls short in terms of institutions, funding mechanisms, and overall policy mix to foster start-up development and innovation. The research and training side showed a certain degree of improvement over the years, especially in the agro-food area and in FTZs. However, for industrial development and technological innovation in firms, several gaps need to be addressed by fostering a pro-innovation attitude in the private sector. Scaling up co-operation with regional partners and foreign investors would also be important in going forward.
- **Filling the institutional gap**. There is no implementing agency in charge of innovation. The Dominican Republic needs to identify a funding mechanism for innovation. In parallel, the country needs a targeted body in charge of managing the innovation budget (UNCTAD, Forthcoming[13]). There is no unique model, but some countries identified in a dedicated agency an effective way to channel innovation funds, as for example the Innovation Agency in Uruguay (OECD, 2015[14]) and in Switzerland (see Box 2.2).
- **Ensuring long-term financing.** The country does not have a development bank that plays this role. There are some initiatives which the Dominican Republic could leverage. Banca Solidaria, established in 2012 as the second-tier bank for MSMEs and the export development bank Bandex. Bandex was, set up in 2015 as a result of the restructuring of the National Housing and Production Bank (BNV). Bandex could be scaled up to assume the function of financing production development and innovation, including exports, therefore filling the gap in the current financing chain of the country. This, however, would require careful due diligence and institutional design and a clear clarification of the division of labour with existing commercial banks.
- **Improving innovation-related evidence**. In parallel with strengthening support for innovation, the country would benefit from better statistical capacities in the innovation area (UNCTAD, Forthcoming[13]). The national statistical office is planning to carry out an innovation survey in co-operation with the MESCyT.

Box 2.2. The Swiss Innovation Promotion Agency (Innosuisse)

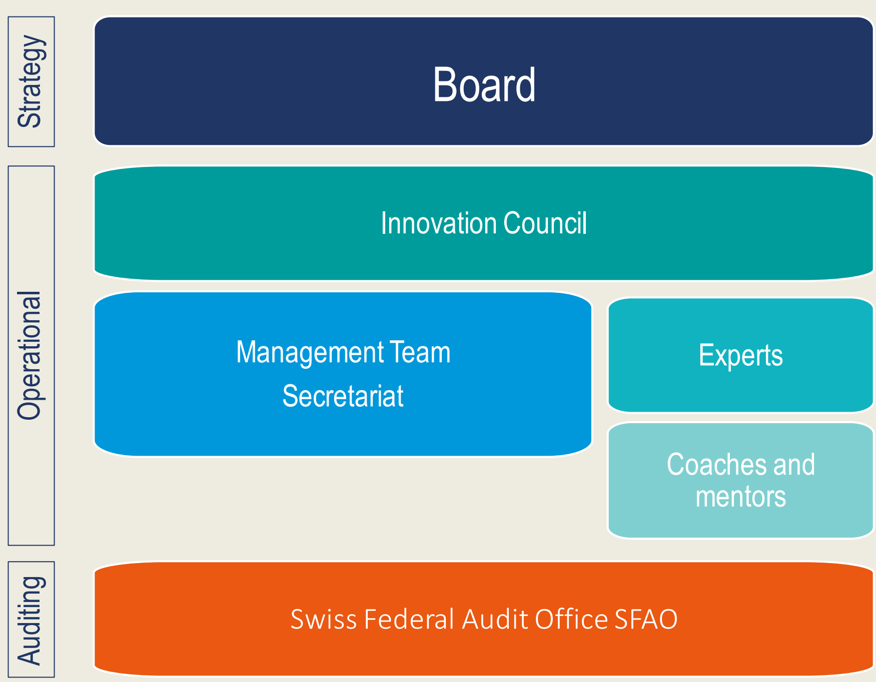
Switzerland is recognised as one of the most innovative countries in the world. It invests 3% of GDP in R&D activities and the private sector is responsible for 70% of it.

Innosuisse is the autonomous Swiss Innovation Promotion Agency. Its role is to promote science-based innovation in the interests of industry and society in Switzerland. Innosuisse promotes partnerships between academia and the private sector with innovation projects, networking, training and coaching, laying the groundwork for successful Swiss start-ups, products and services. Innosuisse has a budget of roughly USD 200 million per year.

Innosuisse provides support following the subsidiarity principle. That is, it only supports projects if public funding is essential to the implementation and market potential of a particular innovation.

Innosuisse is an entity under public law with a separate legal identity, composed of three expert bodies and audited by the Swiss Federal Audit Office. The Board is the strategic body of Innosuisse. It comprises seven members and manages Innosuisse in line with the government's strategic objectives. Members of the Board, including its President, are elected for four years. The Innovation Council is the specialist body that takes decisions on funding applications and supports the execution of the funded activities in an academic and innovative sense. It also develops the funding strategy and instruments to be approved by the Board. To carry out its work, the Innovation Council relies on the support of a pool of experts. The Management team, composed of five members and led by its Director, forms the Secretariat of Innosuisse (Figure 2.6).

Figure 2.6. Institutional setting of Innosuisse



Source: Martin Peter, Director for Economic Development in Peru, Swiss State Secretariat for Economic Affairs (SECO), *Swiss Innovation Strategy*, presentation at the PTPR Peer Learning Group (PLG) of the Dominican Republic, Lima, 1 April 2019.

Conclusions

The COVID-19 pandemic and the subsequent economic crisis require the Dominican Republic to execute an unprecedented policy effort to secure a prompt and effective health response, and to ensure short-term support for workers and firms. These challenges sum up to the need to rethink and update the long-run national development model.

To do so, the Dominican Republic needs to continue implementing and updating the national policy response to COVID-19. Box 2.3 contains a summary of policy actions taken so far. In parallel, the country needs to achieve a consensus on the key priority reforms for the medium and long term. The global economic landscape is highly uncertain. The pandemic caused an economic crisis that will probably accelerate previously existing trends, including digitalisation of production and work, and disrupt many businesses. But as in all crises, new businesses will thrive. Looking beyond the pandemic, the Dominican Republic needs to update its current policy framework and reduce its vulnerability to external shocks. Three pathways deserve particular attention in going forward: strengthening planning capacities, diversifying strategic partnerships, and updating the FDI and trade policy. More specifically, the country needs to explore how to strengthen and leverage regional ties to overcome local structural weaknesses, such as limited innovation and research capacity. It must also fill institutional gaps to deal with innovation and digitalisation in the private sector, also by mobilising long-term financing.

Box 2.3. Policy response to COVID-19 in the Dominican Republic

To protect its citizens and limit the economic impact of such unpreceded events, the government is acting on multiple fronts. Since March 2020, the Dominican government has put in place a number of measures to slow the spread of COVID-19 and to provide support for workers and firms. These efforts cover several areas such as curfews and social distancing, monetary and fiscal measures, as well as employment and social protection for employees (Table 2.4).

Table 2.4. Timeline of policy responses to coronavirus in the Dominican Republic

Date	Type of action	Institution	Objective/focus	Description
26/02/2020	Decree 87-20	Presidency of Republic	Emergency purchase of medical equipment and supply	The decree facilitates the procumbent process of the Ministry of Health to execute exceptional purchases and contracts of goods and services necessary to face the COVID-19 emergency.
16/03/2020	Resolution	Central Bank	Monetary and fiscal measures in support of the economy	**Interest rates** • Reduction of the annual monetary policy benchmark interest rate by 100 basis points, from 4.50% to 3.50% to facilitate the reduction of the interest rates in the financial system; • Reduction of the annual standing facility interest rate of 150 basis point from 6% to 4.50% for short-term borrowing of financial institutions; • Reduction of the annual overnight interest rate from 3 to 2% on deposits in the central bank, from 3.00% to 2.50%. **Injection of liquidity** Through the financial system for more than USD 1 billion (2% of GDP) by: • Reducing of 2.5% of the legal reserve requirements of banks in order to release USD 500 million in the economy. These resources are meant to be used to facilitate access to credit for households and MSMEs (33%) and strategic sectors for the economy such as tourism, export activities, and agriculture (77%). • Increasing by USD 500 million the repurchase agreement (Repos) of the Central Bank up to 90 days and interest rate of up

				to 5% per year, using as collateral securities issued by the Central Bank and by the Ministry of Finance
17/03/2020	Decree 132-20	Presidency of the Republic	Creation of high-level commissions for COVID-19	The decree created 3 high-level commissions:. • The commission for prevention and control chaired by the Ministry of the Presidency • The commission for economic affairs and employment chaired by the Ministry of Finance • The commission for social affairs; chaired by the Ministry of the Presidency
19/03/2020	Decree 134-20	Presidency of the Republic	Declaration of state of emergency provided by the constitution law for 25 days conditional to Congress approval	Exceptional power to the President for: i) limiting the freedom of circulation and gathering; ii) adopting necessary measures to provide hospitals and medical centres with necessary supply to face the crisis; and iii) adopting necessary measure in support of the economy and society The state of emergency had been extended twice on 2 April Decree 148/20 for 25 days and on 28 April for an additional 17 days
20/03/2020	Decree 135-20	Presidency of the Republic	Curfew, social distance, and containment	Set up of a national curfew that prohibits all traffic and movement of people from 8 pm to 5 am. for 25 days; all air, land, and sea borders are closed. Ferry flights for foreign nationals continue, but need authorisation from the Dominican authorities; all events have been suspended, including international and national events, sports fixtures, bars, nightclubs, and cultural events; all schools and universities are closed. 26 March Decree 138-20 modified the curfew from 5 pm to 6 am; 17 April Decree 151-20 extended the curfew up to 30 April.
	Resolution	Ministry of Finance	Deferment of tax payments	Extension of the deadline from 29 April to 29 May 2020 for declaration and first disbursement payment of income taxes for both legal and natural persons Postponement until 24 April for payment of the first and second VAT instalments due in February and March 2020 Temporarily stop of the Advance Price Agreement (APA) to the touristic sector
02/04/2020	Decree 143-20	Presidency of the Republic	Employment and social protection	Creation of the Employee Solidarity Assistance Fund (FASE). The new fund has been rolled-out since 8 April 2020, and provides a temporary subsidy for two months for workers employed in formal registered companies that are up-to date with their tax obligation. Workers with a monthly salary below USD 90 receive a minimum transfer of USD 90 per month, which will be assumed 100% by the Government. For salaries above USD 90 the Government will cover up to 70% of the salary with a maximum threshold of USD 160. As for 22 April, the fund has made its first disbursement to more than 707 000 employees (14% of the total workforce). Launch of the Stay at home initiative. For all informal workers, the government provides a one-off subsidy of USD 90 for April and May 2020. The subsidy is meant to cover up to 1.5 million households
22/04/2020	Inauguration	Ministry of Defence and Ministry of Public health	Cybernetic Unit for Monitoring	The cybernetic and intelligence unit (C5i) under the armed force offers real-time data and monitoring on the Covid-19 outbreak in the Dominican Republic through new technologies such as big-data and drones

Note: The information is update up to 29 April 2020.
Source: (DGII, 2020[15]; CNC, 2020[16]; Presidency of the Republic, 2020[17]; Banco Central de la República Dominicana, 2020[18]).

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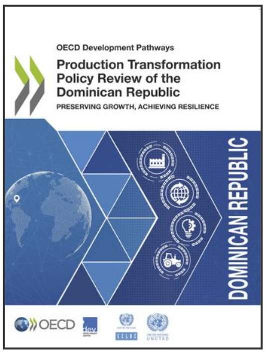
Note

[1] This figure does not include the budget of the thirteen institutions that are attached to the MICM.



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