

**GROWTH, EMPLOYMENT AND SOCIAL COHESION
IN THE DOMINICAN REPUBLIC**

ILO Background Paper

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1. Introduction

Over the past 20 years, the Dominican Republic has experienced high and sustained economic growth, with an annual average increase of GDP per capita of 4 per cent against 1.8 per cent for Latin and Central America and the Caribbean. This remarkable economic performance, however, did not translate into equally significant improvement in living standards for all. The Dominican Republic has reached middle-income status, yet the country remains characterized by a high share of workers in a vulnerable situation, stagnant wages and insufficient investment in skills and education. Poverty is widespread, affecting over 30 per cent of the population, and, in spite of remarkable increase in the most recent years, the levels of social spending are among the lowest in the region. The economy has weathered well the impact of the global financial and economic crisis, but the prospects for maintaining the high rates of economic growth of the past and to further improve social outcomes are undermined by dwindling international competitiveness, weak human capital and persisting economic and social inequalities.

The Dominican paradox – high growth, declining wages, stubborn poverty and informality – has attracted the attention of researchers and observers. Within the country, there is widespread awareness of the need for a change in policy, to embark on a more inclusive model of development. This paper looks at the country's economic and social performance from a regional comparative perspective, highlighting changes in the sectoral composition of output and their implications for jobs, wages and poverty (section 2); it briefly reviews main constraints to economic and social upgrading (section 3); and it puts forward some policy suggestions for a sustained and inclusive growth strategy (section 4). The paper is a contribution from a team of ILO officials in Geneva and San José to a pilot ILO-IMF joint project in the Dominican Republic. The ultimate objective is to encourage an informed national policy debate and coherent action from Government, employers and trade unions.¹

2. Brief overview of economic and social performance

2.1 *Patterns of growth and sectoral change*

A low-income small island economy—GDP per capita was below USD 1,000 in 1960—the Dominican Republic attained upper middle income status in 2011, a performance well above most other countries in the region (see chart 1) and resembling the experience of the successful globalizers of East and South-East Asia. The Dominican Republic is now the second largest economy in Central America and the Caribbean and one of the most affluent, with per capita GDP levels just below Costa Rica and Panama.

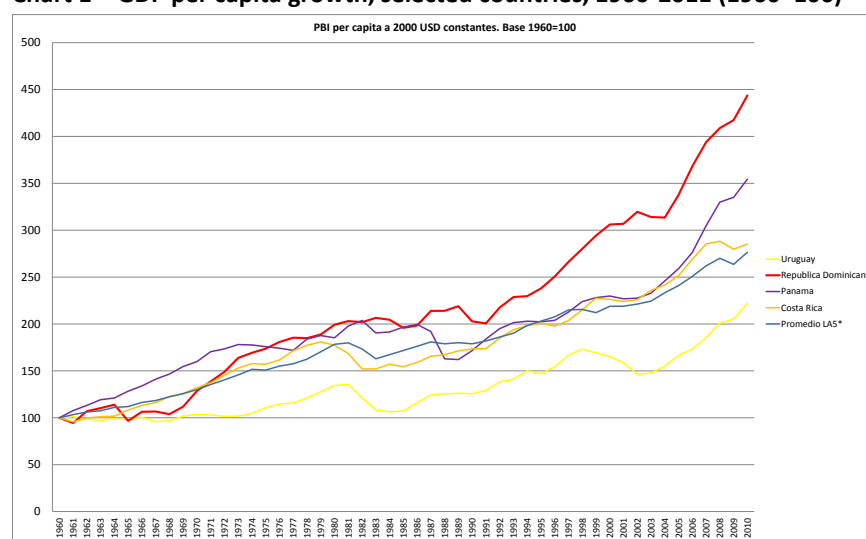
Yet the path to economic success has not been smooth. The country went through a series of external and internal economic shocks and adopted different growth models, skilfully adjusting its production structure to take advantage of the opportunities offered by the global economy. A sugarcane economy relying mainly on

¹ The report was prepared by Aurelio Parisotto, Policy Integration Department, ILO Geneva, with research support from Gustavo Prepelitchi. Important inputs were made by Pino Bolívar, Randolph Cardona, Mauricio Dierckxsens, Alvaro Ramírez-Bogantes and Sergio Velasco. Janine Berg took special responsibility for section 2.3. Useful comments were made by Umidjon Abdullajev, Davide Furceri, IMF, and Stephen Pursey, ILO. The report greatly benefitted from the consultations that took place in the course of two ILO missions to the Dominican Republic, in June 2011 and in March 2012. In July 2011, a team of statistical experts from the ILO/SIALC also visited the country. In November 2011 a tripartite seminar on “Crecimiento, Empleo y Cohesión Social en la República Dominicana” was held in Juan Dolio (www.oit.or.cr/cecrd). We would like to especially acknowledge the conversations with officials and representatives from the Ministerio de Trabajo, CNUS, CASC, CNDT, CONEP, COPARDOM, CODOPYME, Banco Central de la República Dominicana, Ministerio de Economía y Planificación, Ministerio de Industria y Comercio, Ministerio de la Educación, Infotep y Consejo Nacional de Competitividad. The usual disclaimer applies.

the exports of unprocessed agricultural commodities, it moved to import-substitution industrial policies, fostering the emergence of a new local industrial sector. In the mid-1980s, it shifted to an aggressive export-oriented policy stance, starting with a major devaluation and structural reforms coupled with incentives to the tourism industry and the establishment of special industrial zones (“Zonas Francas”).

Economic growth was particularly strong in the 1990s, largely driven by the expansion of export-oriented garment assembly in the “Zonas Francas” and the emergence of the country as a main destination for mass tourism. From 1991 until the domestic banking crisis of 2003-2004, the country experienced 11 years of positive GDP growth at an average rate of over 6 per cent (chart 2)—a “growth spell” that should have permitted a significant dent in poverty.

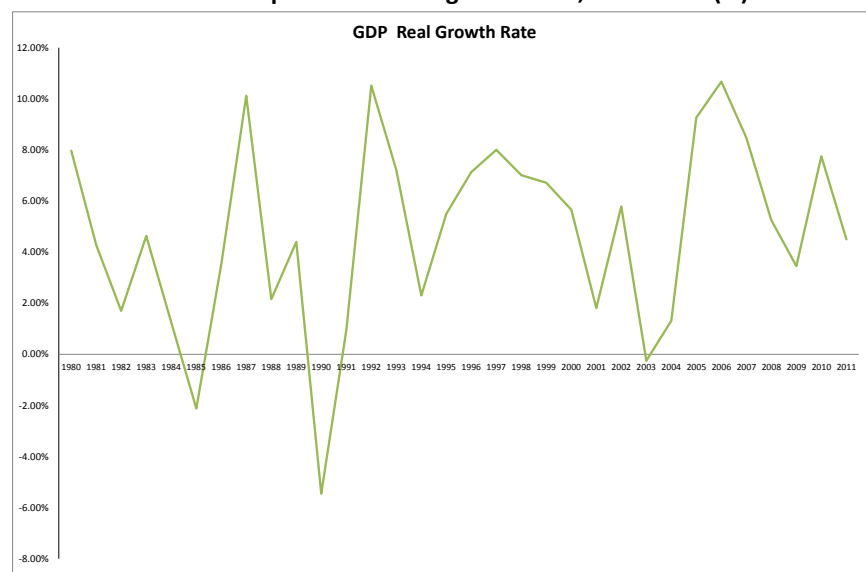
Chart 1 – GDP per capita growth, selected countries, 1960-2011 (1960=100)



Average LAC5* : Brazil, Chile, Colombia, Mexico, Peru

Source: World Development Indicators (WDI)

Chart 2 – Dominican Republic GDP real growth rate, 1980-2011 (%)



Source: WDI

Structural adjustment, trade liberalization and fiscal reforms together with a new labour code inaugurated the outward orientation model but, like other success stories in Asia, success on the global market was mainly prompted by a policy package encompassing preferential access to the US garment market, a devalued exchange rate, incentives and tax holidays for foreign investors, subsidized electricity costs and a distinctive and effective policy regime for exporting firms and tourism enclaves.

Rapid economic growth through assembly for exports in global market niches is not surprising in a small country capable of combining solid private entrepreneurial skills with aggressive State backing. To sustain high growth rates over time is a taller order and a more complex undertaking, particularly when the small domestic market sets limits to backward linkages, diversification of production and economies of scale.

Strong and steady economic migration largely to the United States provided an additional avenue for the “integration” of the Dominican Republic in the global economy, as well as important source of foreign exchange. In 2010, over 10 per cent of the total population was living out of the country, one of the largest shares in the LAC region. Dominican emigrants originated from households across the whole socio-economic spectrum, with some concentration among those better educated and relatively more affluent (Pozo et al., 2010). They had access to formal jobs in the host countries, primarily the US. On average, their remittances accounted for over 7 per cent of GDP during the 2000s, contributing significantly to sustain domestic demand, stabilize the economy during downturns and mitigate the effects of low wage levels and weak social safety nets (Ondetti, 2012). At the same time, the Dominican Republic has been the recipient of large inflows of uneducated migrant workers from Haiti, most of whom are clandestine and working irregularly at low wages.

The resilience of the Dominican economy was put to a strong test in the last decade. The country experienced two economic crises (in 2003-2004 and in 2008-2009) and aggressive competition for its exports, resulting in a loss of about 20 per cent of its manufacturing jobs. After a sharp fall in GDP in 2003, following a severe dramatic domestic banking crisis, GDP rebounded vigorously and averaged over 9 per cent annual growth during 2004-2007. Recovery was propelled by strong expansion of services such as telecommunications, construction and commerce. A vigorous shift to non-tradable services strongly characterized the last part of the decade, largely driven by the significant expansion of foreign and domestic investment in telecommunications. That sector alone came to account for over 16 per cent of GDP in 2011, from a mere 4.6 per cent in 2000, more than compensating the decline in manufacturing, including the halving of the GDP share of production in the “Zonas Francas” (see table 1).

Table 1 - GDP Structure by sector, 2000-2011 (%)

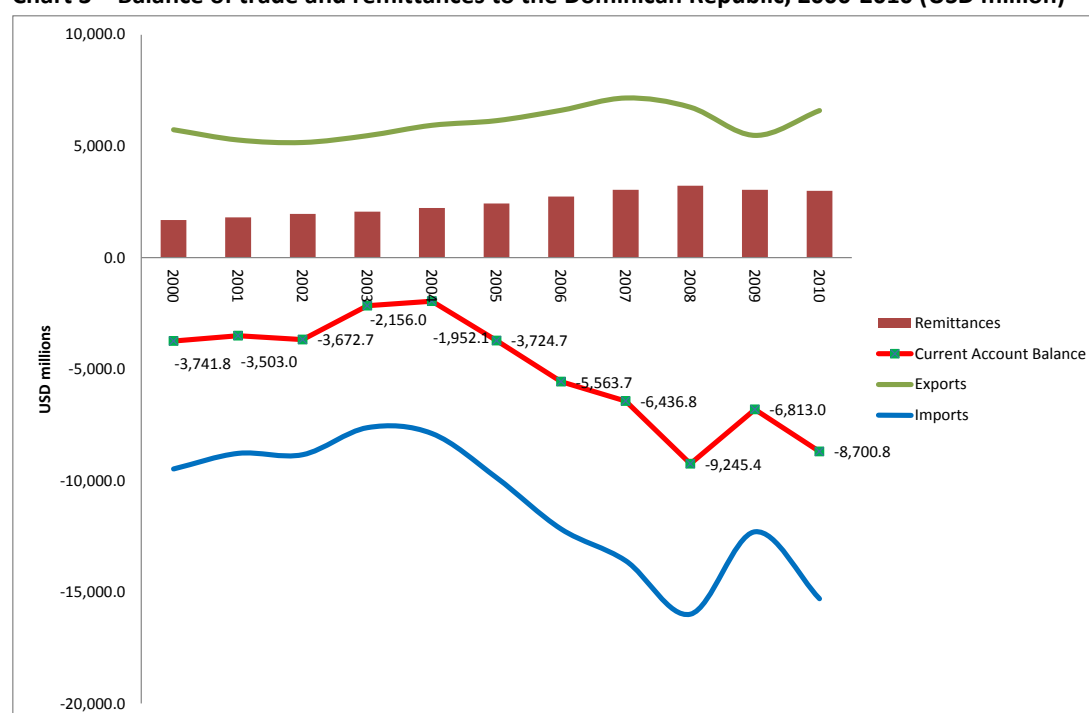
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture	8.5	9.1	8.8	9.0	8.7	8.4	8.3	7.7	7.1	7.7	7.5	7.6
Industry	34.3	32.8	32.5	32.0	32.1	31.3	30.1	28.5	27.4	25.8	25.8	26.2
Mining	0.9	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.5	0.2	0.2	0.4
Local Manufacture	22.0	21.5	21.5	21.7	21.6	21.3	20.4	19.7	19.3	18.8	18.8	18.9
Free Trade Zones	5.4	5.0	4.7	4.8	5.2	4.8	4.0	3.3	3.1	2.5	2.4	2.7
Construction	6.0	5.6	5.6	4.6	4.5	4.5	5.0	4.8	4.5	4.2	4.3	4.2
Services	46.8	48.8	49.6	51.5	51.7	51.5	51.5	51.9	53.3	54.1	53.8	52.8
Commerce	10.2	10.0	9.9	8.7	8.2	8.6	8.7	9.1	9.1	8.6	9.0	9.0
Hotels, Bars and Restaurants	7.0	6.7	6.6	7.5	7.6	7.6	7.2	6.9	6.8	6.3	6.1	6.1
Transportation	6.5	6.6	6.2	5.8	5.8	5.8	5.4	5.3	5.3	5.1	5.1	5.0
Communications	4.6	6.5	8.0	9.3	10.0	11.5	12.9	13.7	15.6	17.2	17.3	16.3
Finance and insurance	2.5	2.9	3.2	3.3	2.9	2.6	2.9	3.4	3.7	3.8	4.0	4.0
Public Adm	1.2	1.3	1.3	1.4	1.4	1.3	1.2	1.2	1.1	1.1	1.0	1.0
Education	1.1	1.1	1.1	1.1	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Health	1.8	1.8	1.7	1.8	1.7	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Other services	11.9	11.9	11.6	12.6	12.9	11.5	10.7	10.0	9.4	9.7	9.0	9.1
Value Added	89.5	90.7	91.0	92.5	92.5	91.2	89.9	88.0	87.8	87.6	87.2	86.5
Production taxes net of subsidies	10.5	9.3	9.0	7.5	7.5	8.8	10.1	12.0	12.2	12.4	12.8	13.5
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Dominican Republic Central Bank (DRCB)

The growing importance of services allowed the country to weather the global economic crisis relatively well. GDP growth hit a low of 3.5 per cent in 2009 but recovered rapidly in 2010. The reliance on domestic drivers of growth, however, took its toll in the form of a widening current account deficit. Stagnant exports coupled with rising levels of imports, with only a temporary reversal in 2009, has put pressure on the current account. Moreover, remittances started declining since 2008, making it more difficult to close the current account gap, despite some recent pick up in exports (see chart 3).

Over the medium-term, the prospects for the expansion of exports look uncertain. Apparel is undergoing a structural crisis: enterprises in the “Zonas Francas” did not benefited from the devaluation of the mid-2000s and those that remain more competitive are relocating production to Haiti and other neighbours. There are signs of some increase in non-traditional exports”, eg in medical equipment. However, many observe that the country’s export basket is still poorly diversified, comprising mainly low-skill, low-tech products that face steep competition from lower-cost competitors from neighbouring countries and Asia (Hausmann et al., 2011). At the same time, Dominican firms face multiple constraints in strengthening their capabilities and making the necessary investments to move up the production ladder and compete successfully in more sophisticated product lines. The country benefited from significant investments by foreign telecommunication firms, but those were targeting mainly the domestic and diaspora markets and brought limited technological spillovers (Sanchez-Ancochea, 2011).

Chart 3 – Balance of trade and remittances to the Dominican Republic, 2000-2010 (USD million)



Source: Dominican Republic Central Bank (DRCB).

Distinctive challenges to the effort to attain industrial upgrading are raised by the lack of inclusiveness of the Dominican pattern of growth and the persistence of large economic and social inequalities – as it will be discussed below. In sum, the country is entering middle-income status, a situation where the fundamental drivers for sustained economic growth increasingly rests with local industrial capabilities, innovation and a skilled and well-remunerated workforce. Yet, the social and institutional pillars needed to support such transition seem to be lagging behind.

2.2 A weak and porous labour market

Throughout 20 years of strong economic growth, the Dominican labour market has become more modern in terms of higher female participation and more “international” but not less informal. From 1991 to 2010, employment in the Dominican Republic increased from about 2.2 million to 3.8 million, growing at a slightly higher pace than the total working age population. On average, the economy was capable of generating about 75,000 jobs on average per year. Job creation was stronger in the first decade, with a 3.9 per cent average annual rate of job creation between 1991-2000, compared with 2.4 per cent average annual job creation in 2000-2010 (see table 2). Throughout the two decades, there has been a progressive decline in the employment intensity of the country’s economic growth (see Annex chart 2), more pronounced than in peer countries in the region and largely attributed to changes in the sectoral composition of the output, mainly the shift from labour-intensive manufacturing to capital-intensive service-sector activities (Guzman, 2010, Marquez, 2011; IMF, 2012).

Declining employment intensity of growth *per se* is not a reason for concern. If it is the result of technological deepening and large gains in physical productivity and if it is accompanied with growing real wage levels and sustained competitiveness, it can actually result into significant reduction in poverty while maintaining robust employment growth. This was the experience in many countries in East and Southeast Asia (Kapsos, 2005). The concern in the Dominican Republic lies not just with the number of jobs, but with their quality. The main trends in the labour market are outlined below.

Table 2 – Key labour market indicators in the Dominican Republic, selected years

		1991	2000	2010	1991-2000	2000-2010
Total Employment	TOTAL	2,251,709	3,041,092	3,753,529	789,383	712,437
	Male	1,607,916	2,027,852	2,416,027	419,936	388,175
	Female	643,793	1,013,240	1,337,502	369,447	324,262
Employment To Population Ratio (%)	TOTAL	51.6	54.2	55.5	2.6	1.3
	Male	73.5	73.0	72.6	-0.5	-0.4
	Female	29.3	35.3	38.5	6.0	3.2
Share of workers with primary or no education (%)	TOTAL	61.3	57.7	48.5	-4.4	-8.3
	Male	66.3	63.4	54.9	-3.5	-7.7
	Female	48.5	46.3	37.1	-1.5	-9.9
Official Unemployment Rate (%)	TOTAL	19.6	13.9	14.3	-5.7	0.5
	Male	12.5	7.9	9.8	-4.6	1.8
	Female	33.1	23.8	21.4	-9.3	-1.9
Open Unemployment Rate - ILO revised (%)	TOTAL	n/a	6.3	5.0	N/A	-1.3
	Male	N/A	4.1	3.9	N/A	-0.2
	Female	N/A	10.5	6.9	N/A	-3.6
Informal employment as a share of total employment (%) ¹	TOTAL	N/A	52.9	56.5	N/A	3.6
US immigrant visas issued in Santo Domingo (total number)	TOTAL	38,870 ²	11,705	43,717	256,467 ³	245,250 ⁴

Sources: DRCB; ILO (2011a); US Department of State.

1. DRCB informal sector employment (employees in establishments with less than 5 employees + self-employed + unremunerated family workers + domestic workers) as a share of total employment; 2. number of visas issues in 1992; 3. cumulative total for 1992-2000;

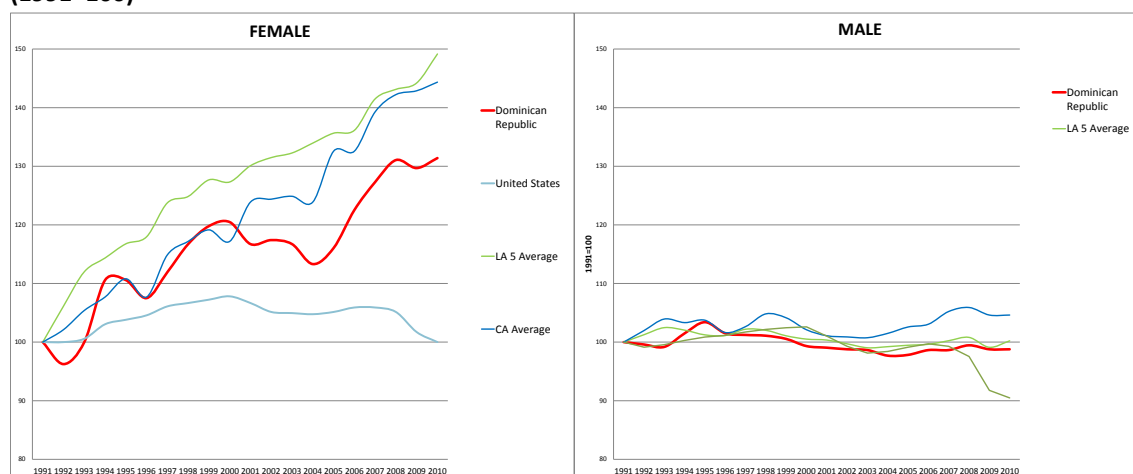
4. cumulative total for 2001-2010

Growing female labour market participation

From 1991 to 2010, the employment-to-population ratio (EPR) increased from 51.6 to 55.5 per cent (table 2). This was the result of greater female participation; the male ratio declined slightly from 73.5 to 72.6 per cent. Women were the ones taking greatest advantage from the expansion of the demand for work – first in manufacturing in the “Zonas Francas” and in the thriving touristic enclaves, and later in personal services.

Stronger demand for work “activated” women who had previously been inactive or discouraged. The push was particularly felt in the rural sector. Data for 2000-2007 show that female participation rates increased from 29.5% to 38.4 % in rural areas, but remained unchanged in the urban sector (PNUD, 2010). As a result, the Dominican labour market moved towards a more modern structure, with activity rates for women closer to those of more advanced economies - a trend witnessed in other Latin American countries (see chart 4). Yet, the country still has male and female employment rates that are slightly lower than regional averages, suggesting pockets of inactivity and discouragement, particularly among women (see Annex chart 1).

Chart 4 – Trends in employment to population ratio, male and female, selected countries, 1991-2010 (1991=100)



Source: WDI

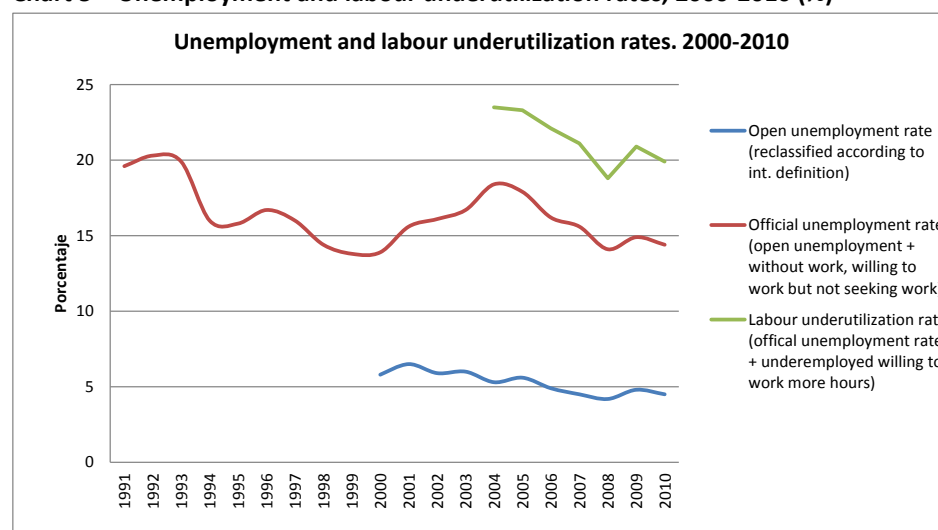
Declining unemployment, growing underemployment

A significant reduction in unemployment, particularly for women, occurred in the phase of rapid export-driven growth of the 1990s. According to national official figures, the total unemployment rate fell from almost 20 per cent in the early 1990s to about 15 per cent at the beginning of 2000s (from 33 to 24 per cent for female workers), fluctuating cyclically around that level during the rest of the decade (see chart 5).

The Dominican official definition of unemployment differs from international statistical standards because it includes among the unemployed a large share of so-called discouraged workers, i.e. people who do not have a job, are available to work, but have not taken any distinctive step to search for it in the week of the labour force survey interview. Unemployment estimates revised by the ILO in line with international definitions are available only for the 2000-2010 period (ILO, 2011a). They show that the number of the openly unemployed (those who are without a job and are actively seeking work) was lower than the number of the discouraged workers, it registered a modest decline throughout the last decade and it seemed to have lower elasticity to changes in the business cycle, i.e. it had a mild reaction to the economic downturns of 2003-2004 and 2008-2009.

By the revised narrow definition, the Dominican open unemployment rate hovers around 5 per cent and is in the lowest range among countries in Latin and Central America (Annex chart 3). It is important to recognize that in many developing countries, a low level of open unemployment is not necessarily an indicator of well-being, or of how far a country is from a situation of full employment (Squire, 1981). Often, it reflects widespread poverty where large numbers of people cannot afford the luxury of being unemployed and actively searching for a job; rather, they are forced into occasional and informal jobs or self-employment in informal survival activities in urban and rural areas. Ball et al. (2011) document a strong correlation between the size of the rural sector and the level of unemployment across countries in Latin America.

Chart 5 – Unemployment and labour underutilization rates, 2000-2010 (%)



Sources: DRCB, ILO (2011a)

The official unemployment rate used in Dominican national statistics makes evident the existence of a large stock of “underutilized” workers, mainly women, who have no work, would like to work, but think that the labour market is already saturated or encounter obstacles in pursuing an active job search. This broad indicator better expresses the full extent of distress in the labour market of a country, beyond what is reflected in the standard international measure of open unemployment. Similar “expanded” unemployment rates have been calculated for a few countries where statistics are available. They are from 1 to 10 percentage points higher than “narrow” rates, depending on the country. In general, those broader rates have been found to be more sensitive to changes in the business cycle than narrow definitions.²

High levels of involuntary underemployment, measured as the number of underemployed persons expressing a desire to work more hours, are an additional indicator of poor labour market performance. In the Dominican Republic, underemployment in working hours accounts for approximately 16 per cent of total employment, with about one third of the underemployed seeking additional hours.³ Adding the numbers of the underemployed who searched for more work to the official unemployment rate brings the rate of “underutilized labour” close to 20 per cent (see chart 5).

² For instance, in 2008 the expanded unemployment rate was 15.6% in Mexico and 12.6% in Brazil, against open unemployment rates of 5.1% and 9.0% respectively, while in France, Germany and the UK the difference was less than 1%, see ILO, 2009, table 1.2.

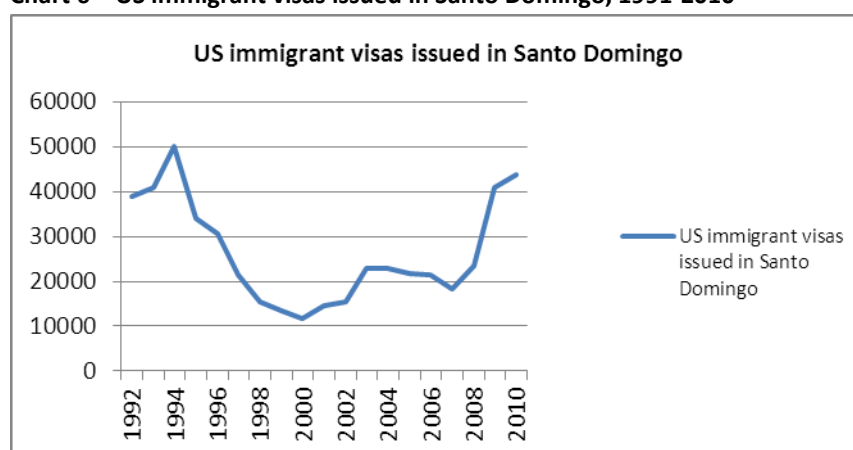
³ Underemployment is concentrated in “Otros servicios” (30%), commerce (19%), agriculture (19%) and construction (9%); it increased during the 2000s in line with the increase of employment in those sectors, according to data from ILO, 2011a.

Greater cross-border outflows and inflows of workers

Historical and geographical reasons make the labour market boundaries highly porous. For political reasons, Dominicans have been granted easier access to the United States. Between 1960 and 2009, a total of 878,500 immigrant visas to the US were issued in Santo Domingo, a number second only to those issued to Mexicans and Cubans but higher than the combined total for El Salvador, Guatemala, Honduras, Costa Rica and Nicaragua.⁴ As a percentage of the Dominican population, the number of US immigrant visas accounts for over 12 per cent, the highest in the LAC region (Ondetti, 2012). Most of those visas ensured access to low-skill but relatively well-paid formal jobs in the host country.

Half a million immigrant visas were issued just to the United States from 1992-2010, a period where the total net increase in employment in the country was of 1.5 million. Yearly, the number varied from a peak of over 40,000 visas issued in 1994 and 2009, to a low of just 12,000 in 2000—a pattern that seems to correspond to the Dominican business cycle, with an increase in economic downturns and a decline in boom periods (see chart 6). Had these opportunities not existed, the pressure on the Dominican labour market would have been significantly greater.

Chart 6 – US immigrant visas issued in Santo Domingo, 1991-2010



US Department of State, <http://www.travel.state.gov/pdf/MultiYearTableXV.pdf>

At the other end of the spectrum, because of geographical proximity, the Dominican labour market has traditionally absorbed large inflows of workers from Haiti - uneducated, unskilled, many of whom residing illegally in the country in clandestine settlements. There are no comprehensive and reliable figures on immigrant workers from Haiti. Data from the national labour force survey revealed 215,500 Haitians as part of the working age population in 2010, up from just 46,200 in 2000. According to the Central Bank, these figures underestimate the phenomenon. World Bank estimates set the number of Haitian immigrants at over 400,000 people. Based on a comprehensive survey carried out in 2002 by OIM-FLASCO, UNDP estimates the total number of people of Haitian origin to be 510,000, of which 315,000 are immigrants and 195,000 are Dominican-born Haitian descendants (PNUD, 2010). Some observers consider that the true total might reach 800,000 or more.

While traditionally confined to the sugarcane industry, Haitian migration has become more urban and more transitory: more than half of immigrants surveyed by OIM-FLASCO had gone through more than one migratory cycle and about 40 per cent were found to have been living in the country for less than one year. Outside agriculture, Haitian workers concentrate in construction and in “other services”.

⁴ This includes special visas, replaced visas and visas issued to family members.

A permeable labour market – i.e. where outflows of better educated workers migrating to richer countries occur together with massive inflows of irregular, unskilled workers subject to discrimination and low pay – is not unique to the Dominican Republic. Nonetheless, the size of both flows vis-à-vis the size of the Dominican population and the low barriers that exist to inward and outward movements are distinctive features whose full effects on labour market dynamics as well as on social and political institutions are yet to be fully understood (Ondetti, 2011).

Major shift away from wage and salary work

Distinctive changes occurred in the structure of occupation by sector and status in the two decades. In the 1990s, the main pattern was a decline in employment in agriculture and a corresponding increase in commerce, catering and construction. In the 2000s, as mentioned earlier, there was a major shift away from employment in manufacturing, which came to account for a mere 10 per cent of total employment in 2011, against 17 in 2000. The jobs lost in manufacturing were absorbed primarily through a strong increase of employment in “other services”, which mainly comprises low-productivity jobs in personal services (see Table 3). In absolute numbers, “other services” alone accounted for over 40% of the new jobs generated over 2000-2011, while the sectors more dynamic in terms of GDP growth, such as telecoms and finance, had a limited impact on employment generation.⁵

Table 3 – Dominican Republic, Employment by sector, 1991-2011 (%)

	1991	2000	2011
TOTAL	100.0%	100.0%	100.0%
Agriculture and Livestock	20.3%	15.9%	14.7%
Mining	0.3%	0.2%	0.5%
Manufacturing Industries	18.1%	17.1%	10.2%
Electricity, gas and water	0.4%	0.8%	0.8%
Construction	4.1%	6.3%	6.2%
Commerce and hotels, bars and restaurants	21.5%	26.9%	27.9%
o/w: hotels, bars and restaurants	-	5.2%	5.9%
Transport and Communications	6.0%	6.2%	7.4%
Financial Intermediation and insurance	2.6%	1.9%	2.5%
Other services and public administration	26.5%	24.7%	29.9%
o/w: public administration	-	4.2%	4.8%
Activities not specified	0.2%	-	-

Source: Dominican Republic Central Bank (DRCB)

Those sectoral shifts were mirrored by a shift in the composition of employment by status. From 2000 to 2010, the percentage of wage and salaried workers decreased from 59.8 per cent to 50.5 per cent of total employment, the bulk of the decline being accounted for by the reduction in the number of employees in private establishments with 6 or more workers (see table 4). Correspondingly, the numbers of non-wage workers increased from 34.4 per cent to 42.6 per cent of total employment. This included some increase in the number of employers and self-employed (independent) professional and technical workers (from 4.7 to 6.4 per cent), but it was driven mainly by the increase in non-professional, non-technical and non-administrative independent occupations (from 29.6 to 36.2 per cent).

⁵ According to UNDP, four occupations alone accounted for 46 per cent of the new jobs created between 2000 and 2007: domestic helpers, hairdressers, cabdrivers and street vendors (colmaderos), see PNUD, 2010, table v.26.

Table 4 – Dominican Republic, Employment by status, selected years (% of total employment)

	Wage and Salaries Workers				Non Wage Workers					Domestic Workers	Auxiliary family
	Total	Public	Private		Total	Employers		Independents			
			Establishments with less than 5 employees	Establishments with 5 or more employees		Establishments with less than 5 employees	Establishments with 5 or more employees	Professional, technical workers and administrative workers	Non-professional, non-technical and non-administrative		
2000	59.8	13.2	8.4	38.1	34.4	2	1.2	1.5	29.7	4.1	1.7
2005	56	12.8	7.5	35.7	37.2	4.1	1.2	1.2	30.7	5.1	1.7
2007	54.4	13.1	6.9	34.4	38.3	3.1	1.3	2	31.9	5.1	2.2
2008	52	13.1	6.4	32.5	39	3.7	1.5	2.3	31.5	5.5	3.6
2009	51.8	14.2	5.9	31.7	41	3.5	1.6	3	32.8	5.4	1.8
2010	50.5	13.8	5.6	31.1	42.6	3	1.1	2.3	36.2	5.3	1.6
2011	51.2	14.2	5.9	31	41.5	2.6	1.5	2.2	35.2	5.3	2

Source: ILO, 2011b

The concern is that the sectors where employment increased more significantly are those more frequently associated with low productivity, precarious working conditions and high informality. According to figures by the Central Bank, informal employment – defined as to include self-employed, unpaid family workers, domestic workers and employees in small undertakings – accounts for over 50 per cent of total employment, with a slight increase from 2000 to 2010 that appears to be in line with sectoral changes (see table 2 above).

A different pattern emerges from new ILO estimates available for the period 2008-2010. Unlike the Central Bank, whose figures on informal employment relate to the number of people working in informal establishments or production units, the new ILO estimates account for the number of people who have an informal employment situation, ie those workers whose employment relationship is, in law or in practice, not subject to labour legislation, income taxation, social protection or other employment entitlements (ILO, 2011b, p.64). Those new estimates set the level of total informal employment at 47.9 per cent of total non-agricultural employment in 2010, down from 51.6 per cent in 2008 (see table 5).

An important aspect of the new ILO definition of total informal employment is the inclusion of workers that hold informal jobs in formal enterprises. According to the new series, those workers accounted for 13.7 per cent of total non-agricultural employment in 2008 to 11.5 per cent in 2010.⁶ This confirms that informality is a prominent feature of the Dominican labour market. However, the lack of a long-enough time series makes it difficult to use those figures to evaluate the dynamics of informal employment and the underlying structural factors.

The decline in the share of employment in informal undertakings in the most recent years (row A in Table 5) might be due to the expansion in the coverage of social protection, which allowed workers in own-account enterprises to more easily register with the social security system, a main criterion to define formality in the new ILO survey. This is a positive development. On the other hand, the declining incidence of informal work in formal enterprises (row B in Table 5) is a trend common to several other countries in the region and might be one consequence of the global economic downturn, as employees that had more informal ties with the enterprise were the ones to be terminated first (eg in tourism). This is a policy area that might be addressed by

⁶ That is about 10 per cent of total employment or one quarter of private sector paid employment including domestic workers. The figures regarding this component are estimated using the ILO/SIALC household survey micro-data base covering 16 countries in the region and cross-referencing the information concerning the number of people working in formal establishments whose jobs are non-declared; employees non-declared; jobs of casual or limited duration; hours or salaries below specified threshold; jobs for which labour regulations are not enforced etc.

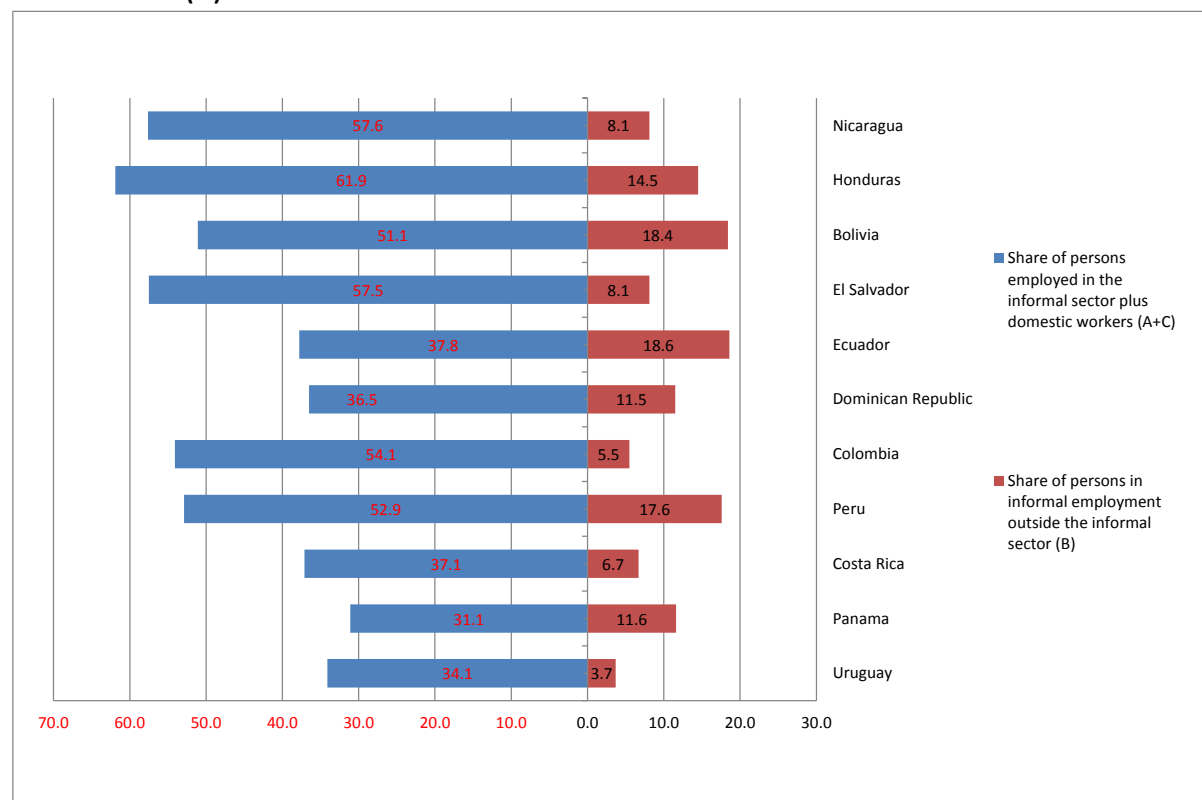
increasing the resources for labour inspection. Deeper analysis is needed to ascertain patterns and causes and identify the positive and normative policy interventions that are necessary to support a gradual transition out of informality.

Table 5 – Dominican Republic, Informal employment as a share of total non-agricultural employment, 2008-2010 (%)

		2008	2009	2010
Total informal employment (A+B+C)	TOTAL	51.6	48.5	47.9
	Male	49.4	46.7	45.9
	Female	54.8	51.4	50.9
A. Employment in the informal sector (self-employed, unpaid family workers, employers and workers in informal enterprises)	TOTAL	31.3	29.1	30.2
	Male	35.1	32.8	33.5
	Female	25.8	23.4	25.2
B. Workers with informal jobs in formal enterprises	TOTAL	13.7	13.0	11.5
	Male	13.5	12.9	11.6
	Female	14.1	13.1	11.3
C. Domestic workers	TOTAL	6.5	6.4	6.3
	Male	0.9	1.0	0.9
	Female	14.9	14.9	14.3

Source: ILO 2011b, table 1, p.71.

Chart 7 – Informal employment as a share of non-agricultural employment in selected countries, 2010 or latest available (%)



Source: ILO, 2011b, table 1, p.71.

In a regional perspective, the Dominican Republic compares favourably relative to countries that have large informal sectors, such as Colombia and Peru, or the poorest countries in Central America, but it is in the high range as it regards the occurrence of domestic work and precarious jobs in formal non-agricultural enterprises (Chart 7).

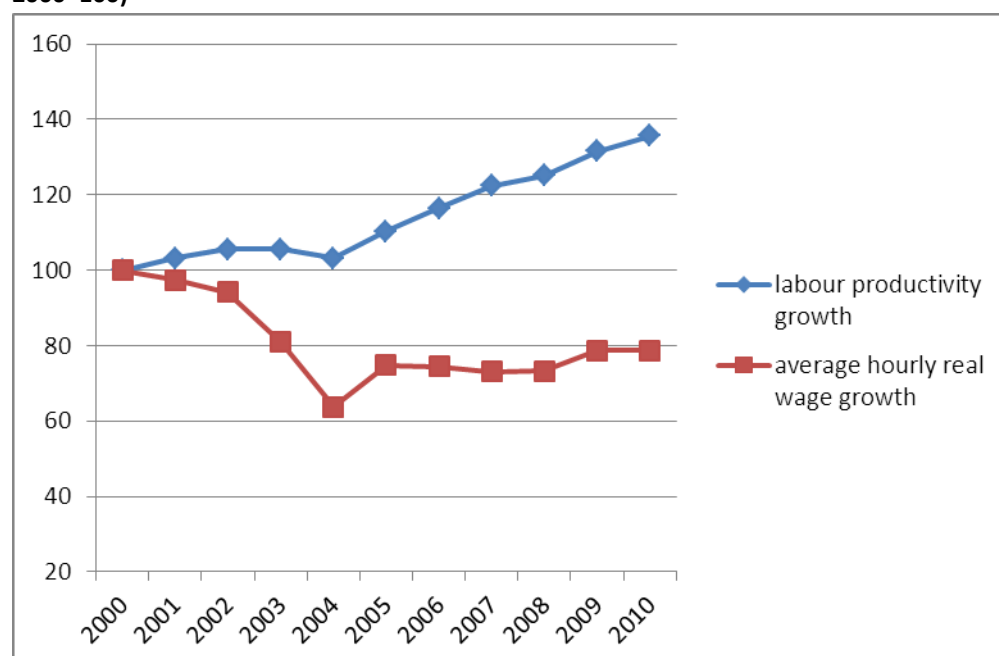
2.3 Wages

When analysing labour market performance, it is important to move beyond employment rates to consider incomes. How workers' earnings evolve over time is an important indicator of living standards and a useful gauge for assessing who benefits from economic growth.

Growing productivity-real wage gap

Unfortunately, the record for the Dominican Republic during the 2000s has not been positive. Real average hourly wages in 2010 are 20 per cent below the level reached in 2000 and have lagged significantly behind the growth in labour productivity (see Chart 8). In 2010, average hourly earnings were RD\$ 73, or approximately 2 USD, but with much dispersion across the earnings distribution. Indeed, private-sector wage earners averaged RD\$ 58 per hour compared with RD\$ 72 per hour for the self-employed, RD\$ 88 per hour for public-sector workers and \$187 per hour for employers. The skill premium for secondary and tertiary studies declined sharply in the first half of the 2000s, but has remained relatively constant since 2004. In 2010, workers with secondary education averaged RD\$ 67 per hour, approximately 20 per cent higher than the RD\$ 56 per hour earned by primary-educated workers. University-educated workers earned RD\$ 126 per hour, nearly 90 per cent more than secondary-educated workers.⁷

Chart 8 – Dominican Republic, Real average hourly wages and labour productivity, 2000-2010 (Index 2000=100)



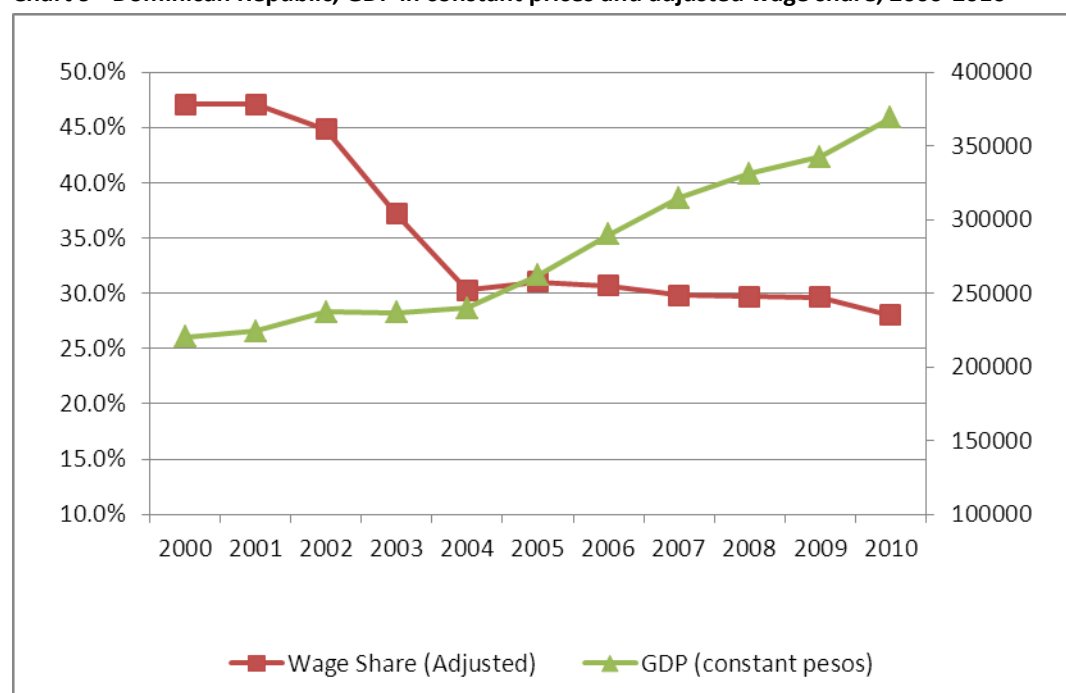
Source: OIT-SIALC based on official data.

⁷ Wage data from OIT-SIALC, based on national sources.

Declining wage share

Growing GDP with stagnant, and even declining, wages has meant that the share of wages in national income has fallen. Indeed, the fall has been quite dramatic. In 2000, the adjusted wage share, which includes earnings from self-employment, was 47 per cent falling abruptly to 30 per cent during the banking crisis and then further declining to 28 per cent by 2010 (see Chart 9). This compares poorly with Mexico, where the wage share in 2009 was 39.5 per cent⁸ or with Brazil, whose wage share recovered during the 2000s from 40 per cent in 2000 to 44 per cent in 2008 (IPEA, 2008).

Chart 9 - Dominican Republic, GDP in constant prices and adjusted wage share, 2000-2010



Note: Wage share is adjusted to incorporate earnings from self-employment. GDP in 1991 constant pesos.
Source: OIT-SIALC based on data from the Banco Central de la República Dominicana.

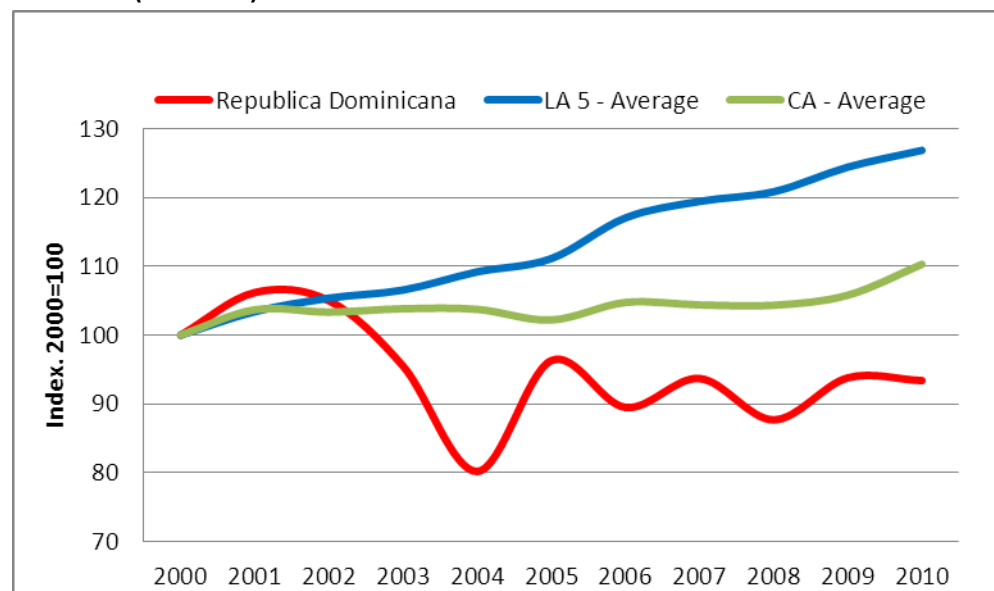
Declining minimum wage

Part of the fall in the wage share can be attributed to the decline in the real wages, including the fall in the real value of the minimum wage. As Chart 10 shows, the average real value of the minimum wage was about 7 per cent lower in 2010 than in 2000 and it has not kept pace with other Latin American countries, all of which experienced real gains, with the exception of El Salvador, where the real value of the minimum wage held steady. Between 2000-2010, the real value of the minimum wage fell by -0.7% per year in the Dominican Republic, compared with 1.0% yearly growth in Costa Rica and Panama, 1.4% yearly growth in Guatemala, and 5.6% yearly growth in Nicaragua. The real minimum wage decline in Dominican Republic is also contrary to global trends. According to ILO (2008), from 2000-2007, average real minimum wages in over 100 countries covering 90 per cent of the world population, grew by 5.7 per cent, with 6.5 per cent real growth in developing countries and 3.8 per cent in developed countries. As a result, the minimum wage in the Dominican Republic has not kept up with the cost of living. According to the Central Bank, the cost of the minimum basket of

⁸ Data from ILO Global wage database.

goods for the poorest quintile was double the pay of the average minimum wage.⁹ What is most surprising about the Dominican case is that the country experienced one of the highest rates of economic growth in Latin America, averaging 5.4% annual growth in real GDP during the 2000s and 3.1% annual growth in labour productivity (measured as output per worker), which typically would have brought about real wage increases.

Chart 10 - Evolution of Real Minimum Wages in Dominican Republic and Select Countries in Latin America, 2000-2010 (2000=100)



Note: LA 5 is the average of Brazil, Chile, Colombia, Peru and Mexico; CA is the average of Costa Rica and Panama.
Source: OIT-SIALC.

Minimum-Wage Setting

Currently, minimum wages are set by a tripartite commission that meets every two years. Negotiations among the commission members have been fraught with difficulty, with no clear criteria set in advance for basing increases, causing at times a breakdown of talks and further delays in adjustment (Cardona, 2012). The task is further complicated by the wide range of minimum wages that exist, by firm size, by sector and by occupation. There are 15 different sectoral minimum wages, with the lowest minimums assigned to the *Zonas Francas*, the tourism sector and agriculture. Within occupational categories, minimum wages can vary by the task at hand – for example, there are varying wages for construction workers who install beams of different sizes or operate machinery with greater horsepower.¹⁰ This fragmented system hinders compliance, by making it more difficult for workers and employers to know the correct wage, and also makes monitoring more difficult. Indeed, the rate of non-compliance is high, with 30 per cent of private-sector employees reporting earnings below the minimum wage. In addition, there is evidence that the differentiated wages by firm size may be acting as a deterrent to firm growth, as compliance is better amongst medium-sized firms (15.6% of workers are paid below the minimum) than large firms (33.1% of workers are paid below the minimum).

Furthermore, by adjusting a multitude of different wages, the minimum wage is less likely to act as benchmark for other wage adjustment, including in the informal economy. This practice, known as the “lighthouse effect,” facilitates bargaining amongst other workers who are either not covered because they work informally or earn above the minimum, sometimes with wages set as multiples of the minimum. The lighthouse effect has

⁹ La Revista Semanal (2011), cited in Cardona, 2012.

¹⁰ See <http://www.leylaboral.com/dominicana/hotlinks/salariominimo.htm> for a list of minimum wages by task.

been well-documented in many countries in Latin America, including Brazil, Argentina and Mexico (during the 1980s).¹¹

ILO Guidance on Minimum Wages.

Approximately 90 per cent of countries have minimum wages (ILO, 2008) though there is a wide diversity in the systems, including the wage setting process, their scope and complexity, as well as their absolute and relative values. Although a minimum value is not specified in international labour standards, the ILO, in its technical assistance, suggests three guidelines for government, social partners and experts on the wage-setting board to consider when deciding at what value to set the minimum. These are: (1) a minimum living wage threshold; (2) the ratio of the minimum wage to the average wage; and (3) the number of employees directly affected by the minimum wage and thus, the impact on the country's total wage bill (Belser and Sobeck, 2012). The minimum living-wage threshold in a country is ascertained through individual country assessments of what is considered sufficient income necessary to live on. Analyses of minimum-to-average wage ratios in the ILO's *Global Wage Report 2008/2009*, of countries with available data, showed that minimum wages were most typically set at between 35 per cent and 45 per cent of mean wages, and on this basis, recommends 40 per cent as a useful benchmark (see Chart 11). Finally, to assess the impact on the total wage bill, it is important to consider the number of workers who will be affected by the minimum wage, the average wage increase brought about by the new minimum wage, and whether the additional costs have the potential of being offset by productivity gains or a reduced mark-up.

As discussed previously, the minimum wage setting system in the Dominican Republic sets wages for a large number of occupations, across different sectors and amongst different firm sizes. It includes, for example, minimums for low-wage professions such as sugar-cane cutters, where wages are set at RD\$ 80 per day (RD\$ 1700 per month) as well as machine operators in the construction sector (RD\$5,000 per month) and workers in large firms of unspecified sectors (RD\$ 7,360 per month).¹² Thus, unlike other countries' systems that limit minimum-wage setting to one wage floor, by having a broader wage-setting system that includes many floors, the average minimum wage is much higher. For this reason, the minimum to average wage ratio was approximately 48 per cent in 2009, according to data from ILO's Global Wages database.

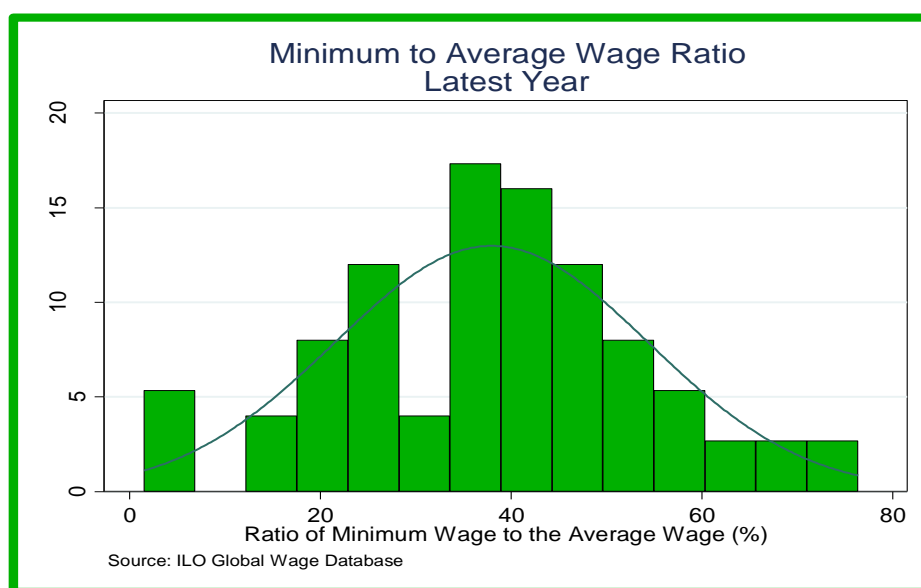
In December 2010, the Central Bank of the Dominican Republic stated that a family of four needed an income of RD\$ 10,407 (or RD\$2,602 per person) to be above the poverty line. Taking as a benchmark the minimum wage in the *Zonas Francas* in 2011 of RD\$5,400 pesos per month, the minimum wage is insufficient to support a family of four, if there is only one wage earner, but just above the poverty line if there are two minimum wage earners in the family employed in the *Zonas Franca* industries. According to the World Bank, approximately 34% of Dominicans lived below the national poverty line in 2010.

The reach of the minimum wage in the Dominican labour market is limited by the large number of workers that do not have a dependent employment relationship—either self-employed (38.5% in 2010) or employers (4.1%). For salaried workers, the wage gains would likely be offset by the substantial productivity gains experienced in the country that, in general, have not been passed on to workers.

¹¹ See for example, S. Keifman and R. Maurizio (2012) "Changes in Labour Market Conditions and Policies: Their impact on wage inequality during the last decade," Working paper no. 2012/14, UNU-WIDER; M. Khamis (2008) "Does the minimum wage have a higher impact on the informal rather than on the formal labour market? Evidence from quasi-experiments," IZA DP no. 3911.

¹² The data are for 2007 (available at <http://www.levlaboral.com/dominicana/hotlinks/salariominimo.htm>) and thus, do not reflect recent adjustments. For instance, in 2011 the minimum wage in large firms in unspecified sectors had increased to RD\$ 9,305 while – according to Resolution No. 1-2012 of 24 February 2012 – the minimum wage for workers in the sugar industry was RD\$ 5,000.

Chart 11 – Minimum to Average Wage Ration, global trends, latest year



Source: Belser and Sobeck, 2012, based on ILO Global Wage Database.

2.4 Poverty and inequality

The lack of impact of economic growth on poverty is particularly worrisome. According to official national estimates using a World Bank methodology, poverty levels in 2010 were the same as in 1990. The most recent MDG report prepared by the Government in collaboration with UNDP, estimates that the country will not be able to achieve *MDG1 -Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day*, nor *MDG2 - Achieving universal primary education by 2015* (see Annex Table 1).

The number of poor households increased strongly in the mid-2000s, in parallel with the decline in the level of real wages, as a result of the domestic crisis and the subsequent high inflation which reduced the real incomes of the most vulnerable. Aside from this “cyclical” effect, the trend is one of stubborn stability in the share of people living in poverty (Perez, 2012). This pattern differs from the experience of comparable countries in the region. For instance, it is in stark contrast with the improvements registered in Brazil, Costa Rica, Peru and Colombia where, according to WB estimates, poverty levels were around 40 per cent lower in 2010 than at the beginning of the decade (see chart 12).

Stubbornness of income poverty is made more severe by a historical legacy of underinvestment in public goods and highly inefficient delivery of public services in health, education, electricity supply (World Bank, 2012). The country lies at the bottom of regional comparative rankings for expenditure in those areas, according to figures from CEPAL (see Table 6).

The performance on the human development indicator (HDI) is also poor. The Dominican Republic has one of the lowest indices in Latin America, ranking 24 out of 33 countries in 2011. The index did improve over the past 20 years, but at the same speed as regional and world averages in spite of above average economic growth rates. Improvements were more visible in the 1990s (11,4% vs. 8.5% in the rest of the world) than in the 2000s (6.3% vs. 9.3%). There were also different trends for the basic components of the index, with those concerning education and health behaving less well (see annex chart 3 for indicators of life expectancy,

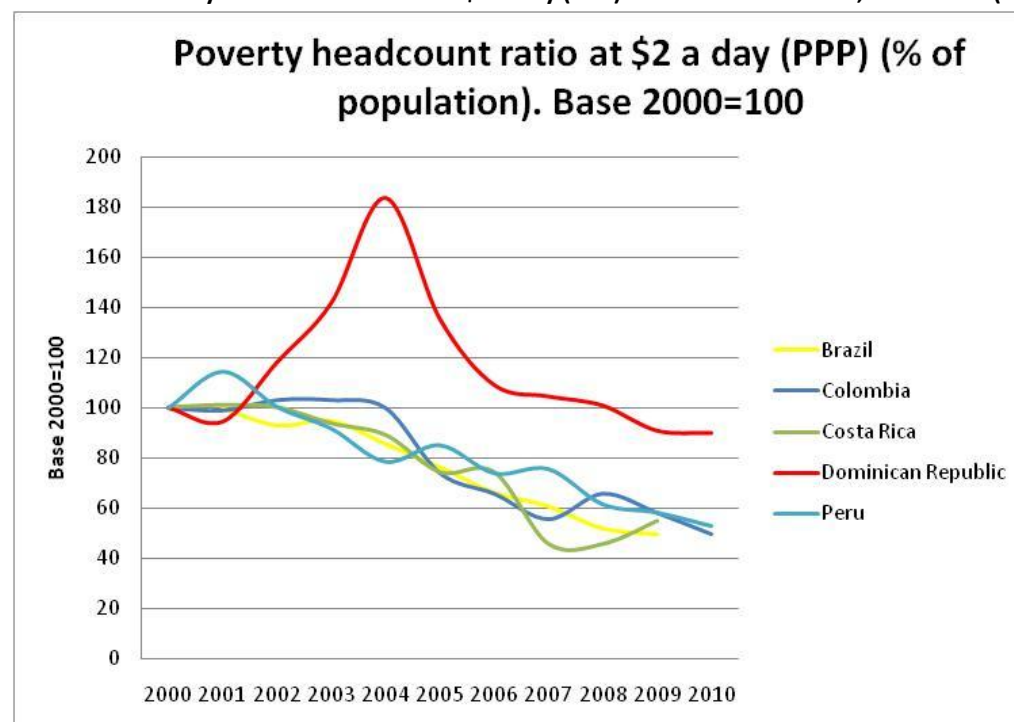
mortality rate and illiteracy rate). According to UNDP, adjusting the national HDI to account for the levels of inequality in the distribution of human development across the population, would reduce the ranking even further (PNUD, 2011).

Table 6 – Public social expenditure (% GDP), Latin and Central America, 2000-2009

	2000	2005	2007	2009
Dominican Republic	5.8	7.1	8	7.7
Guatemala	6.5	7.6	7.2	8.1
Peru	8.6	9.6	8.8	10
Panama	9.1	7.5	9.3	10.5
Mexico	8.6	9.4	9.6	11.2
Honduras	7.8	9.8	10.2	12.2
Nicaragua	8.6	11.2	11.8	13
El Salvador	9.2	12	11.3	13
Colombia	10.8	12.8	12.7	14.5
Chile	15	12.9	12.3	16.7
Costa Rica	17.3	17.3	17.4	22.4
Brazil	21.1	22.5	24.4	27.1

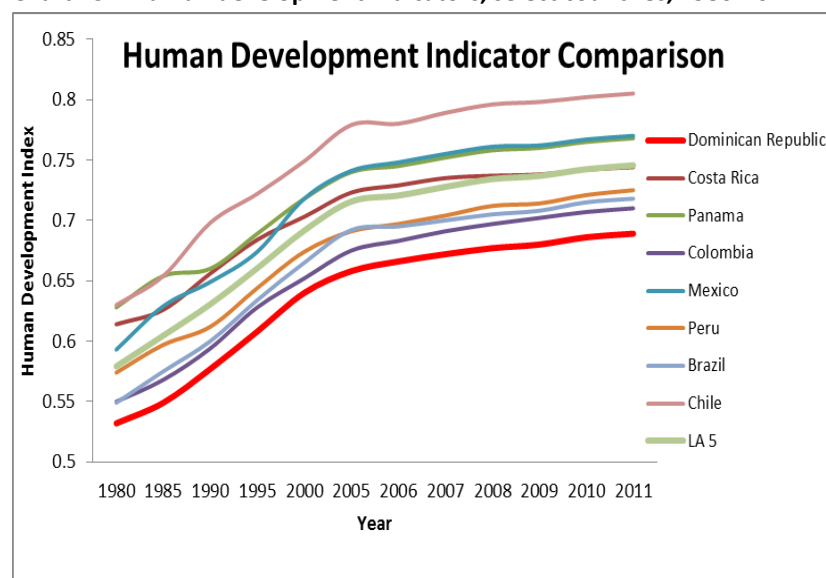
Source: CEPALSTAT

Chart 12 – Poverty headcount ratio at US\$2 a day (PPP) in selected countries, 2000-2010 (2000=100)



Source: WDI

Chart 13 – Human development indicators, select countries, 1980-2011

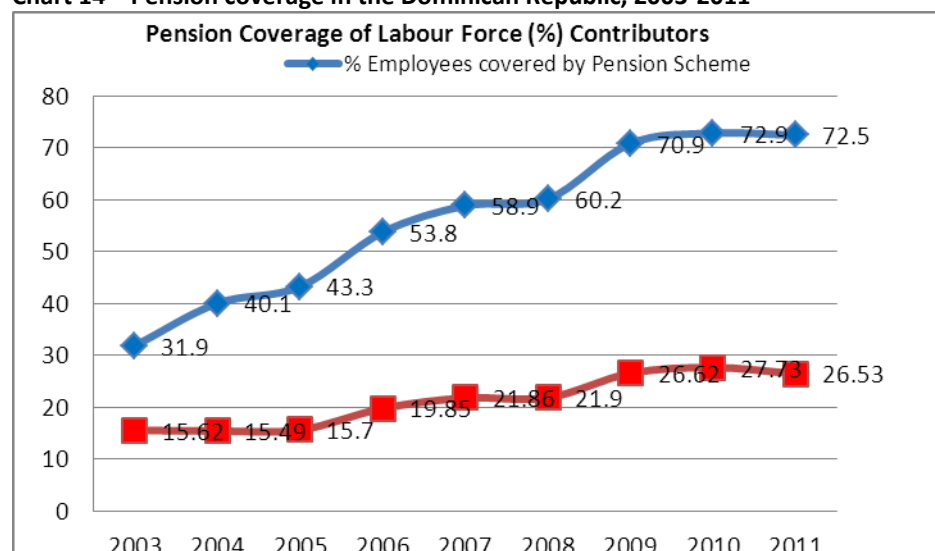


Source: UNDP HDI 2011

Recent strong progress

A decisive upturn has started to take place in the second half of the 2000s as a result of stronger social development policies. Within a few years, nearly half of the population was able to gain access to health care following the introduction in 2002 of a subsidized social security system targeting the unemployed and the people below the poverty line, and, in 2007, of a contributory scheme for those in formal employment. This rapidly set the Dominican Republic in an intermediary position between higher income countries and low-medium income countries in the region in terms of health coverage. The impact of the new health care system (Seguro Familiar de Salud – SFS) was particularly significant for the poorest groups, who also benefitted from the rapid upscale of a conditional transfer programme (*Programa Solidarid*). Introduced as a pilot in 2004, the programme reached over half a million beneficiaries in 2010.

Chart 14 – Pension coverage in the Dominican Republic, 2003-2011



Source: Sistema Nacional de Seguridad Social

Pension coverage (Seguro de Vejez, Discapacidad y Sobreviviencia – SVDS) also increased at a very rapid pace at least for people in formal employment: from about 30 per cent in 2003 it reached over 70 per cent in 2009 (Chart 14). This still represents only about 27 per cent of the total workforce. The Government is committed to maintaining the momentum toward greater coverage for both health care and pension, for instance by the introduction of a mixed contributory-subsidized system targeting self-employed workers whose revenues are below a minimum wage. Given the large size of the informal sector, the fiscal sustainability of those efforts can be challenging, especially if fiscal revenues remain at their comparatively very low level and the economy does not start to generate more and better formal jobs.

To sum up

Notwithstanding the strong economic performance of the past 20 years, the Dominican labour market is characterized by: (i) a relatively low level of participation - especially for women - and a large share of workers with primary or no education; (ii) a large portion of the workforce still largely discouraged and underutilized; (iii) high levels of outflows of educated workers and inflows of foreign irregular workers; and (iv) falling real wages and a decline in the wage share. The pattern of sectoral changes in the last decade – the deep crisis of manufacturing with the decline of wage employment in large enterprises and the surge of employment in low productive, precarious occupations in traditional services – has contributed to retain high levels of total informal employment. Trends in informality are difficult to gauge precisely, as there are different definitions: the measures based on the economic characteristics of the production unit point to an increase, while indicators encompassing legal aspects or access to social protection suggest some improvement perhaps as a result of the greater scope of social policy. The fact that in recent years most employment was generated in sectors with very low productivity is a major matter of concern for the sustainability of economic growth and its social outcomes. Stagnant real wages in the face of growing productivity, further contributed to make the situation of workers more precarious, stemming the potentially beneficial effects of growth on the reduction of poverty.

3. Bottlenecks to sustainable growth and decent work

A healthy business environment and a stable macroeconomic framework are essential for private enterprises to invest, prosper and generate employment. The enterprise survey run by the World Bank/IFC in 2010 provides a synthetic overview of the main factors that contribute to constrain businesses in the non-agricultural formal private sector of the Dominican economy. The main problems, expressed as a percentage of the firms identifying them as a main obstacle, are failures in the provision of electricity; issues concerning tax rates; corruption by public officials and unfair competition from the informal sector. Those constraints are common to Dominican enterprises of all sizes; the former three in particular seem to be distinctive features of the country's business environment, as regional averages are significantly lower (see chart 15). Indeed, problems with the supply of electricity and the efficiency of the public administration have been pointed out in several reports and surveys on the competitiveness of the Dominican industry.¹³ The perception about an unfair tax burden might have to do with the structure of imposition - the high incidence of indirect taxation which has regressive effects – and the common feeling that the money is not well spent.¹⁴

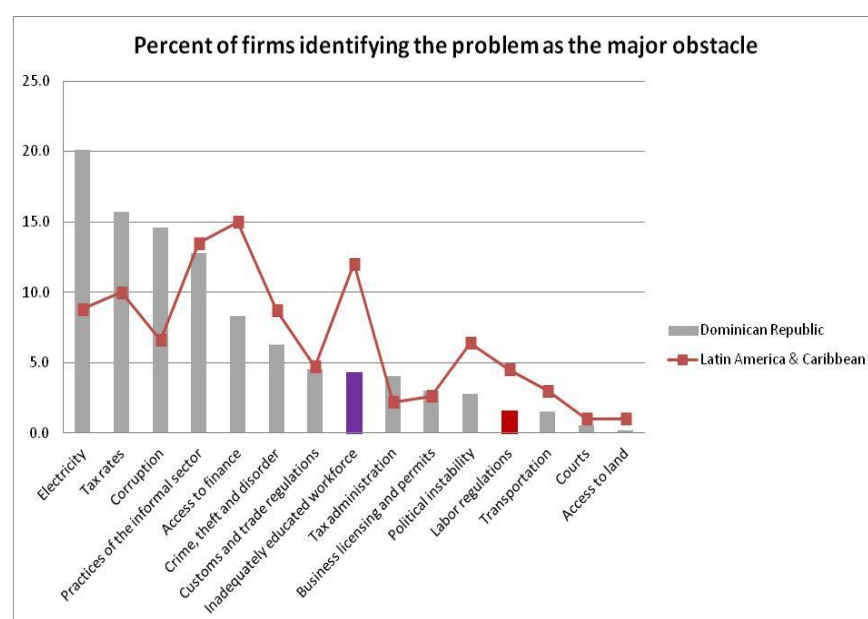
¹³ See for instance Attali, 2010; Fraser institute freedom indexes concerning bureaucracy costs and administrative requirements; World Economic Forum 2008: the country was ranked 133 out of 134 countries as it concerned the power supply and 131 as it concerned public sector clientelism.

¹⁴ The country has a very low share of fiscal revenues over GDP, by regional and global standards, and elusion is widespread although imposition rates are not distinctively high, see Attali, 2010.

Of interest to this report are the factors relating to the labour market. Overall, neither the lack of an adequately trained workforce nor the inflexibility of labour market regulations seem to be perceived as major hindrances by Dominican enterprises – they rank respectively 8th and 12th of a total of 15 main obstacles. The relative importance of both factors varies, however, according to enterprise size. Though the issue of skills seems to be of negligible importance for small and medium-sized enterprises, it is more critical to the large enterprises (more than 100 employees), which account for about two-thirds of total employment registered in social security records. In particular, skill shortages become the third most important obstacle, after electricity and practices of the informal sector. Labour regulations do not appear to be perceived as a major obstacle to competitiveness, regardless of firm size (see chart 16).

The outcome of perception surveys should not be overemphasized. But overall, it is fair to say that labour market institutions and regulations do not emerge as a major impediment to doing business in the Dominican Republic. This is not surprising given the ample evidence of real wages flexibility, with earnings declining significantly as a result of economic downturns. The concern might rather be the opposite, excessive deflationary effect on workers' purchasing power that could be hindering the growth of local businesses, or weakening of the incentive for enterprises to invest in technology and productivity-enhancing workplace organization.

Chart 15 – Results of Enterprise Survey about constraints to business in the Dominican Republic, 2012



Source: World Bank/IFC Enterprise Survey 2010

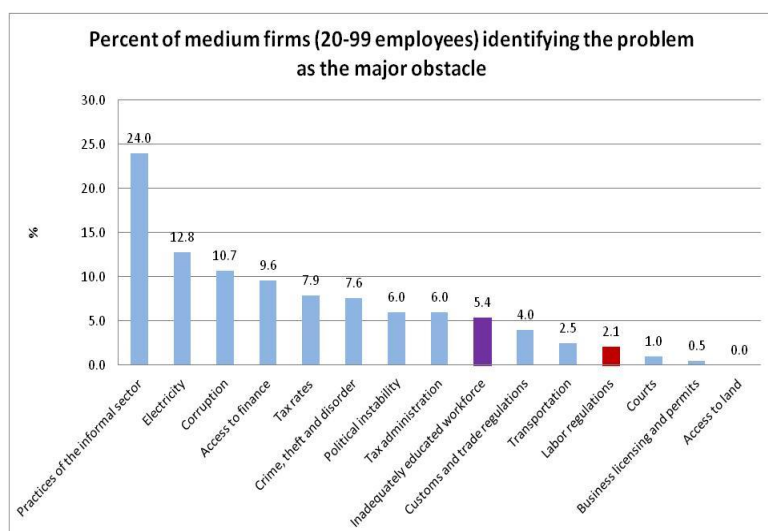
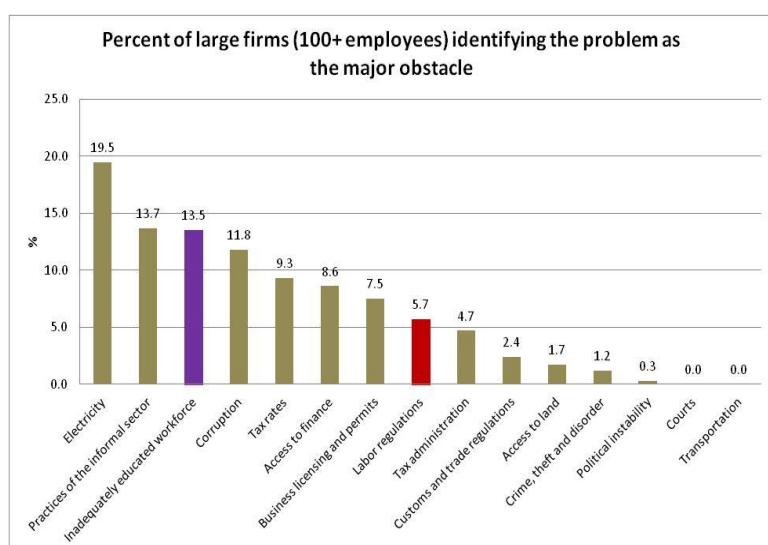
Aside from enterprise surveys, expert views do not consider the Dominican labour market to be too rigid compared to its neighbours (see Guzmán, 2011). The labour code was introduced in 1992; it has not been an impediment to the rapid expansion of manufacturing exports, nor has it hampered the mobility of employment across sectors. Indeed, labour practices in the internationally competitive sectors (*Zonas Francas*, tourism, agriculture) are more constrained, with lower minimum wages than in those sectors that serve the domestic market.

Overall, freedom of association and the right to collective bargaining are recognised. A member since 1924, the country has ratified 32 ILO Conventions in force, including all eight of the Core Conventions (see list in Annex B). The spread of collective bargaining, however, remains constrained by restrictive legal requirements.

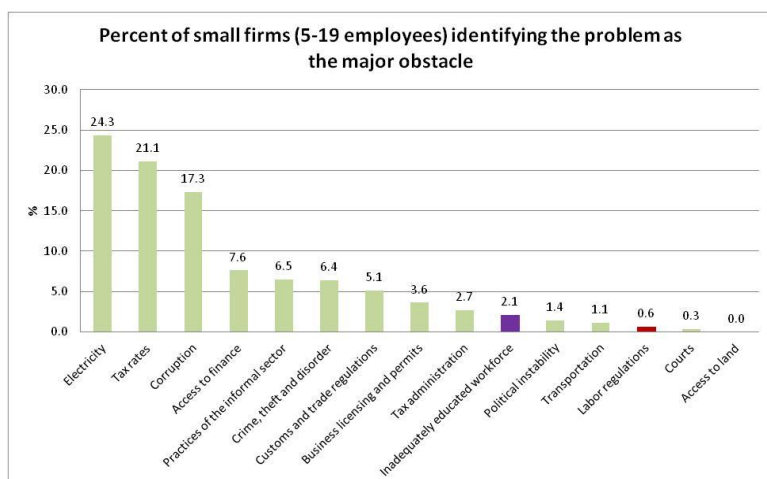
For instance, collective bargaining in any workplace is conditional upon the approval of an absolute majority of the workforce, as it is the right to strike. Trade union density reached a peak of over 15 per cent of national workforce in the 1986-90 period to decline thereafter (Blanchflower, 2006). According to ITUC estimates about 8 per cent of the workforce is currently unionized.¹⁵

There are areas that clearly needs improvement in labour regulations, as stressed by both employers' and workers' organizations in the course of interviews. Though their concerns may differ, experience teaches that the process of reform is most successful when it is the outcome of social dialogue.

Chart 16 - Constraints to business in the Dominican Republic by firm size, 2012



¹⁵ http://www.ituc-csi.org/IMG/pdf/DOMINICAN_REPUBLIC.final.pdf



Source: World Bank/IFC Enterprise Survey 2010

4. Key areas for policy action

The national policy debate

A combination of external and internal factors accounted for episodes of sustained economic growth in the Dominican Republic. In the process, Dominican enterprises and Dominican workers have shown considerable individual initiative, taking advantage of opportunities and adjusting to economic shocks and labour market crises. The country has been able to recover fast from the global economic crisis but it faces challenges in sustaining the generation of decent and productive jobs and in balancing economic and social outcomes. A renewed drive is needed as the economy is undergoing another adjustment phase.

There is growing recognition that the existing pattern of growth is not inclusive and hard to sustain. The economic structure needs to adapt to impending challenges. Though the country is unlikely to regain cost-competitiveness vis-à-vis export platforms in Haiti, Central America and Asia, it is not equipped to compete with more advanced competitors on the basis of innovation and economies of scale. Meanwhile, social cohesion is undermined by persisting poverty, low salaries and increasing vulnerability of workers, with emigration seen as the most promising vehicle for social mobility.

Numerous authoritative international diagnostics and blueprints for reform in the Dominican Republic have been proposed. Some emphasize active policies to search for new, diversified and more sophisticated tradable activities, including by means of supportive financial and macroeconomic frameworks (Hausmann et al., 2011). Some underline the need for a dual strategy that builds capacities in higher value-added, modern sectors in manufacturing and services, while helping to uplift productivity and incomes in traditional sectors and building linkages with the modern sector (Sanchez-Ancochea, 2011). Others call for a new social contract, to rebuild confidence between individuals and institutions in order to carry out policy reforms (Attali, 2010). Others focus on enhancing the quality of public expenditure and building capacities for reform (World Bank, 2009). At the national level, the recently approved National Development Strategy provides a framework for many of the suggested policy changes, emphasizing the need for structural and fiscal reform and the priority that should be given to financing social investments.

Key areas for policy action

In this context, a focus on the question of quality jobs and quality social dialogue can provide an important point of departure.

The generation of more and better jobs will require, on the one hand, successful productive transformation and incentives to business to invest in higher value-added manufacturing and services, especially in foreign exchange earning activities. On the other hand, it will require a well performing labour market and significant investments in education and training, health and social protection to upgrade human capital and narrow inequality of opportunity. This cannot be attained without collective action and greater effectiveness and coherence of public policies. Given current account vulnerabilities and a weak tax base, the economy will have to be set on a narrow and carefully constructed growth path, well balancing the need for a stable macroeconomic framework with the need to sustain investments in productive capacities and human capital over time. Quality social dialogue, where strong and representative trade unions and employers' organizations articulate and lead the expectations of their constituencies in the framework of a consensual strategy for growth and development, is a solid way to find such path and stay on course.

Within the broad agenda for reform, there are areas where partnership initiatives between government, employers and workers' organizations could specially contribute to overcome policy inertia and sustain momentum. The involvement of the social partners could help in sharpening policy design, building up pressures for implementation, ensuring regular monitoring of progress and keeping consistent focus on a given issue when national decisions about regulatory reforms and macroeconomic and fiscal policies are taken. The success of structural reforms in setting the economy on a higher and more stable growth path requires a supportive macroeconomic framework, including in the form of room for efficient public expenditure for investment and social needs. Clearly, maintaining a sustainable fiscal position over the medium-term remains critical to stable levels of investment and consumption.

What follows are some preliminary suggestions for prioritizing the agenda for reform, calling for focused action in five areas that are critical to promote economic diversification and improve the quality of jobs and living standards. In each area, much ground can be gained by capitalizing on on-going initiatives, scaling up effective programmes, learning from good practice, and building on coherence and linkages across "islands" of administrative efficiency in different government agencies and institutions with public-private governance.

A. Supporting enterprise development by improving infrastructure, ensuring micro, small and medium-sized enterprises (MSMEs) have access to credit and management support, and encouraging capabilities for innovation and product development

The main focus of national policy to sustain the competitiveness of Dominican enterprises is on providing generalized subsidies. Greater attention should be paid to addressing bottlenecks in energy and infrastructure. Moreover, distinctive initiatives are needed to promote the upgrading of micro, small and medium-sized enterprises (MSMEs). Building backward and forward linkages and accessing export markets are especially critical but challenging tasks, that require special support. Improving the performance of the small business sector can have enormous consequences on generating employment, raising incomes and reducing inequalities and poverty, but without adequate support systems the rates of failures are bound to remain high and businesses are likely to remain stuck in informality. Upgrading should also go hand in hand with conditions that encourage a gradual transition to formalization. The plan of action recently proposed by the new administration is an important step forward. Areas requiring immediate attention include:

- **Improving access to affordable and reliable finance services** – Strengthening the existing PROMIPYME programme (“Programa de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa”) would be of distinctive value to SMEs. The programme offers finance at concessional rates, between 12 and 15 per cent vs. market rates that may reach over 30 per cent. Despite its attractiveness its use has been limited so far. PROMIPYME should be better funded and its offers should be made better known to SMEs.
- **Providing business support services to improve management skills and workplace practices** - PROMIPYME should also expand its training and advisory services to its borrowers, including by means of investing in technical capabilities of its own staff, establishing a reputation and creating solid linkages with its private sector client. Additional suppliers of business support services could include the Instituto Nacional de Formación Técnico Profesional (INFOTEP). INFOTEP has already a portfolio of advisory services for MSMEs, which could be expanded and adapted to the needs of different groups of enterprises, particularly targeting start-ups. Small firm associations and cooperatives could also play an important role in voicing the concerns of small producers as well as in acting as a conduit to address common problems, enhance quality focus and linkages with larger firms, facilitate compliance with standard requirements and regulations, and provide a variety of support services including dissemination of good practice. Digital platforms might provide an innovative avenue to reach out to small firms, for instance making available basic technical support through templates for business development plans, feasibility studies, electronic billing, and financial projections.¹⁶ Finally, sensitizing employers about the importance of proper managerial competencies, good workplace practices and a trained workforce would be an important element of an effective MSME development strategy.
- **Fully implementing Law 488-08 (“Régimen Regulatorio para el Desarrollo y Competitividad de las Micro, Pequeñas y Medianas Empresas” -MIPYMES)** - This would provide a framework for all interventions and introduce clear and uniform definition of enterprise groupings. The law also stipulates that SMEs should supply at least 15 per cent of goods and services purchased by government agencies; training, administrative routines and other simple measures could be taken to ensure that this is actually taking place.
- **Promoting backward and forward linkages and investment in high productivity sectors** – Institutions such as the Consejo Nacional de Zonas Francas or the Consejo Nacional de Competitividad could provide a platform for public-private dialogues to (a) detect business opportunities in high value-added clusters or in local procurement for global value chains, (b) encourage an orchestrated mix of public and private investments to pursue those opportunities, and (c) review the effectiveness of existing incentives to business. Capacitating and involving local authorities, local producers associations and other stakeholders in local economic development strategies is another way to contribute to develop local value chains and move up in global value chains and export niches such as ecotourism and organic agriculture in poor rural areas.¹⁷

B. Designing education and training programmes that are coordinated and in tune with the needs of business, allowing for the development of more productive economic activities

¹⁶ The Plataforma Virtual de Apoyo a PYMES developed by the Instituto Nacional de Aprendizaje (INA) of Costa Rica is a main example; another interesting experience is the programme “Exporta Fácil” in Peru (Guasch et al. 2012).

¹⁷ There is a mushrooming of good practice in the region, see Guasch et al., 2012.

Low skill levels of the workforce account for critical bottlenecks to the capabilities of enterprises - large and small - to adopt new technology, innovate, achieve productivity gains and move up the value chain. A sound education and training system is also key to allow the majority of the population to take advantage of economic opportunities. Priorities are:

- ***Support the formation of skills for which there is demand in the labour market*** – There are common reports in the country of the lack of adequately trained technicians, middle-level management, professionals and engineers. Additional public resources to expand and diversify INFOTEP's training offer could have a significant immediate positive impact on job creation both among the formal enterprises that are contributing to INFOTEP as well as among informal employers, would-be entrepreneurs or individuals who want to enhance their employability. INFOTEP has gained national and international reputation for the quality of its training. Thanks to its tripartite Board, it has close links with trade unions and employers and it has developed capacities to assess skills gaps, launching new training initiatives in growing sectors - eg call centers or medical equipments in cooperation with the CNZF. In addition, implementing the recently signed agreement between INFOTEP and the *Secretaría de Estado de Educación* could be a significant step forward in using INFOTEP's *know-how* to upgrade the quality of secondary technical education, which lags behind most other countries in the region. Over the medium-term INFOTEP might be developed to become the hub of an effective national training system – flexible, decentralized, capable to work regularly with the private sector in combining classroom training with workplace learning, improving employability, avoiding skills bottlenecks and facilitating demand-driven training provision in sectors with high job-growth potential.
- ***Align the education and training systems to the development needs of the country*** – Gaps in education are well recognized and there is a lively national debate on the need to increase investment in education, mainly to address gaps in infrastructure, improve curricula, retrain teachers and decentralize responsibilities. The education system should be fully relevant to the national development challenges. A “virtuous circle” of coordinated policies should link education, skills formation, productive transformation, employment and decent work. In the short-term, new systems should be put in place to offer orientation about future career prospects to students accessing both secondary and tertiary education; to update university curricula in line with expanding economic sectors and occupations; to connect universities and the more technologically demanding enterprises; and to encourage internships and workplace training. Given widespread poverty, social policy should ensure access to quality training and education for all, building on the successes of programmes such as “*Solidaridad*” in reducing attrition rates and “*Juventud y Empleo*” in facilitating transition to work for disadvantaged youth.

C. Strengthening policies and institutions to make the labour market more efficient and inclusive

In addition to training and education, a wide range of policies and regulations can be used to improve labour market opportunities for individuals, especially youth and women, by means of facilitating participation in the labour market, supporting transitions from school to work, out of unemployment or between jobs, and ensuring adequate remuneration and protection from discrimination and unfair treatment.

- ***National employment services*** – Recently established through funding from the IDB, the national employment service (*Servicio Nacional de Empleo – SENAE*) offers services for labour intermediation,

orientation, job search, manpower projections and labour market information and analysis. Those services have been positively evaluated, but SENAE encounters challenges in expanding its territorial scope and reducing its dependence on foreign financial assistance. If properly supported, with good linkages to the private sector and competent staff, it could become a source of labour market information of great value not only to individuals and enterprises but also to the Government agencies and institutions tasked with designing, implementing and monitoring social and labour market policies.

- ***Child care for female participation*** – Enhancing the public provision of childcare services would help increase female participation rates. This could take multiple forms. Currently, a mere 24 child centres exist in the country. The current network needs to be expanded firstly to marginalized and poor areas, eg through the expansion of the *Red de Estancias Infantiles y Centros de Educacion Inicial* for the children of informal sector workers. The creation of formal sector jobs and infrastructure in areas where they are rare would also have indirect employment effects.

D. Ensuring that the gains from economic growth are shared with the labour force

- ***Linking minimum wage increases to productivity growth and inflation*** - Real wage growth in the Dominican Republic during the 2000s has not kept pace with the substantial gains in productivity growth, resulting in a significantly diminished wage share. Wage-setting policies should therefore strive to better ensure that productivity gains are passed on to workers. The Dominican authorities, in consultation with the social partners, may want to consider yearly adjustments in the minimum wage that are based on the previous year's productivity growth and rate of inflation. This would not only ensure that workers benefit from the gains in productivity growth, but will also avoid the numerous delays in adjustment present in the current-wage setting system. Brazil and Chile provide successful examples of similar policies of tying real minimum wage increases to productivity growth and inflation.
- ***Greater communication of the minimum wage*** - The minimum wage can be an important benchmark for guiding wage bargaining amongst salaried workers who earn more than the minimum as well as amongst those workers who are employed informally. To be an effective benchmark, however, requires that there be a one stated minimum wage floor whose value is communicated widely to the public. A widely known floor would also improve compliance as both workers and employers would be more aware of its existence. Compliance could also be improved by increasing inspection and training of labour inspectors.
- ***Furthering the development of collective bargaining*** - The minimum wage floor would not preclude the existence of other minimum wages in specific sectors or for specific occupations that are based on tripartite consultations and act in essence as a form of collective bargaining. Nevertheless, the social partners may wish to advance the development of collective bargaining in their respective sectors, which would give them more flexibility in the time and type of adjustments made.

E. Providing financially sustainable social protection for workers and their families, both in the formal and informal sectors of the economy

Social protection is growth-enhancing and a very powerful tool for inclusion. The country has made major steps forward in the past few years by means of the introduction of a contributory-subsidized social security regime and the extension of a conditional cash transfer programme, *Solidarid*. Further progress is needed.

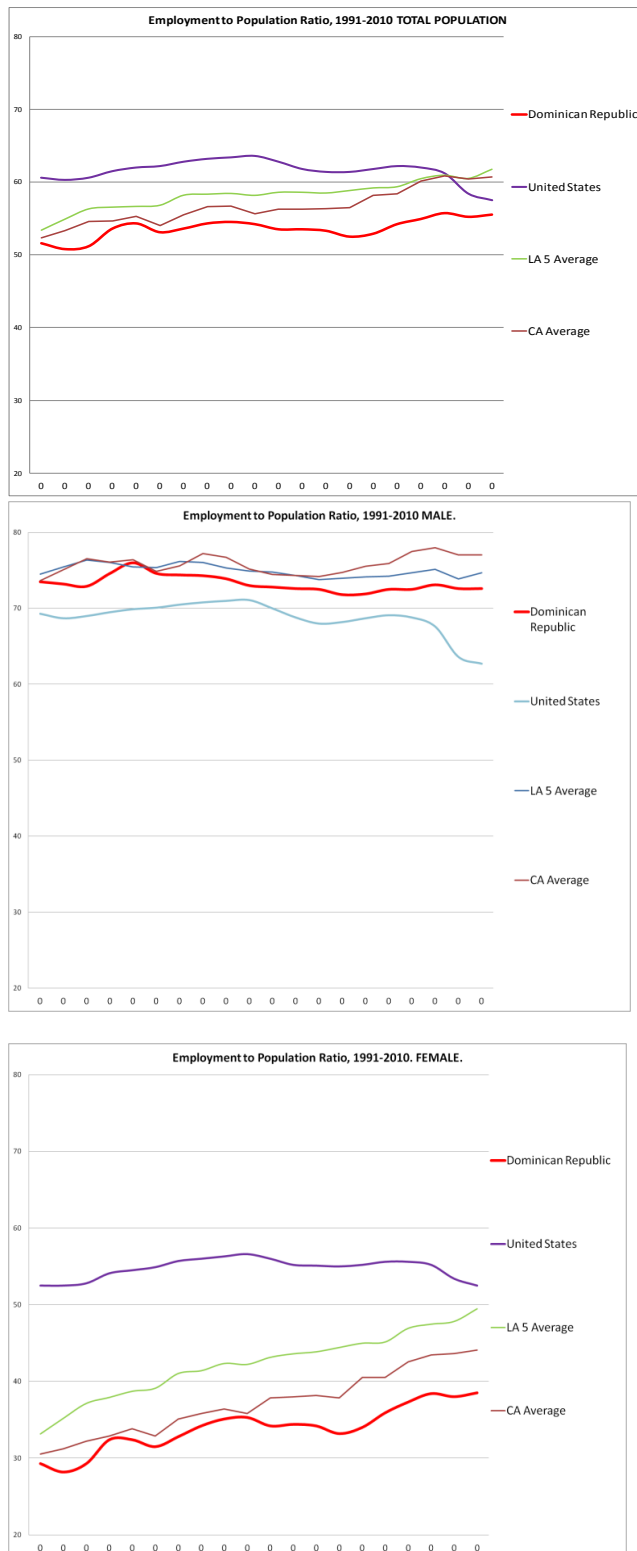
About three-quarters of the population, most of whom are poor, remain out of the pension system (*Seguro de Vejez, Discapacidad y Sobrevivencia – SVDS*), while only half of those who are covered are effectively contributing. As it concerns the health care system (*Seguro Familiar de Salud – SFS*), only half of the population has access to it. Building on the momentum achieved so far, the Dominican authorities, in consultation with the social partners, may want to consider moving towards the implementation of a *social protection floor* to promote universal access to a nationally defined basic set of guarantees of income security and essential health care in line with ILO Recommendation 202. With the exception of the provision of minimum income security for the unemployed and the poor, the implementation of all the other essential elements of a social protection floor is underway. Main steps forward are:

- ***Assessing the costs of the introduction of the current contributory-subsidized regime*** – This is a critical step in order to assure the financial sustainability of the full system – pension and health. A comprehensive actuarial study by the ILO in cooperation with the Consejo Nacional de Seguridad Social is underway to assess the costs of extending minimum pension, health care and child allowances to self-employed workers.
- ***Move progressively towards full pension coverage*** – At present, only the contributory system is in place whereby all employees whose wages and payroll charges are more than a given minimum are required to register. A strategy to increase coverage should focus on: (a) progressively integrating high-income self-employed in the existing contributory system; (b) reaching out to vulnerable and poorest groups by means of introducing the subsidized regime funded by the public budget; and (c) reaching out to self-employed with limited contributory capacity through the launch of the mixed contributory-subsidized regime. Specific steps could include: measures to reduce opportunities for evasion and under-declaration; information and advocacy campaigns including in schools; measures to ensure gender equity; and new modalities to integrate workers of difficult affiliation by means of associations, cooperatives or the AMUSOL initiative launched by CASC (eg precarious workers in sectors such as construction, agriculture and domestic help).
- ***Widening access to health care*** - Measures include: implementing the contributory-subsidized regime, ensuring that high-income self-employed individuals are not subsidized and facilitating access of groups of workers of difficult affiliation; improving efficiency and transparency through regular monitoring of impact as well as more investment in information technology, interconnection, equipment, and training; avoiding fragmentation across different institutions and separate schemes; and protecting low-income users by means of indexing the Plan Basico de Salud (PBS) to the cost of living.

* * *

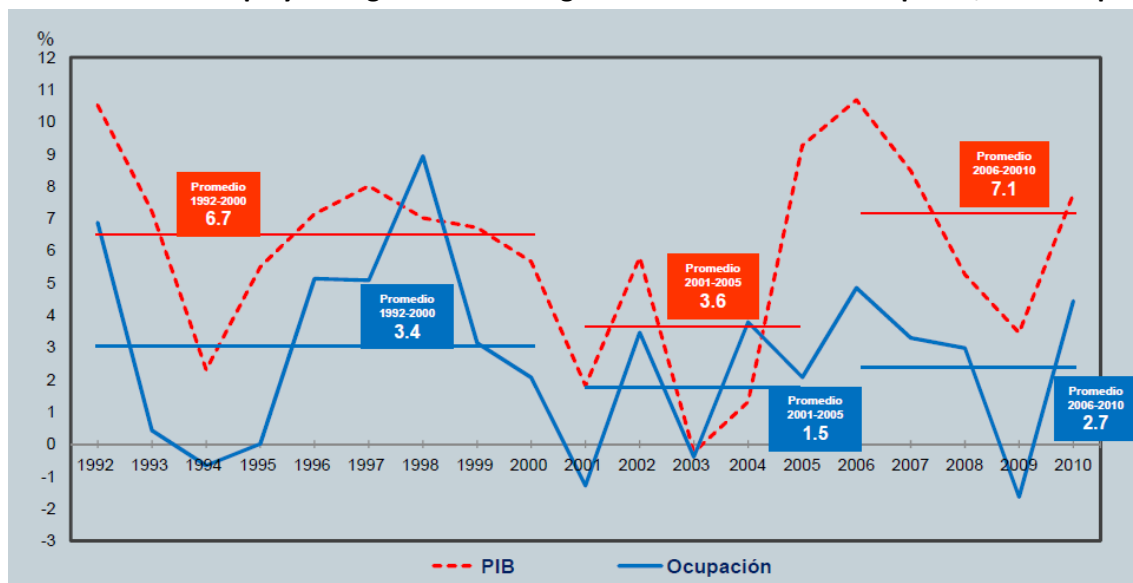
ANNEX A

Annex chart 1 – Employment to population ratio, select countries, 1991-2010



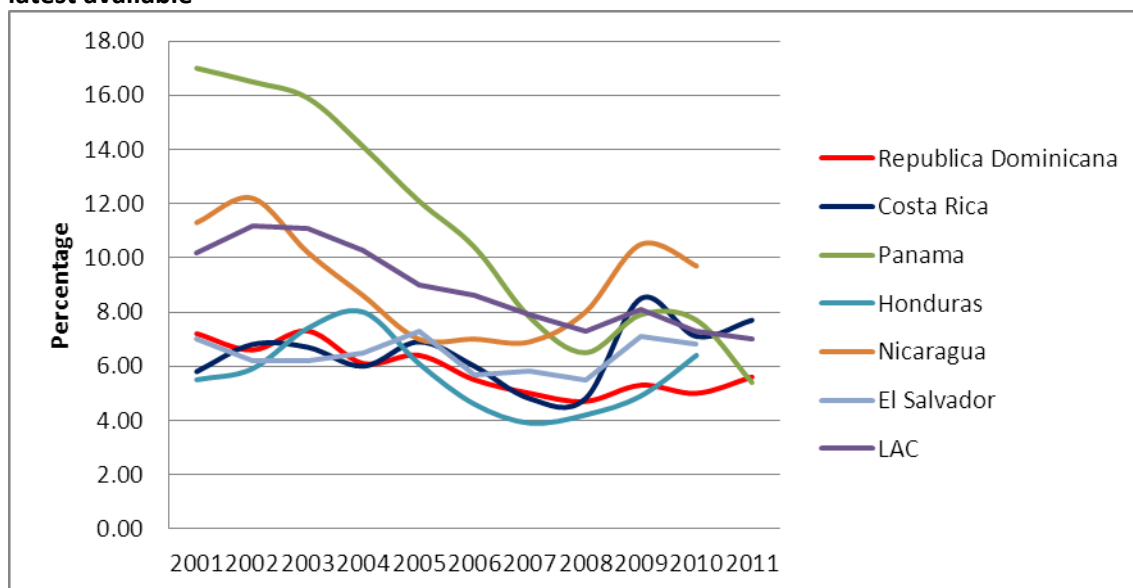
Source: WDI

Annex chart 2 – Employment growth vs. GDP growth in the Dominican Republic, selected periods



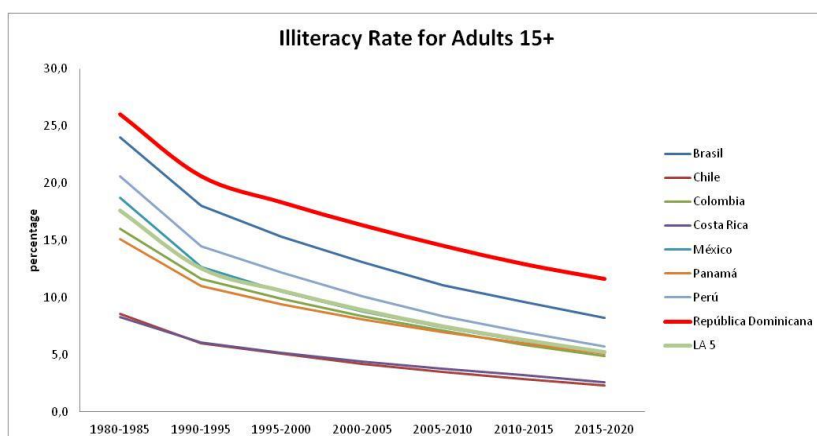
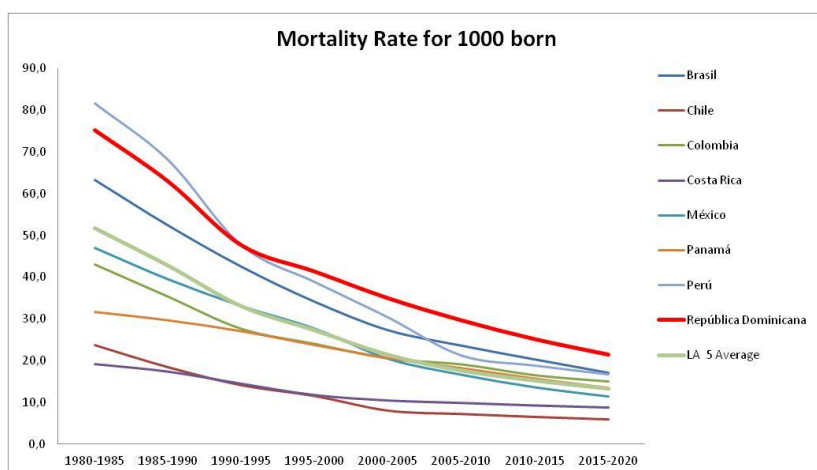
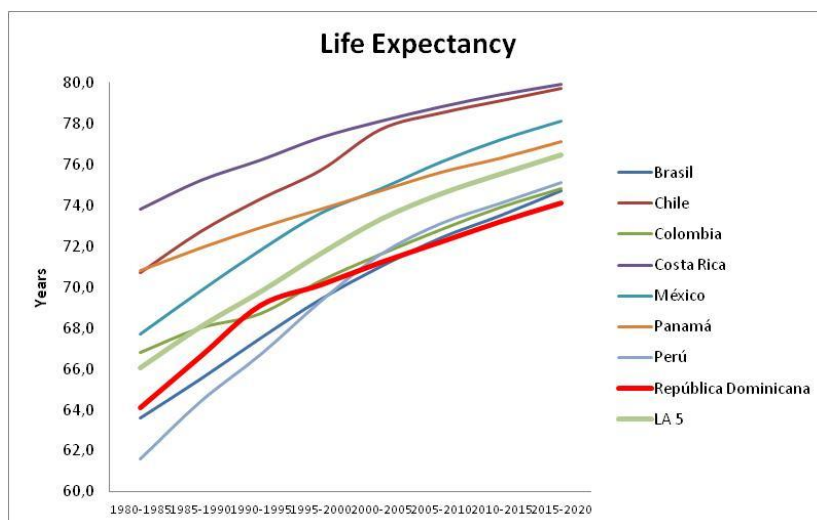
Source: IMF presentation, ILO tripartite seminar, Juan Dolio, Dominican Republic, November 2011

Annex chart 3 – Unemployment rates, selected countries in Latin and Central America, 2011 or latest available



Source: ILO, 2011b. (national unemployment rate for Dominican Republic)

Annex chart 4– Human development indicators trends and projections



Source : CEPAL

Annex table 1 – MDG1 and the poverty share of the population in the Dominican Republic, 1992 - 2009

	1992	2000	2005	2006	2007	2008	2009	2015 (MDG target)
Extreme poverty	10.8	9.0	15.4	13.1	11.8	11.8	10.4	5.4
General poverty	33.9	27.7	40.5	37.0	35.8	36.5	34.0	-

Ministerio de Economía, 2010

ANNEX B - Ratified ILO Conventions by the Dominican Republic

Member since 1924, 36 Conventions ratified (32 in force)

- C. 1 Hours of Work (Industry) Convention, 1919, 04 Feb 1933
- C. 19 Equality of Treatment (Accident Compensation) Convention, 1925, 05 Dec 1956
- C. 26 Minimum Wage-Fixing Machinery Convention, 1928, 05 Dec 1956
- C. 29 Forced Labour Convention, 1930, 05 Dec 1956
- C. 45 Underground Work (Women) Convention, 1935, 12 Aug 1957
- C. 52 Holidays with Pay Convention, 1936, 05 Dec 1956
- C. 77 Medical Examination of Young Persons (Industry) Convention, 1946, 19 Jun 1973
- C. 79 Night Work of Young Persons (Non-Industrial Occupations) Convention, 1946, 22 Sep 1953
- C. 80 Final Articles Revision Convention, 1946, 29 Aug 1947
- C. 81 Labour Inspection Convention, 1947, 22 Sep 1953
- C. 87 Freedom of Association and Protection of the Right to Organise Convention, 1948, 05 Dec 1956
- C. 88 Employment Service Convention, 1948, 22 Sep 1953
- C. 90 Night Work of Young Persons (Industry) Convention (Revised), 1948, 12 Aug 1957
- C. 95 Protection of Wages Convention, 1949, 19 Jun 1973
- C. 98 Right to Organise and Collective Bargaining Convention, 1949, 22 Sep 1953
- C. 100 Equal Remuneration Convention, 1951, 22 Sep 1953
- C. 105 Abolition of Forced Labour Convention, 1957, 23 Jun 1958
- C. 106 Weekly Rest (Commerce and Offices) Convention, 1957, 23 Jun 1958
- C. 107 Indigenous and Tribal Populations Convention, 1957, 23 Jun 1958
- C. 111 Discrimination (Employment and Occupation) Convention, 1958, 13 Jul 1964
- C. 119 Guarding of Machinery Convention, 1963, 09 Mar 1965
- C. 122 Employment Policy Convention, 1964, 29 Mar 2001
- C. 138 Minimum Age Convention, 1973, 29 Mar 2001
Minimum age specified: 14 years. The scope of the Convention is limited to industry or to the economic activities set forth in article 5, paragraph 3. The employment of persons from twelve to fourteen years of age on light work is authorized as provided in article 7, paragraph 4.
- C. 144 Tripartite Consultation (International Labour Standards) Convention, 1976, 15 Jun 1999
- C. 150 Labour Administration Convention, 1978, 15 Jun 1999
- C. 159 - Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983, 20 Jun 1994
- C. 167 Safety and Health in Construction Convention, 1988, 04 Jun 1998
- C. 170 Chemicals Convention, 1990, 03 Jan 2006
- C. 171 Night Work Convention, 1990, 03 Mar 1993
- C. 172 Working Conditions (Hotels and Restaurants) Convention, 1991, 04 Jun 1998
- C. 182 Worst Forms of Child Labour Convention, 1999, 15 Nov 2000

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