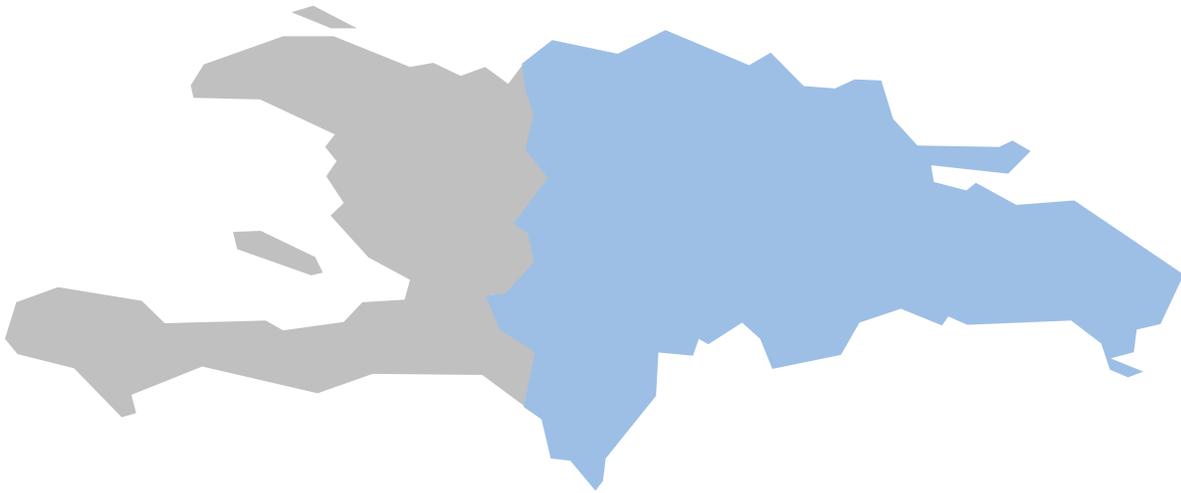




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Dominican Republic Economic Performance Assessment



May 2006

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Dominican Republic Economic Performance Assessment

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Sponsored by the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) and implemented by Nathan Associates Inc. under contract no. PCE-I-00-00-00013-00, Task Order 004, the Country Analytical Support (CAS) Project, 2004–2006, has developed a standard methodology for producing analytical reports to provide a clear and concise evaluation of economic growth performance in designated host countries. These reports are tailored to meet the needs of USAID missions and regional bureaus for country-specific analysis. Each report contains:

- A synthesis of data drawn from numerous sources, including World Bank publications and other international data sets currently used by USAID for economic growth analysis, as well as accessible host-country data sources;
- International benchmarking to assess country performance in comparison to similar countries and groups of countries;
- An easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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NOTE ON DOMINICAN REPUBLIC DATA

Up-to-date statistics for the Dominican Republic from standard international sources are limited. When possible, the CAS team has used more recent statistics from national sources such as the Central Bank. Some indicators from national sources, however, are not entirely comparable to the international benchmark data. The International Monetary Fund's Article IV review is a standard source for timely and reliable data on macroeconomic indicators. At the time this report was written, the most recent IMF review documents for the Dominican Republic were not available to the public; the analysis therefore used the limited data from the IMF Public Information Notice about the IMF review and IMF data from the September 2005 World Economic Outlook (WEO). As the report was being finalized, the IMF released the April 2006 WEO data set; where the updated figures differ substantially from the September 2005 figures, the latest numbers have been used in the report. There are also weaknesses in trade statistics. Trade data for the Dominican Republic, as reported to international bodies, run only to 2001; more recent trade data rely on "mirror" statistics reported by partner countries.

HIGHLIGHTS OF THE DOMINICAN REPUBLIC'S PERFORMANCE

Economic Growth	GDP growth has recovered from the 2003 banking crisis and compares favorably with regional benchmarks. The IMF projects a growth rate of 5.4% in 2006, following 9.0% growth in 2005. Fixed investment has been strong. There are problems with capital and labor productivity, but these may reflect effects of the crisis rather than structural problems.
Poverty	The latest data on poverty and inequality predate the 2003 crisis, which pushed an estimated 15% of the population into poverty and worsened living conditions across most income groups. Even before the crisis, 25% of the population was not obtaining a minimum level of dietary energy consumption.
Economic Structure	Economic activity is relatively well diversified, with a shift from industry to services in recent years. Labor productivity is remarkably uniform across sectors, indicating flexible labor markets.
Demography and Environment	Both population growth and the age dependency ratio are declining, which should boost per capita income growth. Population growth in tourist areas is contributing to environmental problems.
Gender	Gender indicators point to overall equity in women's access to health and education services, but women's participation in the labor force is low.
Fiscal and Monetary Policy	The Dominican Republic's macroeconomic indicators have improved greatly since the crisis. Nevertheless, fiscal consolidation remains a priority for maintaining stability.
Business Environment	The indicators suggest that the Dominican Republic is a difficult place to do business. Corruption is a concern, but regulatory constraints also impair private sector development.
Financial Sector	Not surprisingly, financial sector indicators worsened with the crisis in 2003. Some indicators still beat regional norms, but the financial system overall does not provide the quality of services needed to support private sector growth.
External Sector	The Dominican Republic is a highly open economy. Trade in services especially has been rising, as well as worker remittances. Capital flight during the crisis led to the virtual exhaustion of international reserves, which remain critically low. Higher-value exports and private capital inflows are needed.
Economic Infrastructure	Infrastructure development is generally superior to that of its peers, with the important exception of electricity supply, which is a serious problem.
Health	Both life expectancy and maternal mortality lag behind regional averages, as does government spending on health (as a percentage of GDP).
Education	Primary enrollment rates are excellent by any standard. However, much needs to be done to increase enrollment at the secondary and tertiary levels and to improve the quality of the education system.
Employment and Workforce	Unemployment was very high before the banking crisis in 2003 and then rose sharply, to 19.7%, in 2004. Job creation is a high-priority concern.
Agriculture	Growth in agriculture has been strong. Productivity measures such as value added per worker and cereal yields exhibit very good gains.

Note: The methodology used for comparative benchmarking is explained in the Appendix.

DOMINICAN REPUBLIC: NOTABLE STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Indicator	Strength	Weakness
Growth Performance		
Real GDP growth	✓	
Share of gross fixed investment in GDP	✓	
Poverty and inequality		
Population (%) below minimum dietary energy consumption		✓
Demography and the environment		
Environmental Sustainability Index		✓
Gender		
Adult literacy rate, male-to-female ratio	✓	
Gross enrollment rates, all levels, male-to-female ratio	✓	
Life expectancy at birth, male-to-female ratio	✓	
Labor force participation rate, female		✓
Fiscal and Monetary Policy		
Cash/surplus deficit (% of GDP)		✓
Business environment		
Ease of Doing Business ranking		✓
Corruption Perception Index		✓
Rule of Law Index		✓
Regulatory Quality Index		✓
Procedures to enforce a contract	✓	
Procedures to start a business	✓	
Time to enforce a contract		✓
Time to register property		✓
Time to start a business		✓
Financial Sector		
Domestic credit to the private sector, % of GDP		✓
Stock market capitalization rate, % of GDP		✓
External sector		
Trade, % of GDP	✓	
Actual-to-expected trade size index	✓	
Aid, % of GNI	✓	
Gross international reserves, months of imports		✓
Remittances receipts, % of exports	✓	
Private capital inflows, % of GDP		✓
Time to trade (average import and export days)	✓	

Indicator	Strength	Weakness
Economic Infrastructure		
Overall Infrastructure Quality Index	✓	
Telephone density, fixed line and mobile per 1,000 people	✓	
Quality of infrastructure index—electricity		✓
Health		
Life expectancy		✓
Health spending as a % of GDP		✓
HIV prevalence		✓
Education		
Net primary enrollment rate (total)	✓	
Persistence in school to grade 5, percentage of total		✓
Pupil-to-teacher ratio, primary school		✓
Expenditure per student, % of GDP per capita, primary and secondary		✓
Employment and Workforce		
Unemployment rate		✓
Agriculture		
Agriculture value-added per worker	✓	
Cereal yield	✓	

Note: The chart identifies selective indicators for which Dominican Republic's performance is particularly strong or weak relative to the benchmark standards; details are discussed in the text. The separate Data Supplement presents a full tabulation of the data examined for this report, including the international benchmark data, along with technical notes on the data sources and definitions.

1. Introduction

This paper is one of a series of Economic Performance Assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of a broad range of indicators relating to economic growth performance in designated host countries. The report draws on a variety of international data sources¹ and uses international benchmarking against reference group averages and comparator countries (Chile and Costa Rica) to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty.

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and discern the best course of action.² Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in other instances a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.³ Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong *enabling environment for private sector development*, involving multiple elements: macroeconomic stability; a sound legal and regulatory system, including secure contract and property rights; effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management; investment in education, health, and workforce skills; infrastructure development; and sustainable use of natural resources.

¹ Sources include the latest data from USAID’s internal Economic and Social Database (ESDB) and from readily accessible public information sources. The ESDB is compiled and maintained by the Development Information Service (DIS) under PPC/CDIE. It is accessible to staff through the USAID intranet.

² Sometimes, too, the problem is faulty wiring to the indicator—analogue here to faulty data.

³ In USAID’s white paper, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal and because growth is the most powerful engine for poverty reduction.

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor. We call this the *pro-poor growth environment*.⁴ Here, too, many elements are involved, including effective education and health systems; policies facilitating job creation; agricultural development (in countries where farming is a major source of livelihood for the poor); dismantling barriers to micro and small enterprise development; and progress toward gender equity.

The present evaluation of these conditions must be interpreted with caution, because a concise analysis of this sort cannot provide a definitive diagnosis of economic problems or simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems for economic growth on the basis of a review of selected indicators, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention to complement on-the-ground knowledge and further in-depth studies.

The remainder of the report discusses the most important results of the diagnostic analysis, in three sections: Overview of the Economy, Private Sector Enabling Environment, and Pro-Poor Growth Environment. Table 1-1 summarizes the topic coverage. A concluding section summarizes the key findings and central messages. Finally, the Appendix provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table showing the full set of indicators examined for this report.

Table 1-1
Topic Coverage

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> •Growth Performance •Poverty and Inequality •Economic Structure •Demographic and Environmental Conditions •Gender 	<ul style="list-style-type: none"> •Fiscal and Monetary Policy •Business Environment •Financial Sector •External Sector •Economic Infrastructure •Science and Technology 	<ul style="list-style-type: none"> •Health •Education •Employment and Workforce •Agriculture

⁴ A comprehensive poverty reduction strategy also requires programs to reduce the *vulnerability* of the poor to natural and economic shocks. This aspect is not covered in the template because the focus is on economic growth programs. In addition, it is difficult to find meaningful and readily available indicators of vulnerability to use in the template.

2. Overview of the Economy

This section reviews basic information on macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity for the Dominican Republic.⁵ Some of the indicators cited here are descriptive rather than analytical to provide context for the performance analysis.

GROWTH PERFORMANCE

With an estimated per capita GDP of \$3,234 in 2005, the Dominican Republic ranks near the top of the World Bank's lower-middle-income group⁶ and well above the average of \$2,357 for lower-middle-income countries in Latin America and the Caribbean (LMI-LAC). In the mid- to late 1990s, real GDP grew at annual rates of more than 7 percent. Growth slowed to about 4 percent in 2001 and 2002 and then GDP actually declined by 1.9 percent in 2003 because of a severe banking crisis. The country experienced a partial recovery in 2004, with GDP growing by 2.0 percent, followed by a strong recovery in 2005, with the growth rate reaching 9.0 percent, driven by a rebound in private consumption and investment.⁷ A burst of rapid growth is not unusual in the wake of a crisis such as occurred in 2003. In any case, the IMF projects GDP growth of 5.4 percent in 2006.⁸ Although this is lower than rates achieved in the 1990s, it compares favorably with our benchmark regression estimate of 3.6 percent for a country with the Dominican Republic's characteristics, and with the LMI-LAC average of 3.7 percent. The Dominican Republic must aim to sustain growth rates at or above the level projected for 2006 to achieve visible and widespread improvements in living standards (Figure 2-1).

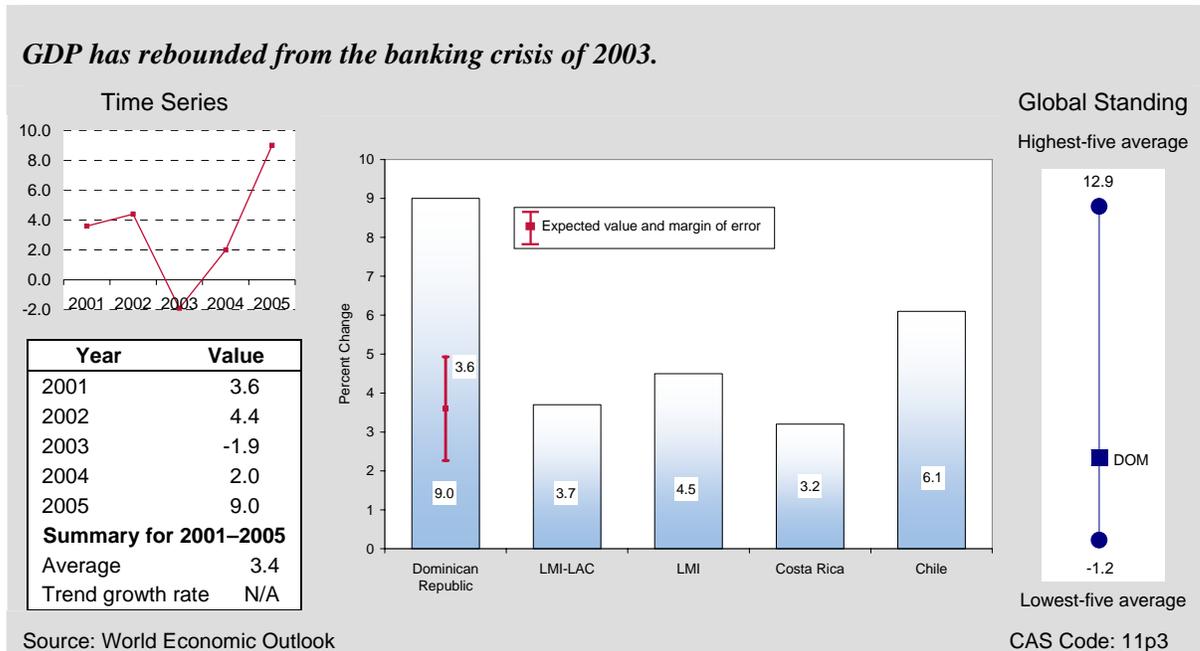
⁵ The separate Data Supplement provides a full tabulation of the data for the Dominican Republic and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

⁶ The figure of \$3,234 is the value of per capita income reported in the IMF's World Economic Outlook database for April 2006. Remarkably, the value of per capita income was just \$2,424 in the September 2005 database. This huge difference is attributable to a large appreciation in the year-average exchange rate between 2004 and 2005, which evidently was not foreseen when the IMF made the estimate for the September 2005 WEO. In addition, the September 2005 WEO estimated GDP growth for 2005 at 4.5 percent; the updated figure is 9.0 percent. These enormous revisions highlight the problems involved in using preliminary estimates.

⁷ Economist Intelligence Unit (EIU), Dominican Republic Country Report: January 2006, p. 4

⁸ IMF Public Information Notice no. 05/162, "IMF Executive Board Concludes 2005 Article IV Consultation with the Dominican Republic," December 7, 2005.

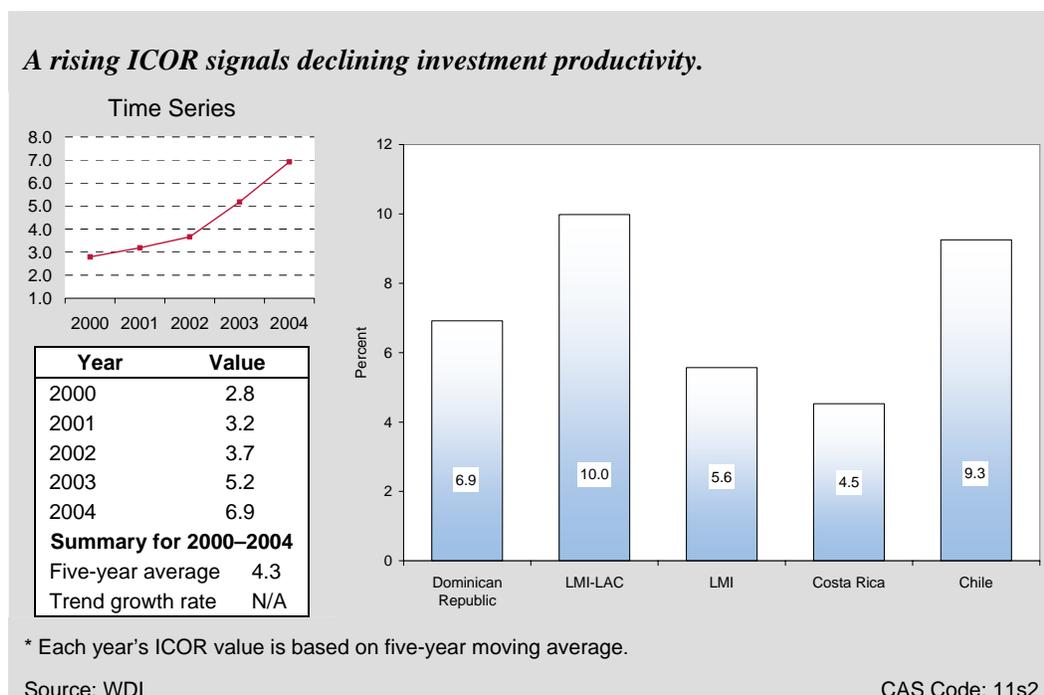
Figure 2-1
Real GDP Growth



Despite the financial crisis, investment remained reasonably high. The share of gross fixed investment in GDP averaged 23.5 percent between 2002 and 2004, which is near the regression benchmark of 24.9 percent and higher than the LMI-LAC average of 18.5 percent, as well as recent performance in Costa Rica (19.7 percent) and Chile (22.8 percent). The effects of the crisis are more evident in the statistics on productivity. The incremental capital–output ratio (ICOR) is a basic measure of investment productivity. In the five years to 2004, the ICOR value was 6.9, which means that \$6.90 of investment has been needed per extra \$1 of output (Figure 2-2). International experience suggests that an ICOR of 4.0 or less indicates that capital investment is very productive. Notably, the ICOR was just 2.8 in the five years to 2000, showing that the country is fully capable of achieving high investment efficiency.

Productivity of the labor force has also been weak, with an average growth rate of just 1.4 percent in the five years to 2004. These productivity figures, however, should not be taken as structural trends, because they have been heavily affected by the banking crisis. Still, improving the quality of the labor force by investing in health, education, and training (see Section 4); closing the gender disparities in opportunities to work; and introducing new technologies could improve the country's growth and labor productivity performance.

Figure 2-2
Investment Productivity



POVERTY AND INEQUALITY

The latest household survey data for the Dominican Republic predate the 2003–2004 crisis. These figures show a lower incidence of poverty and a more equal distribution of income than in many other LMI-LAC countries. Clearly, the country's impressive growth during the 1990s lifted many people out of poverty. For example, the proportion of population living below the national poverty line was estimated at 28.6 percent in 2002, compared to the regression benchmark of 32.4 percent and the average for LMI-LAC of 37.5 percent.⁹ Similarly, the share of income accruing to the richest 20 percent was 10.4 times larger than the share accruing to the poorest 20 percent in 1998. This sounds very high, but it indicates less inequality than the average for LMI-LAC (with a ratio of 17.7), and even Costa Rica (12.3) or Chile (18.7). The LAC region in general, however, has the highest inequality in the world.¹⁰

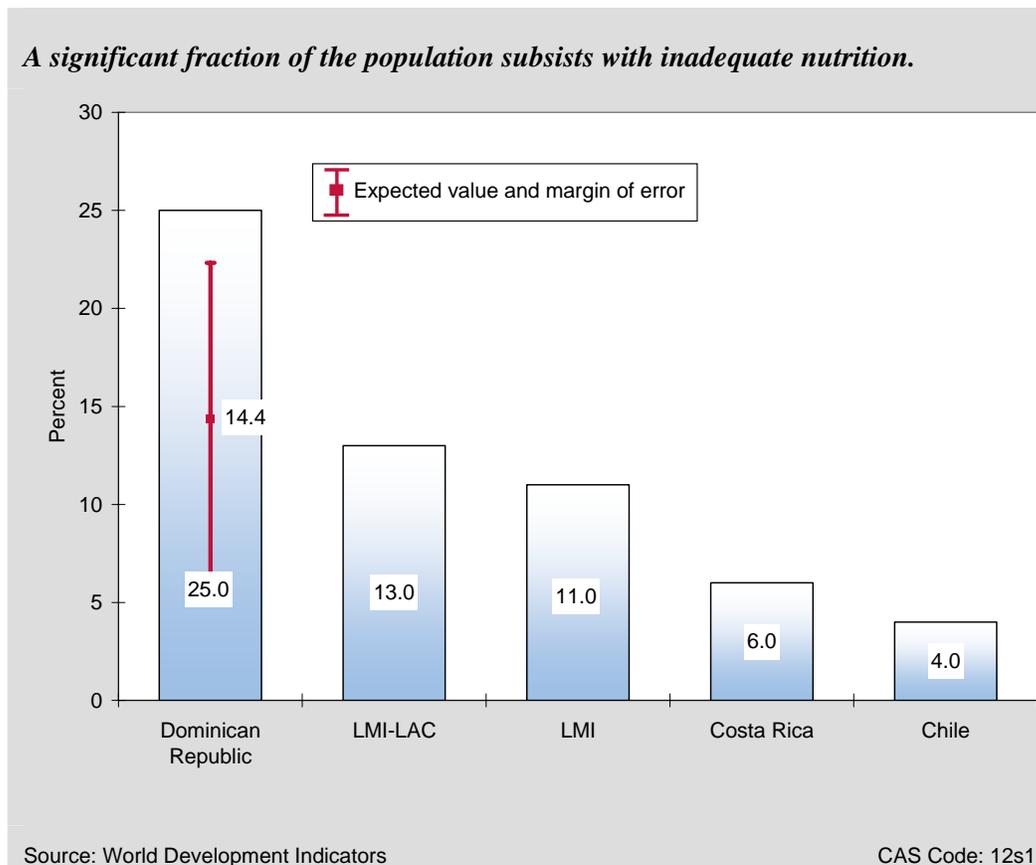
The UNDP's Human Poverty Index (HPI) provides a broader gauge of poverty that takes into account deprivation in health and education as well as income. On a scale of 0 (no deprivation) to 100 (maximum deprivation), the Dominican Republic scored 11.8 in 2003, with a declining trend to that year. This is slightly better than the regression benchmark of 12.6 and in line with the LMI-LAC average of 11.4; but the Dominican Republic is far behind regional leaders such as Costa Rica and Chile, with HPI scores of 4.0 and 3.7, respectively.

⁹ National poverty lines differ; thus cross-country comparisons must be interpreted with caution.

¹⁰ Indicators in this section should be interpreted with caution. The poverty figures are dated. Furthermore, the World Bank warns in its Country Assistance Strategy that because national surveys in the Dominican Republic do not count many people in the most vulnerable populations, such as those living on the border and the undocumented, social indicators may in fact be worse than indicated by surveys.

One of the most problematic indicators for the Dominican Republic is, and was even before the crisis, the percent of population unable to obtain minimum dietary energy consumption (a Millennium Development Goal [MDG] indicator). In 2001, before the crisis, this figure stood at 25 percent, which is extremely high in absolute terms and nearly twice the regression benchmark (14.3 percent) and the average for LMI-LAC (13.0 percent) (Figure 2-3). Since the crisis, high inflation has increased the prices of food and transport, which undoubtedly has worsened the problem of undernourishment. At the same time, the reduction in fiscal revenues has affected the provision of basic social services and programs.¹¹ In addition to humanitarian concerns, undernourishment seriously affects labor productivity and earning capacity and should be a priority for the government and donors. The remedy may involve interventions to improve rural development, the distribution infrastructure, and basic education, as well as transfer payments to assist the most vulnerable groups in achieving adequate food consumption.

Figure 2-3
Population below Minimum Dietary Energy Consumption



Preliminary assessments of the impact of the recent crisis on the poor indicate a dramatic increase in the percentage of people living in poverty. The World Bank has estimated that about 15 percent of Dominicans (about 1.3 million people) fell into poverty during 2002–2004 and that

¹¹ World Bank, Country Assistance Strategy for the Dominican Republic, Report No. 31627-DO, May 2005, p. 10

living conditions worsened across all income groups.¹² The same factors have probably worsened inequality, as well. High levels of poverty and inequality can impede economic growth—by heightening social and political tensions, creating risks that deter investment, and making it more difficult to achieve consensus on essential reforms. Donors and policymakers will need to support a variety of initiatives that focus on reducing social exclusion and increasing opportunities for wealth creation in the poorer socioeconomic segments.

The need to reduce poverty was highlighted by the government in the Poverty Reduction Strategy for 2003–2015, which provides a plan to meet the MDGs. The pillars of the strategy are maintaining a stable macroeconomic environment guaranteeing an average growth rate of at least 4 percent; sustainable increases in the size and efficiency of public social expenditures, assigning priority to health and education; and stimulating rural and regional development.¹³ In its Country Assistance Strategy, the World Bank affirms these objectives but notes that implementation must be adapted to the post-crisis fiscal situation and the need for short-term actions to mitigate the impact of the crisis on the poor.¹⁴

ECONOMIC STRUCTURE

In broad terms, the Dominican Republic economy is well diversified, with a shift from industry to services in the five years to 2004. During that period, the share of value added originating in the service sector rose from 54.8 percent to 63 percent, while industry's share declined from 34 percent to 25.6 percent. The contribution from agriculture was steady, averaging 11.3 percent.

A similar structural shift can be seen in employment. Employment trends suggest that labor markets have been flexible and that transformational development is occurring. For the five years to 2001 (latest data), employment in industry declined from 25.8 percent to 23 percent, while employment in services rose from 54.4 percent to 62.2 percent. Employment in agriculture declined from 19.7 percent to 14.9 percent in that period, while the share of output in the sector remained stable. This suggests important productivity gains in agriculture (see Section 4). The data on output and employment also demonstrate an absence of large productivity differentials across sectors (Figure 2-4). In contrast, there are large differences between employment shares and output shares in Costa Rica and Chile, indicating large differences in labor productivity from sector to sector; in Chile, productivity is particularly high in industry, while in Costa Rica workers in the service sector generate a disproportionately large share of GDP.

Another important structural feature is the size of the informal sector.¹⁵ The UNDP Human Development Report for 2005 reports that the share of the informal sector in total employment increased from 52.1 percent to 56.3 percent between 2000 and 2002 (latest figures available). As

¹² World Bank, Country Assistance Strategy for the Dominican Republic, Report No. 31627-DO, May 2005, p. 9

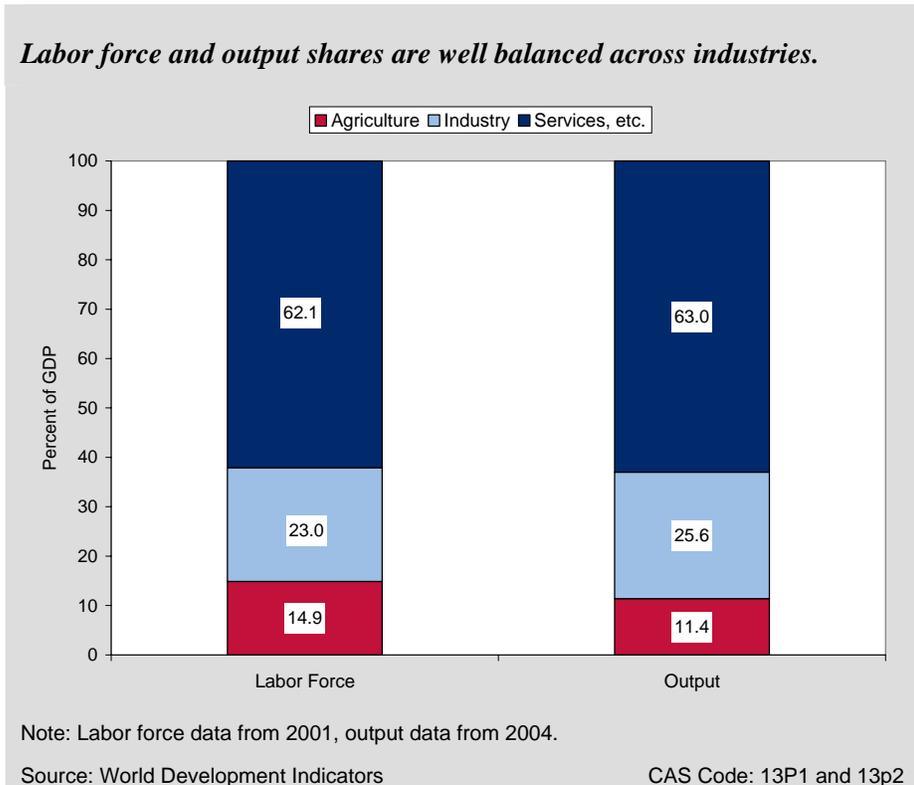
¹³ OPANAL, *Estrategia Nacional para la Reducción de la Pobreza en la República Dominicana*, June 2003, xx–xxiii

¹⁴ *Ibid.*, p. 11

¹⁵ A widely cited econometric estimate of the size of the informal sector is not used here because the figures are based on a methodology that does not provide a convincing measure of the variable in question.

with the poverty statistics, these figures are likely to have worsened as a result of the recent economic crisis. The consequence of a growing informal sector is a worsening of living conditions and job quality.¹⁶ The restoration of stronger growth and macroeconomic stability should set the stage for faster job creation in the formal sector, though improvements in the financial system and the business environment (discussed below) are also vital.

Figure 2-4
Labor Force and Output Structure



DEMOGRAPHY AND ENVIRONMENT

The Dominican Republic has an estimated population of 8.8 million people, which is growing at a rate of 1.5 percent per year. The population growth rate matches the average for LMI-LAC and the regression benchmark and falls in the range of Chile's 1.2 percent and Costa Rica's 1.6 percent. The Dominican Republic's age-dependency ratio (0.56 dependents per worker) is also consistent with comparator countries and benchmarks. Both population growth and age dependency show a declining trend, which will ease the burden of providing public services such as education and health care in the coming years while increasing per capita growth.

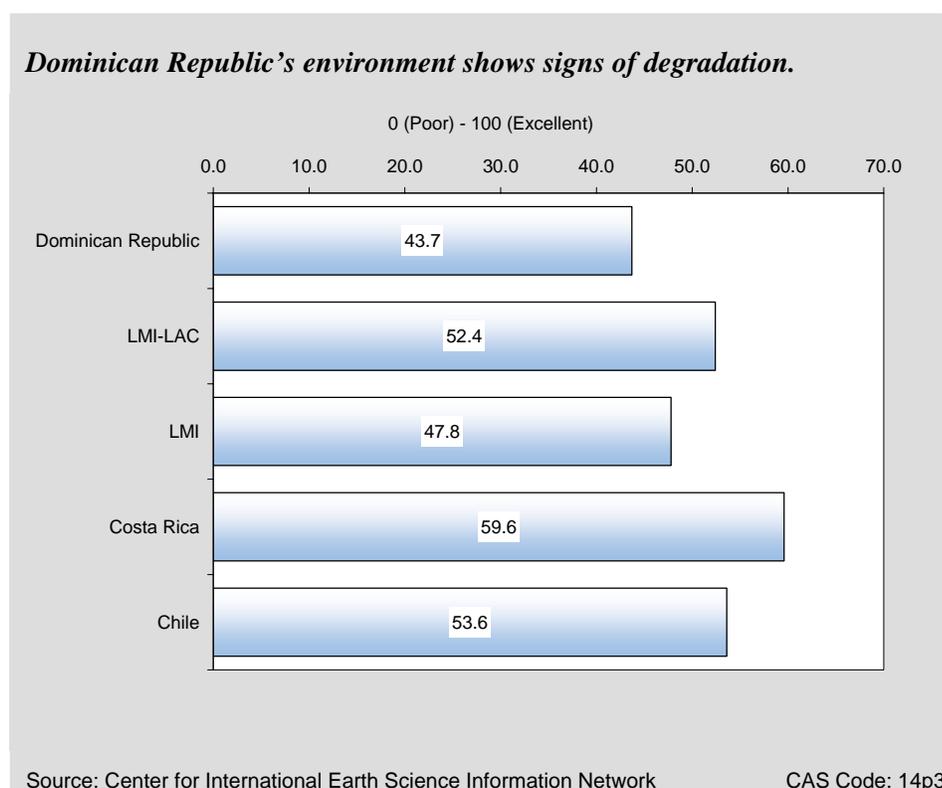
In 2004, an estimated 59.7 percent of the population lived in urban areas. This is similar to the rate in Costa Rica (60.6 percent) but less than the LMI-LAC average of 64.2 percent. Chile exhibits a much higher urbanization rate, 86.6 percent. The low number for the Dominican

¹⁶ *Informe Nacional de Desarrollo Humano*, República Dominicana 2005, UNDP, p. 192

Republic may reflect in part the growth of tourism outside urban centers. This growth, however, raises concerns about population impact on coastal areas and deforestation. In addition, this growth has exacerbated environmental problems such as water treatment, waste disposal, and agricultural runoff. New tourism developments add to the demand on aquifers where water is scarce.¹⁷

These environmental problems are reflected more generally in the Dominican Republic's low score on the international Environmental Sustainability Index (ESI). On a scale of 0 (poor) to 100 (excellent), Dominican Republic's score of 43.7 is well below the average LMI-LAC as well as the scores for Costa Rica and Chile (Figure 2-5).

Figure 2-5
Environmental Sustainability Index



This shows that the environment is suffering serious degradation. Examining components of the Economic Sustainability Index, the Dominican Republic lags furthest behind in biodiversity, land, water quality, water quantity, and reduction of water stress. Improvements are clearly needed in environmental governance. Government and donor initiatives to shift tourism from the mass market to higher-value ecotourism and initiatives to save water should also be considered. Such initiatives are still in their infancy.¹⁸

¹⁷Country Assistance Strategy.

¹⁸ EIU Country Profile 2005, p. 24

GENDER

The Dominican Republic's performance on gender indicators points to overall gender equity in terms of women's access to health and education services. One basic indicator is the gender gap in adult literacy. The Dominican Republic's score of 1.01 indicates no disparity in literacy rates between men and women. This is in line with the LMI-LAC average of 1.02, and Chile's and Costa Rica's scores of 1.0. For health, a basic gender indicator is the male-to-female ratio for life expectancy. In the Dominican Republic, the ratio equals 0.90 (for 2003, the latest year), reflecting that fact that women live significantly longer than men on average. By comparison, the LMI-LAC average is 0.92, and the ratios for Chile and Costa Rica are 0.92 and 0.94, respectively. These figures show that longevity for women, relative to men, is better in the Dominican Republic than the regional norms. A similar result can be seen in the ratio of male-to-female gross enrollment rates at all levels of education. The ratio for the Dominican Republic stood at 0.88 in 2003, revealing gender inequality in favor of women. This could be indicative of young males leaving school to enter the workforce, particularly during a year of economic crisis.

Education, however, needs to be complemented by work opportunities for women. Labor force data indicate a large disparity between male and female participation. Female participation stood at just 32.4 percent in 2004; for males the figure was nearly three times as high, at 86 percent. Labor force participation for females in the Dominican Republic falls below all the benchmarks, with the LMI-LAC average at 46.5 percent, and Costa Rica and Chile achieving 42 percent and 36 percent respectively. Efforts to close the gender gap in the labor market can be instrumental in accelerating growth and improving living standards.

3. Private Sector Enabling Environment

This section reviews indicators for key components of the enabling environment for encouraging rapid and efficient growth of the private sector. Sound fiscal and monetary policies are essential for macroeconomic stability, which is a necessary (though not sufficient) condition for sustained growth. A dynamic market economy also depends on basic institutional foundations, including secure property rights, an effective system for enforcing contracts, and an efficient regulatory environment that does not impose undue barriers on business activities. Financial institutions play a major role in mobilizing and allocating saving, facilitating transactions, and creating instruments for risk management. Access to the global economy is another pillar of a good enabling environment; the external sector is a central source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for efficiency and rising productivity. Equally important is the development of the physical infrastructure to support production and trade. Finally, developing countries need to adapt and apply science and technology to attract efficient investment, improve competitiveness, and stimulate productivity growth.

FISCAL AND MONETARY POLICY

The Dominican Republic's macroeconomic indicators show considerable improvement following a major deterioration caused by the banking crisis in 2003. Notably, the inflation rate (an MCA indicator) reached a high of 51.5 percent in 2004 but then fell to 4.2 percent in 2005 because of "an aggressive monetary policy to absorb excess liquidity created by the bank bailout"²⁰ in 2003. Indeed, the money supply increased 64.7 percent in 2003, but then only 9.3 percent and 15.4 percent in 2004 and 2005, respectively.²¹

IMF Program Status

In January, 2005, the Fund approved a 28-month Stand-By Arrangement in support of President Fernández's program aimed at addressing the weaknesses in macroeconomic policies and in a wide range of structural areas. The arrangement, expiring in July 2007, emphasizes financial sector strengthening, fiscal consolidation, sector strengthening, and addressing the weaknesses of the electricity sector.¹⁹

¹⁹ Summarized from IMF Public Information Notice No. 05/162, December 7, 2005.

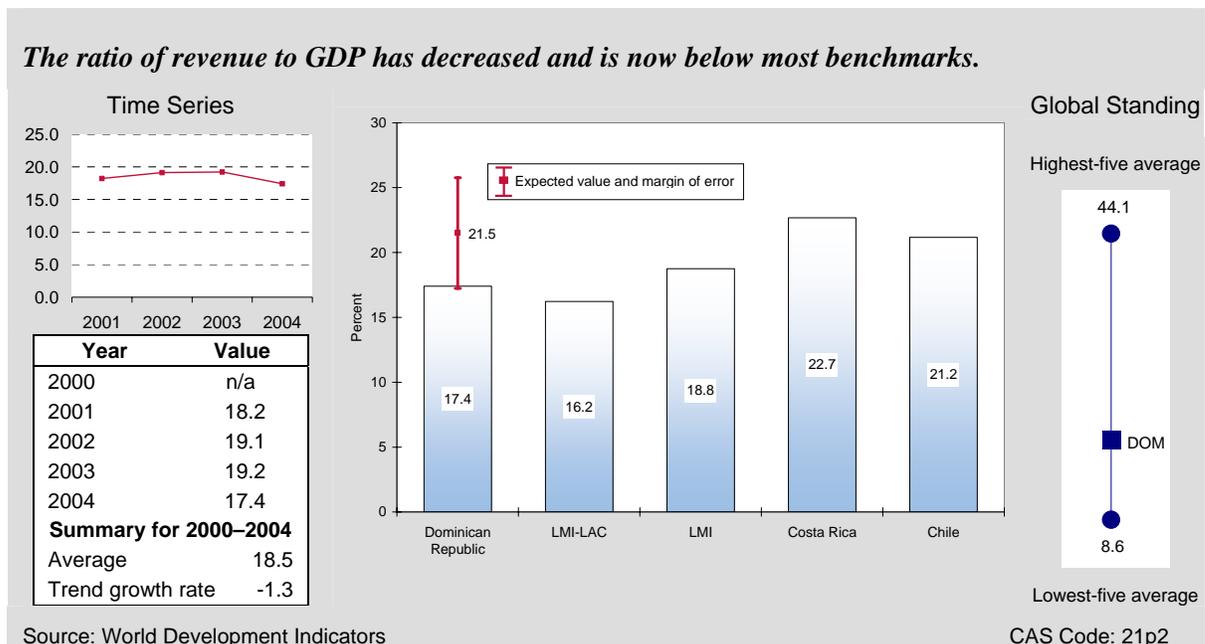
²⁰ EIU Country Report, p. 8

²¹ In 2005, the World Development Indicators (WDI) began using a new system for classifying fiscal data, even though most developing countries still use the old classification system. Consequently, the WDI database has fiscal data for only a limited number of developing countries; because of the small sample size, most group averages derived from WDI are not meaningful. In this section, comparisons are based on absolute standards or benchmarks derived from 2004 WDI data as well as figures for Chile and Costa Rica.

Even though inflation has come down, programs to strengthen fiscal management, budget planning, and tax administration remain important. From 2003 to 2004 (latest data), government expenditure increased from 18.1 percent of GDP to 20.9 percent, while revenue fell from 19.2 percent of GDP to 17.4 percent, leaving a public cash deficit of 3.5 percent of GDP. IMF estimates for 2005 and projections for the next few years indicate that the fund foresees substantial improvement in the budget position. Still, the Fund also sees major challenges ahead, involving tax reform, expenditure discipline, and prioritization of spending.²²

The ratio of government revenue to GDP is low relative to most benchmarks. From 2001 to 2004, government revenue averaged 18.5 percent of GDP, compared with a regression benchmark of 21.5 percent, Costa Rica's 22.7 percent, and Chile's 21.2 percent (Figure 3-1).

Figure 3-1
Government Revenue (% of GDP)



The Dominican Republic's revenue ratio has been higher, however, than the LMI-LAC average of 16.2 percent, which suggests that revenue mobilization is a serious issue for many countries in the region. Nonetheless, more effective tax administration could increase the resources available to the government for delivering services to promote growth and equity.

An examination of the composition of government revenue shows that taxes on international trade amounted to 27.5 percent of the total in 2004, more than three times the LMI-LAC average of 7.8 percent. It is expected that Dominican Republic-CAFTA will lead to a revenue loss equivalent to 3 percent of GDP. A package of reforms designed to compensate for this loss was watered down by the Congress in December 2005. If revenues are not maintained or increased, it will be even more difficult for the government to sustain improvements in the fiscal balance.

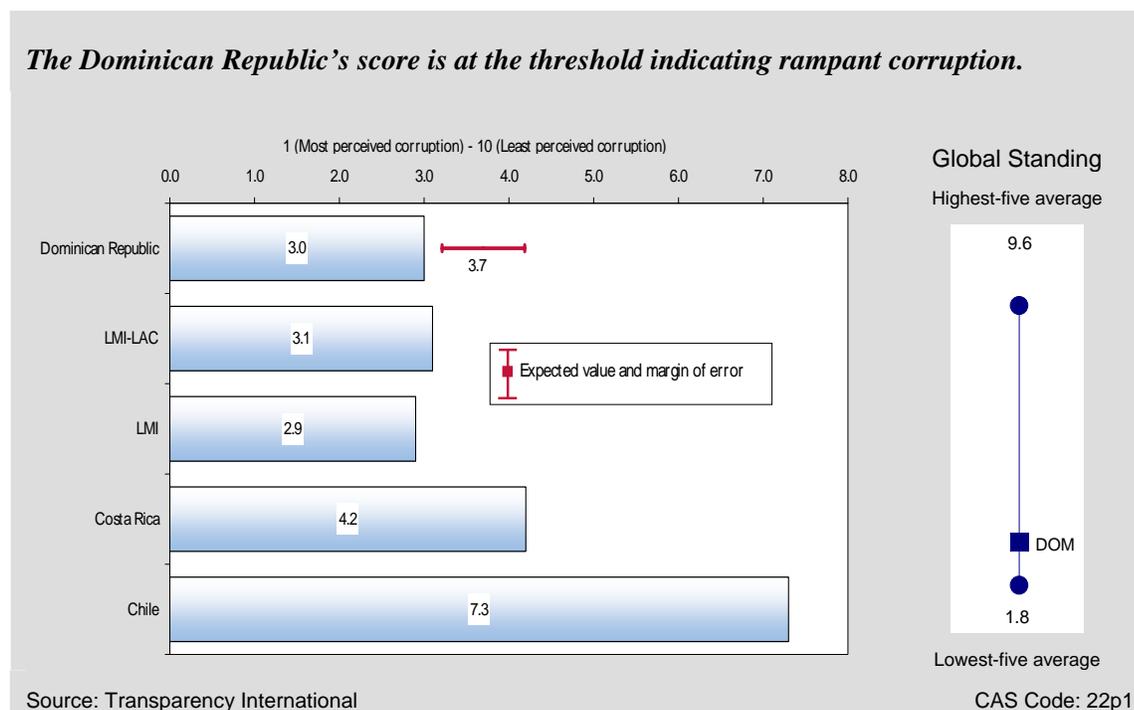
²² EIU Country Report, p. 18

BUSINESS ENVIRONMENT

Institutional barriers to doing business, including corruption in government, are critical determinants of private sector development and prospects for sustainable growth. Most of the Dominican Republic's indicators illustrate a difficult environment in which to do business.

Corruption is an ongoing concern. Recent high-profile corruption cases and the banking crisis highlight the impact of corruption and the capture of state resources by vested interests. The severity of the problem is highlighted by the Dominican Republic's rating of 3.0 on Transparency International's 2005 Corruption Perception Index (on a scale of 1, for poor, to 10, for excellent). Transparency International considers 3.0 the threshold indicating "rampant corruption." The latest rating represents a marked deterioration from the score of 3.5 in 2002. Although the Dominican Republic's score is in line with the LMI-LAC average of 3.1, the country has a long way to go to reach the level of transparency in Chile (7.3) or even Costa Rica (4.2) (Figure 3-2). The culture of patronage and corruption has profoundly shaped Dominican public institutions and administrative practices and resulted in inefficient public resource use.²³ Institutional weaknesses have stymied progress in tackling corruption; according to the Economist Intelligence Unit (EIU), most Dominicans consider the main cause to be a lack of political will.²⁴

Figure 3-2
Corruption Perception Index



The country's legal system and the rule of law are also ineffective. The court system has lost some of its credibility, having failed to effectively resolve corruption scandals under the Mejia

²³ Country Assistance Strategy.

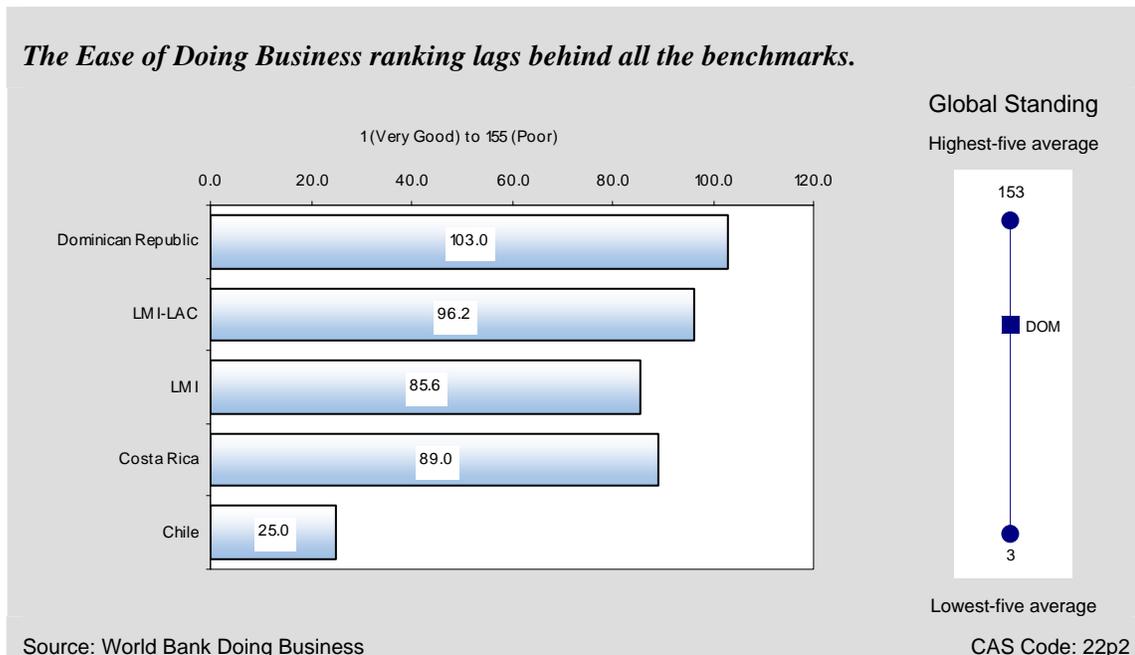
²⁴ EIU Country Report, p. 12.

administration. Although the country's score of -0.54 on the World Bank's Rule of Law Index (an MCA indicator) is in line with the LMI-LAC average of -0.60, the scores for Chile (1.2) and Costa Rica (0.60) show how far the Dominican Republic lags behind regional best practices.²⁵

The country also performed poorly on the World Bank's Regulatory Quality Index, with a score of -0.28 for 2004.²⁶ This is below all benchmarks: the LMI-LAC average is -0.1, and Chile and Costa Rica scored 1.6 and 0.7, respectively. More troubling is the large decline from a rating of 0.52 in 2000. These scores indicate excessive regulation and a lack of market-friendly policies.

Given the poor scores on other business environment indicators, it is not surprising that the Dominican Republic ranks a poor 103rd of 155 in the World Bank's Ease of Doing Business ranking. This is well below all comparators, with Chile doing the best among them at 25th place. (Figure 3-3).

Figure 3-3
Ease of Doing Business Ranking



One indicator that can be improved easily is the cost to start a business as a percentage of gross national income (another MCA indicator). Although the Dominican Republic's score of 30.9 percent is better than the LMI-LAC average of 48 percent, the country should look at Costa Rica's 23.8 percent and Chile's 10 percent as benchmarks for reform. Improvements can also be made in the time it takes to register property—more than three months (107 days) in the Dominican Republic, which is more than twice the LMI-LAC average of 47.5 days. Likewise, it

²⁵ The Rule of Law Index ranges in value from -2.5 (for poor) to 2.5 (for excellent), with zero as the international mean.

²⁶ Regulatory Quality Index ranges in value from -2.5 (for poor) to 2.5 (for excellent), with zero as the international mean. The index is a Millennium Challenge Account Indicator.

takes 75 days to start a business, compared to 56 days in the average LMI-LAC country. Finally, it takes 580 days to enforce a contract in the Dominican Republic, compared with 456.5 days in the average LMI-LAC country.

The Dominican Republic does well, though, in the number of procedures required to start a business, register property, and enforce a contract. In these areas, the Dominican Republic's scores are in line with or better than most benchmarks. For instance, the number of procedures to start a business (10) is better than the LMI-LAC average of 12.5 and slightly better than Costa Rica's 11, though marginally below Chile's figure of 9. Likewise, the number of procedures to enforce a contract in the Dominican Republic (29) is distinctly better than the LMI-LAC average (37) and the figure for Costa Rica (34), and virtually on par with the number of procedures required in Chile (28).

The business environment indicators convey a consistent message: notwithstanding some areas of good performance, institutional constraints seriously impair private sector development. Consequently, programs to promote institutional reform and combat corruption should be a principal focus of the government and donors. The current administration is aware of the link between corruption and lack of credibility and has appointed a high-level ethics and anticorruption commission to develop an anticorruption plan of action. President Fernández has also requested support from USAID and the World Bank.²⁷ Improvements in other areas of the enabling environment are equally important.

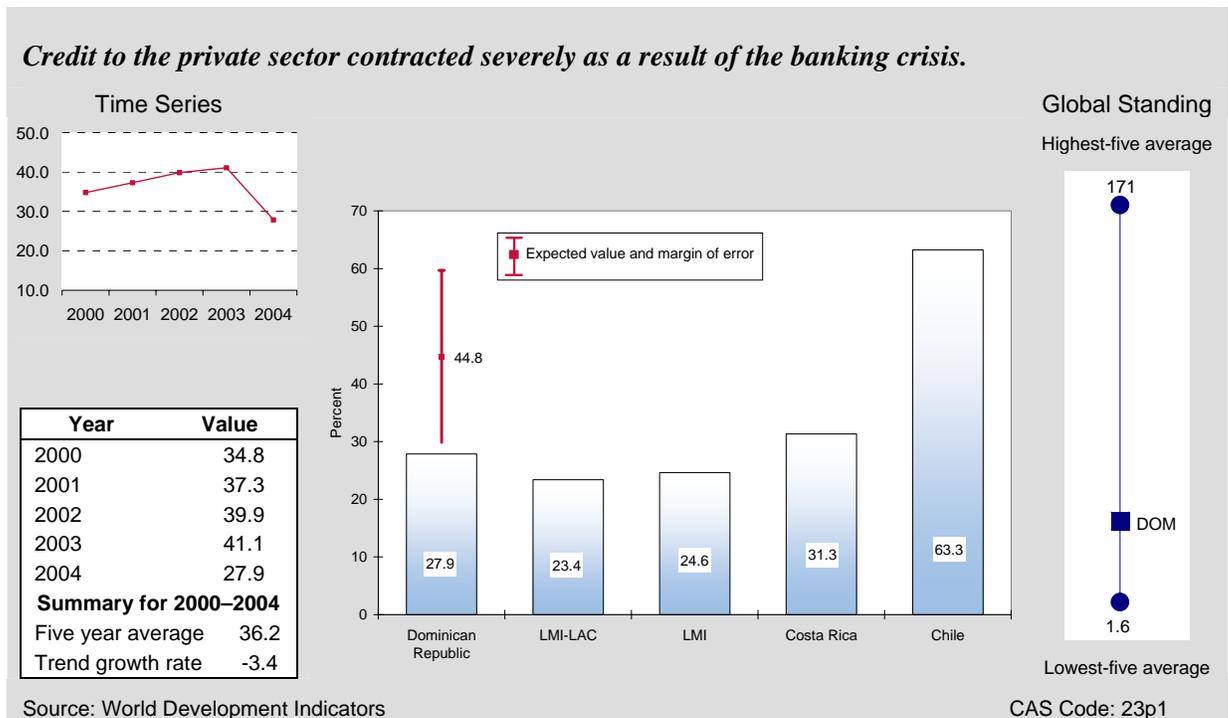
FINANCIAL SECTOR

A sound, efficient, and competitive financial sector is key to mobilizing savings, fostering productive investment, and improving risk management. As expected, the Dominican Republic's financial sector indicators worsened with the financial collapse of 2003. Even after the crisis, some indicators compare favorably with the LMI-LAC average; this benchmark, though, does not exemplify a vigorous financial sector, which is needed to promote rapid economic and business growth. Compared to the other benchmarks, the indicators for the Dominican Republic tell a story of a weak, inefficient, and underdeveloped financial sector.

One simple indicator of financial development is the degree of monetization, measured by the ratio of broad money (currency plus bank deposits) to GDP. In 2004, the Dominican Republic's money supply amounted to 32.1 percent of GDP. In spite of being slightly higher than the LMI-LAC average of 30.1 percent, this is below the standard set by Chile and Costa Rica, with ratios of 36.8 and 37.6 percent, respectively, in 2003. In the fallout from the banking crisis, from 2003 to 2004, domestic credit to the private sector fell precipitously, from 41.1 percent of GDP to 27.9 percent. Both figures are below the regression benchmark of 44.8 percent and Chile's 63.3 percent; only the more recent figure is below Costa Rica's credit ratio of 31.3 percent (Figure 3-4).

²⁷ Country Assistance Strategy.

Figure 3-4
Domestic Credit to the Private Sector



Domestic credit to the private sector increased rapidly in the years before the financial crisis, reaching its highest level when the collapse occurred. The real interest rate (bank lending rate, adjusted for inflation) was also very high in those years, peaking at 19.8 percent in 2002. Normally, high real interest rates could be expected to reduce lending activity. That this did not occur suggests that the rapid growth in lending took place without proper risk assessment and was motivated by other than normal market considerations.

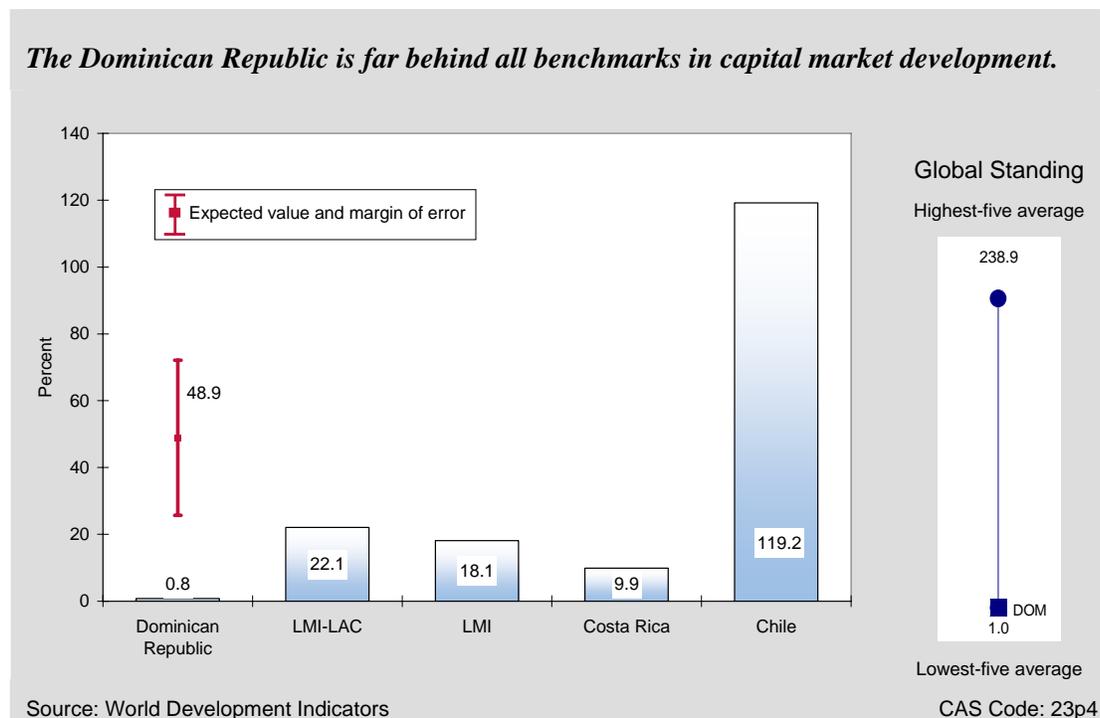
As could be expected, the crisis also raised intermediation costs. The spread between lending and borrowing rates increased from 9.2 percentage points in 2000 to 11.5 in 2004. Although the regression benchmark shows 9.1 percent as a normal level for a country such as the Dominican Republic, Chile's intermediation costs of 3.5 percent show that there is enormous room for improvement.

Looking beyond the banking system, the Dominican Republic's stock market capitalization rate of 0.8 percent of GDP in 1999 (latest year of data) is extremely low compared to the LMI-LAC average of 22.1 percent and the global LMI average of 18.1 percent (Figure 3-5). Although stock market capitalization may not be an immediate priority given the recent banking crisis, the indicator shows that the Dominican Republic is far behind its peers in developing capital markets and creating competitive sources of finance to broaden and deepen the financial sector.

This analysis suggests that strengthening the financial sector should be a high priority for the Dominican Republic and donor agencies. Although major banks are now stabilized, internationally assisted inspections identified important gaps in bank capitalization. The authorities have taken action to eliminate these weaknesses. Efforts to improve banking

regulation and supervision are ongoing,²⁸ as are measures to bring capital adequacy ratios in line with international standards and the introduction of credit risk assessment systems.²⁹

Figure 3-5
Stock Market Capitalization Rate (% of GDP)



EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including reduced transport costs, advances in telecommunications technology, and lower policy barriers, have fueled a rapid increase in global integration in the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for the Dominican Republic to boost growth and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. Globalization also creates the need for institutions, policies, and regulations to take full advantage of international markets, develop cost-effective approaches to cope with adjustment costs, and establish systems for monitoring and mitigating the associated risks.

International Trade and the Current Account

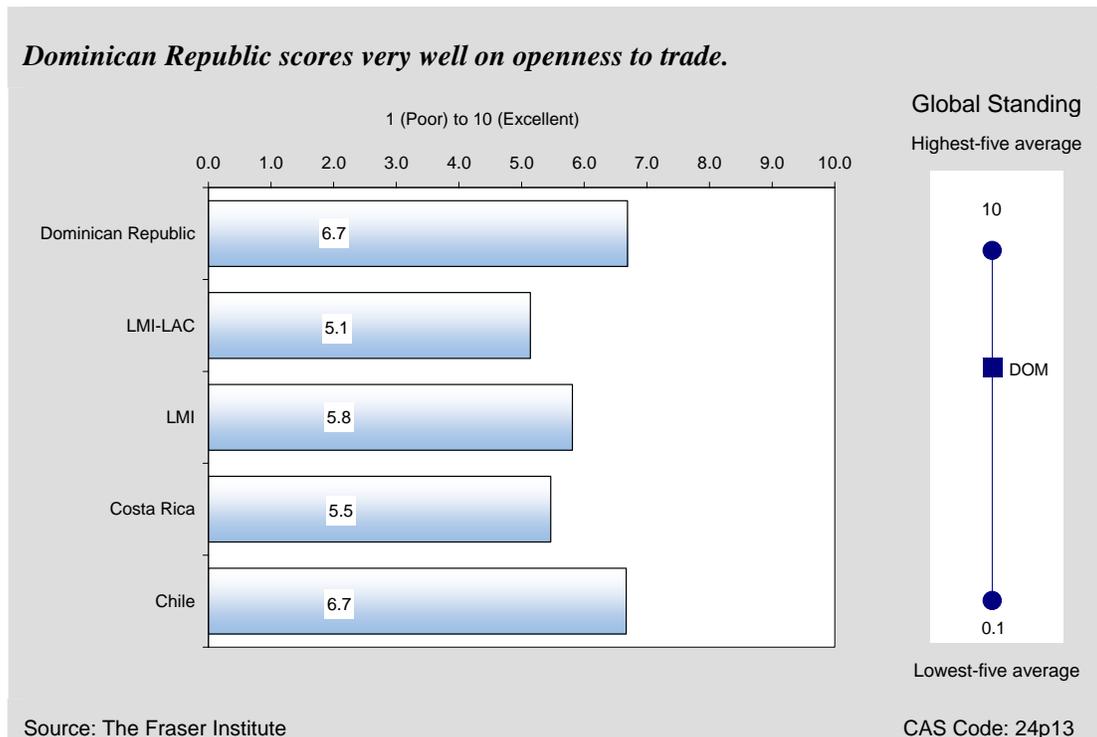
The Dominican Republic is strongly integrated with international markets. The ratio of trade (exports plus imports of goods and services) to GDP averaged 93.5 percent from 2000 to 2004; this is nearly double the LMI-LAC average of 52.6 percent, exceeds Chile's 68.3 percent, and is

²⁸ Country Assistance Strategy

²⁹ EIU Country Profile.

in line with Costa Rica's 95.4 percent. Furthermore, the index of actual to expected trade (given a country's size, income level, and location) has been rising in recent years, reaching 6.7 in 2003. This compares favorably with the LMI- LAC average of 5.1 and Costa Rica's 5.5, and equals Chile's 6.7 (Figure 3-6).³⁰

Figure 3-6
Actual-to-Expected Trade Size Index



Like other Caribbean economies that depend on tourism for a large proportion of export earnings, the Dominican Republic runs a structural deficit in merchandise trade. Moreover, domestic merchandise exports (as distinct from free-zone exports) account for less than half of earnings from exports of goods and services (net of free-zone inputs). The free-zone sector has struggled since the beginning of the decade, with a gradual loss of U.S. market share, particularly in the garment sector, which accounts for 50 percent of free-zone exports.³¹

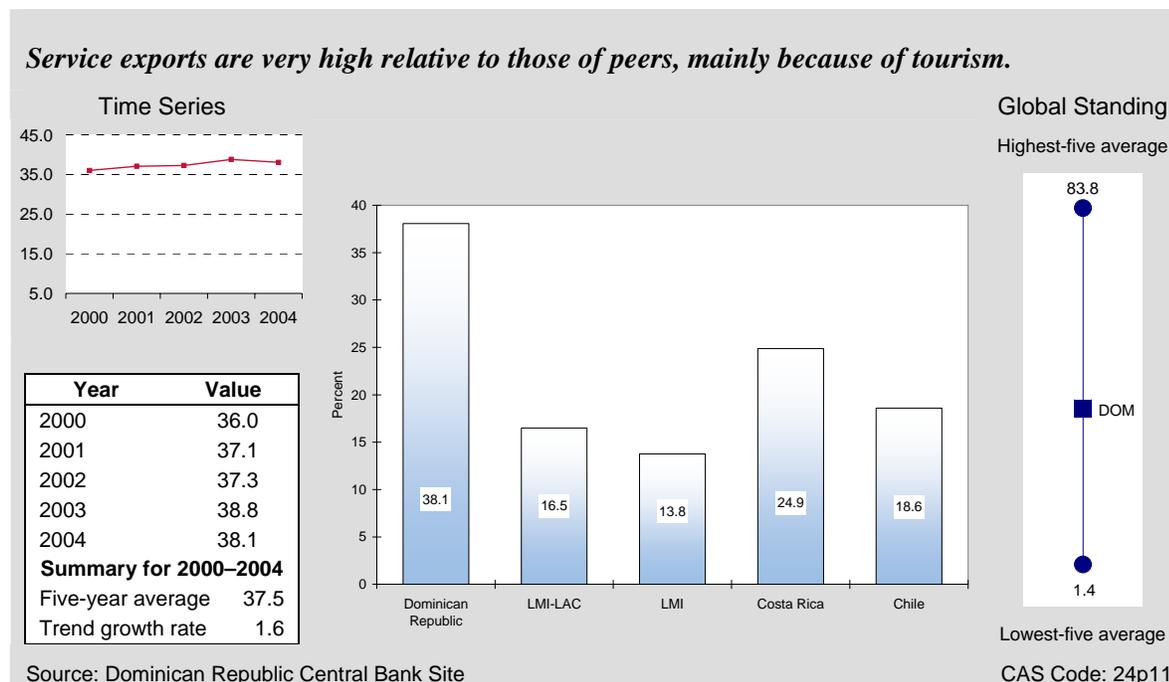
Trade in services shows a positive trend. In the five years to 2004, service exports increased from 36.0 percent to 38.1 percent of total exports (Figure 3-7). Services also made up a larger share of total imports during this period, increasing from 12.7 percent to 13.3 percent. The surplus on services has been growing strongly since the mid-1990s and widened in recent years, helping to improve the overall current account. According to the WTO, 92.2 percent of the Dominican

³⁰ The Actual to Expected Trade Size Index ranges in value from 0 (for poor) to 10 (for excellent).

³¹EIU Country Report, p. 23.

Republic's services exports are travel; transportation accounts for 57.3 percent of services imports.³²

Figure 3-7
Share of Services Exports in Total Exports (%)



The overall current account balance shifted from a deficit of 3.7 percent of GDP in 2002 to surplus equivalents of 6.0 percent of GDP in 2003 and 5.8 percent in 2004. This improvement reflects the economic downturn as well as a real depreciation of the peso, which reduced imports and improved the trade balance. Indeed, the real effective exchange rate depreciated from an index value of 101.1 in 2002 to 74.8 in 2003. The current account balance returned to a deficit of 1 percent of GDP in 2005 because of an import surge as the economy recovered and the currency regained most of its lost value (aided by monetary tightening), as well as rising oil import prices.³³

Despite the high level of trade, the Dominican Republic received a score of 3.5 on a scale of 1 (excellent) to 5 (poor) on the Heritage Foundation's trade policy index for 2006 (an MCC eligibility criterion). This indicator has improved from a poor score of 5.0 in 2003 and compares favorably to the LMI-LAC average of 4.0, but the rating still indicates subpar performance in comparison to Costa Rica's 3.0 and Chile's 1.0. The trade policy index is based on the average level of import duties, various nontariff barriers, and the extent of corruption in the customs

³² WTO Trade Profile, Dominican Republic, September 2005.

³³ The EIU reported in August 2005 that in real trade weighted terms, the peso had returned to its peak level (achieved in 2000–2002), which is approximately 5–10 percent stronger than during the period 1995–1999, making the peso appear overvalued. The publication also reported that the government favors a strong peso to curb inflation, lower external debt-service payments, and improve the debt solvency indicators.

service. The Heritage Foundation states that a decline in the weighted average tariff rate, from 10.1 percent in 2001 to 8.8 percent in 2004, weighed heavily in the improvement, but that slow and arbitrary customs clearance procedures persisted. This is inconsistent, though, with the World Bank rating on time to trade—the average time required to comply with all import and export procedures—of 17.0 days in 2005, just half the LMI-LAC average (34.7 days) and less than Costa Rica's 39.0 days and Chile's 23.5 days. However, the five most efficient countries in the world average 6.2 days, suggesting that huge improvements can and should be made.

Workers' remittances have made an increasingly strong contribution to the current account. Remittance receipts rose from 18.8 percent of exports in 2000 to 23.7 percent in 2004, reflecting a large export of labor services, but also a lack of attractive jobs in the country. Large remittance inflows complicate monetary policy by flooding the economy with liquidity and can also lead to an appreciation of the real effective exchange rate, to the disadvantage of domestic producers. IMF data show that the exchange rate moved in the opposite direction during the crisis period, depreciating by 26 percent in 2003. Since then, the real exchange rate has appreciated by over 50 percent because of rapid inflation in 2004, which has not been matched by a corresponding nominal depreciation.

The analysis suggests that the Dominican Republic could benefit from programs to increase backward linkages from the free zones and facilitate export diversification, especially in light of greater global competition after the lifting of textile quotas in 2005. The increasing importance of services exports underscores the need to upgrade tourism to higher value segments. Effective exchange rate management is also an important element of a strong investment climate. Finally, innovative interventions to enhance the growth and developmental impact of remittances (through reduced fees, efficient payment circuits, and programs to attract more funds to investment) could also be beneficial.

CAFTA Trade

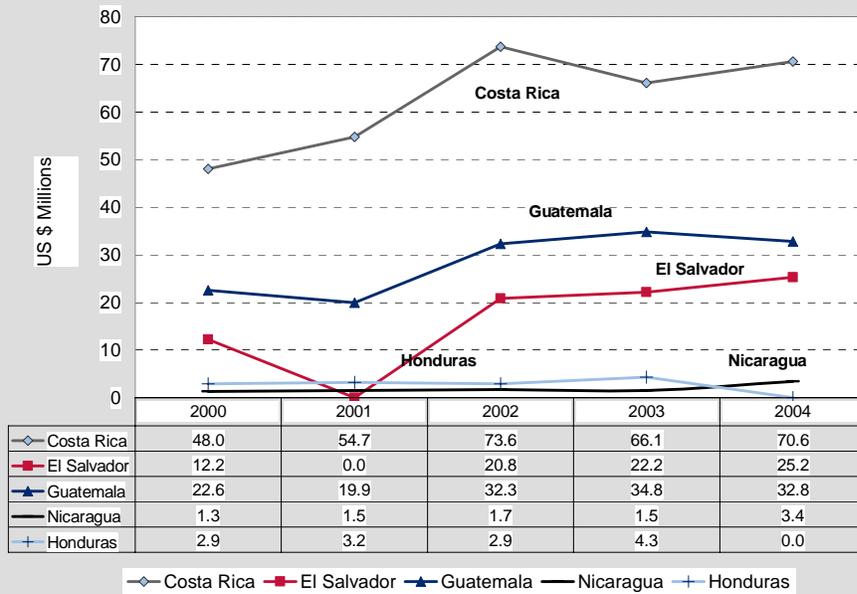
The Dominican Republic's trade in goods with CAFTA partners, including the United States, changed little in the five years to 2004. Dominican Republic merchandise exports to CAFTA countries grew at an average of just 1.4 percent per year, from \$4.5 billion in 2000 to \$4.7 billion in 2004. The lion's share of these exports went to the United States (\$4.6 billion in 2004).

Imports to the Dominican Republic from the CAFTA group declined slightly, by an average of 0.8 percent per year, from \$4.5 billion in 2000 to \$4.4 billion in 2004. As with exports, the Dominican Republic imports most CAFTA merchandise from the United States (\$4.3 billion in 2004).

Trade with CAFTA countries other than the United States did increase, but from a very low base. Most Dominican exports to CAFTA countries other than the United States went to Guatemala; these exports grew from \$3.2 million in 2000 to \$17.1 million in 2004. On the import side, Costa Rica was the main CAFTA trading partner after the United States; these imports grew from \$48.0 million to \$70.6 million during the period (Figures 3-8 and 3-9). With the implementation of the trade agreement, the stage is set for these trade flows to grow much more rapidly, providing substantial benefits to all the countries.

Figure 3-8
Imports from Other CAFTA Countries

Imports from non-US CAFTA countries rose 51% from 2000 to 2004.



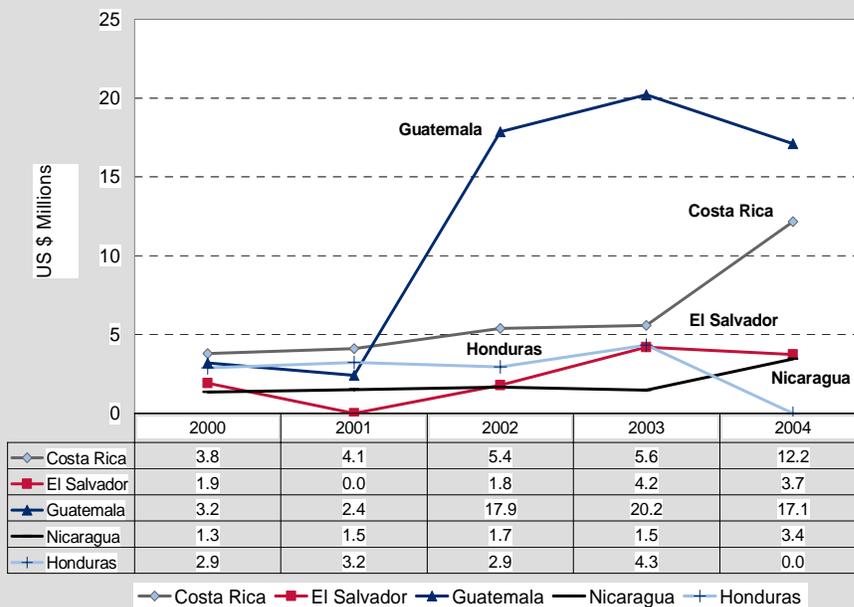
* Blank or 0 figure indicates data not reported that year

Source: UN COMTRADE

CAS Code: 24s7

Figure 3-9
Exports from Other CAFTA Countries

Exports to non-US CAFTA countries nearly tripled from 2000 to 2004.



* Blank or 0 figure indicates data not reported that year

Source: UN COMTRADE

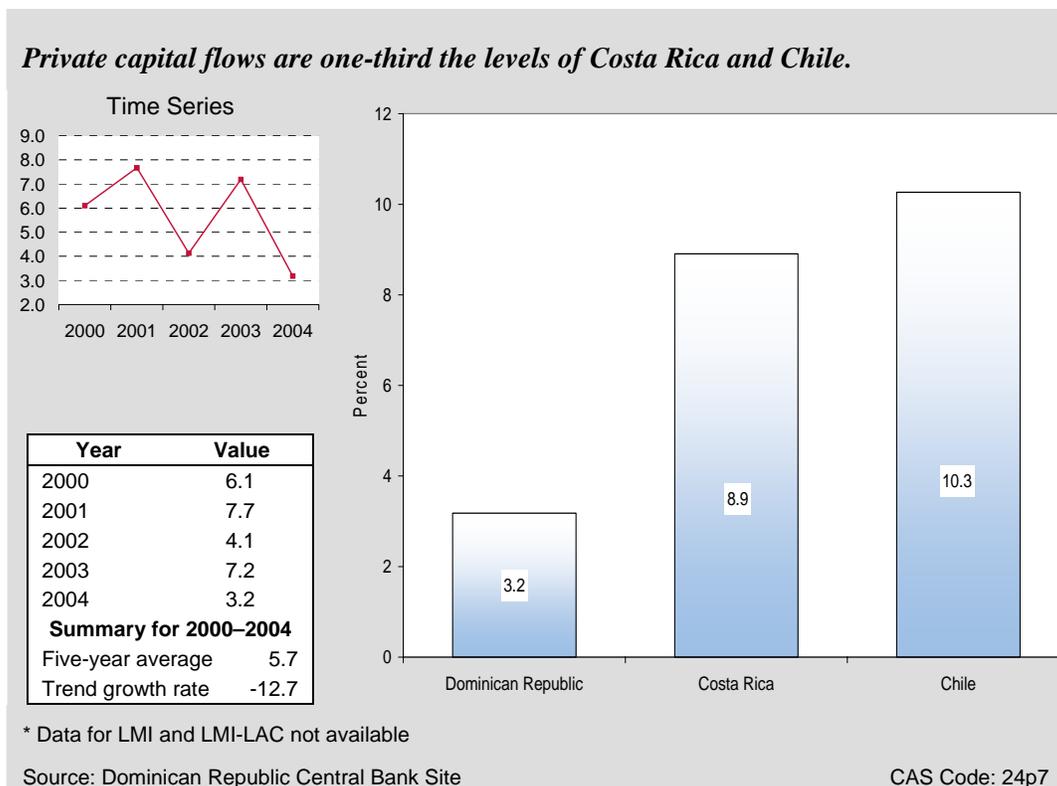
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International Financing and External Debt

Foreign aid has not been a major source of external financing for the Dominican Republic, and its role has declined in recent years. Aid as a percentage of GNI fell from 1.2 percent in 1999 to 0.5 percent in 2003. The more recent figure is half the LMI-LAC benchmark of 1.0 percent.

Foreign direct investment (FDI) inflows for 2002–2005 averaged 4.4 percent of GDP, twice the average for LMI-LAC (2.2 percent); FDI flows into Dominican Republic also compare favorably with flows into Costa Rica (3.3 percent in 2003) and Chile (4.1 percent). This strong performance in attracting FDI is surprising in view of the economic crisis and other evidence suggesting an erosion of confidence in the economy. For example, UNCTAD’s Inward FDI Potential Index measures a country’s attractiveness to foreign investors in terms of 12 factors. On a scale of 0.0 (poor) to 1.0 (excellent), the score for Dominican Republic deteriorated from 0.208 in 1999 to 0.189 in 2003, placing it 65th of 140 countries. Overall net private capital inflows, including direct and portfolio investment, did decline between 2001 and 2004, from 7.7 to 3.2 percent of GDP (Figure 3-10). Even at the 2001 level, the Dominican Republic attracted less private capital relative to GDP than Costa Rica or Chile (8.9 percent and 10.3 percent, respectively, in 2003).

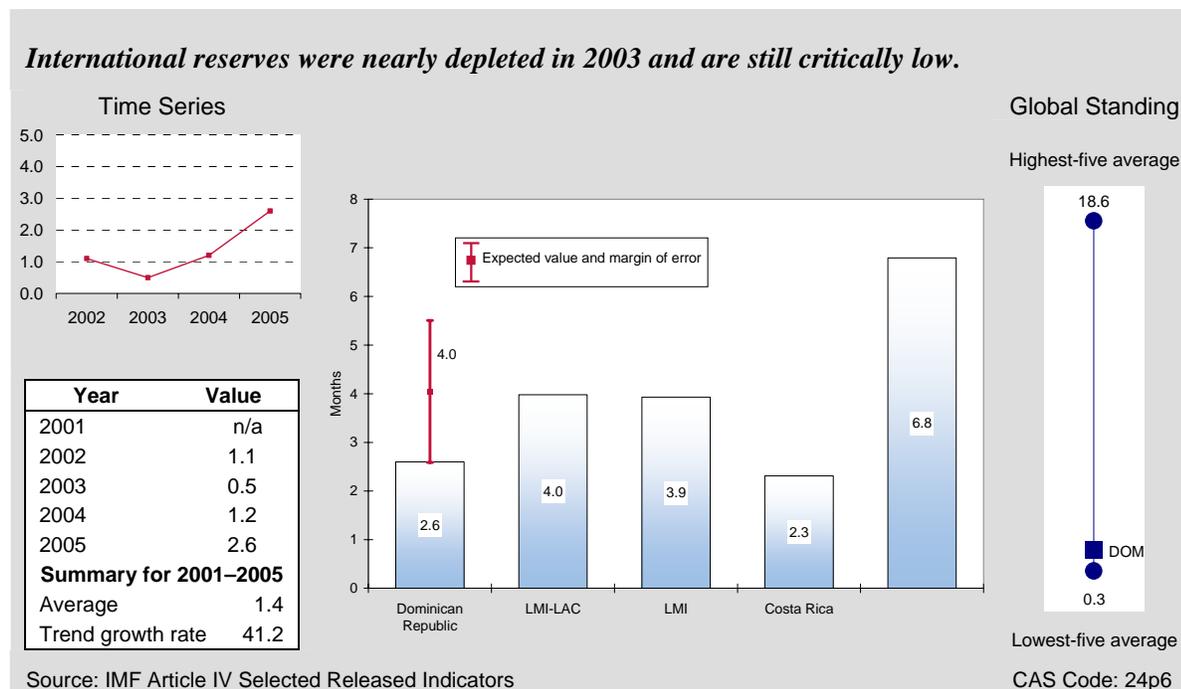
Figure 3-10
Private Capital Inflows as a % of GDP



Any gap between the current account balance and financing obtained through net capital inflows is reflected in foreign exchange reserves. During the crisis, capital flight led to a virtual exhaustion of international reserves in 2003–2004. Reserves have been recovering since, but even

in 2005 they amounted to just 2.6 months of import cover,³⁴ which is below the usual minimum of three months (Figure 3-11).

Figure 3-11
Gross International Reserves, Months of Imports



The near-exhaustion of reserves in 2003–2004 indicates severe liquidity problems that nearly provoked a major debt default, even though the debt burden is not particularly large. The present value of external debt as a percentage of GNI rose from 26.0 percent in 2000 to 33.0 percent in 2003. This is not high by benchmark or absolute standards; the corresponding average for LMI-LAC is 54 percent, and the figures for Chile and Costa Rica are 67 percent and 36 percent, respectively. Between 1999 and 2003, debt service obligations increased from 3.9 percent of exports to 8.2 percent. Again, this is low compared to benchmark standards, though the rising trend merits close attention.

In sum, confidence in the Dominican economy and the ability of the government to implement prudent policies and economic management needs to be restored to reverse capital flight, encourage private capital inflows, reduce risk to investors, and strengthen the balance of payments and the level of international reserves.

ECONOMIC INFRASTRUCTURE

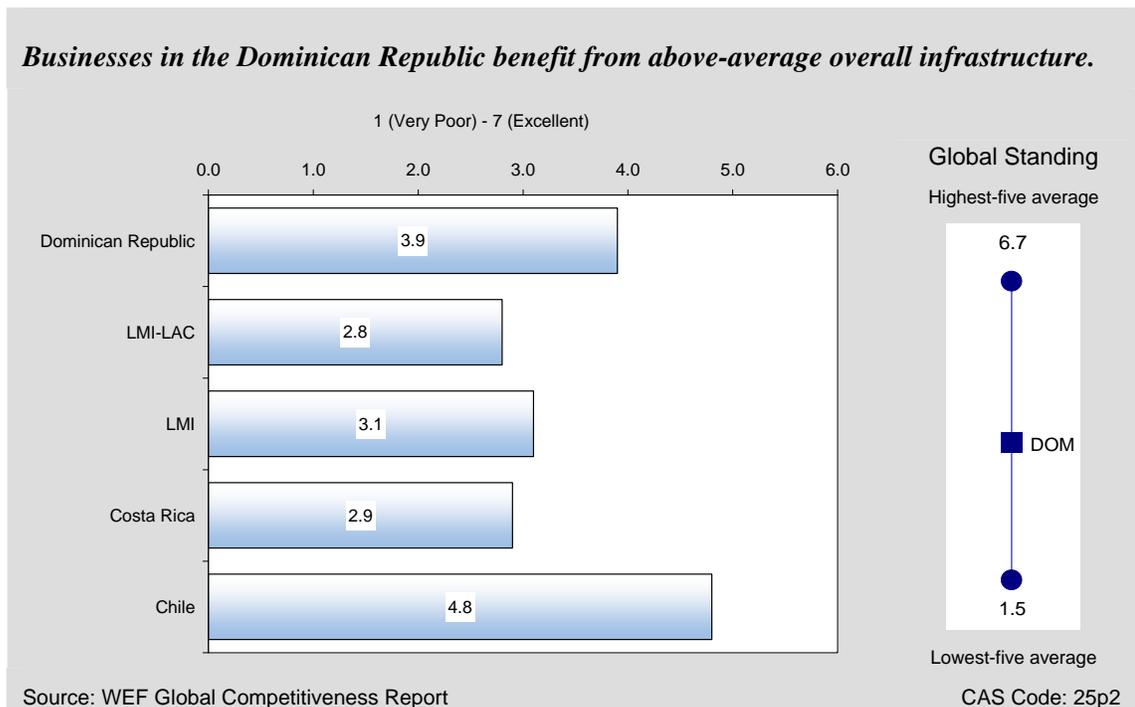
A country's physical infrastructure—for transportation, communications, power, and information technology—is crucial for strengthening competitiveness and expanding productive capacity.³⁵

³⁴ According to IMF Public Information Notice 05/162.

³⁵ This section relies on several perception indicators to assess infrastructure quality and adequacy. Objective measures of infrastructure quantity often have little diagnostic value. For example, a low value for

The broadest indicator of infrastructure quality is a subjective index of executive perceptions compiled by the World Economic Forum (WEF). For 2004, the score for the Dominican Republic is 3.9 out of 7, which is well above the average of 2.8 for LMI-LAC and even Costa Rica's score of 2.9, though not as high as Chile's 4.8 (Figure 3-12). Likewise, the Dominican Republic scores above the LMI-LAC average for the subindices for air transport, railroads, and ports. The weak spot is the subindex for the quality of electricity services, for which the Dominican Republic's score is 2.3, significantly below the LMI-LAC average of 4.0 and not far above the average for the lowest five countries globally (1.4). Indeed, the power sector is riven by high costs, underinvestment, and frequent blackouts and suffers from recurrent payment arrears by the public sector. A system was introduced in 1999 to privatize generation and distribution assets, while leaving transmission in the public domain; this approach does not work efficiently because of a flawed regulatory framework and lack of market pricing mechanisms. Demand for power has outstripped supply in recent years (Figure 3-13).³⁶

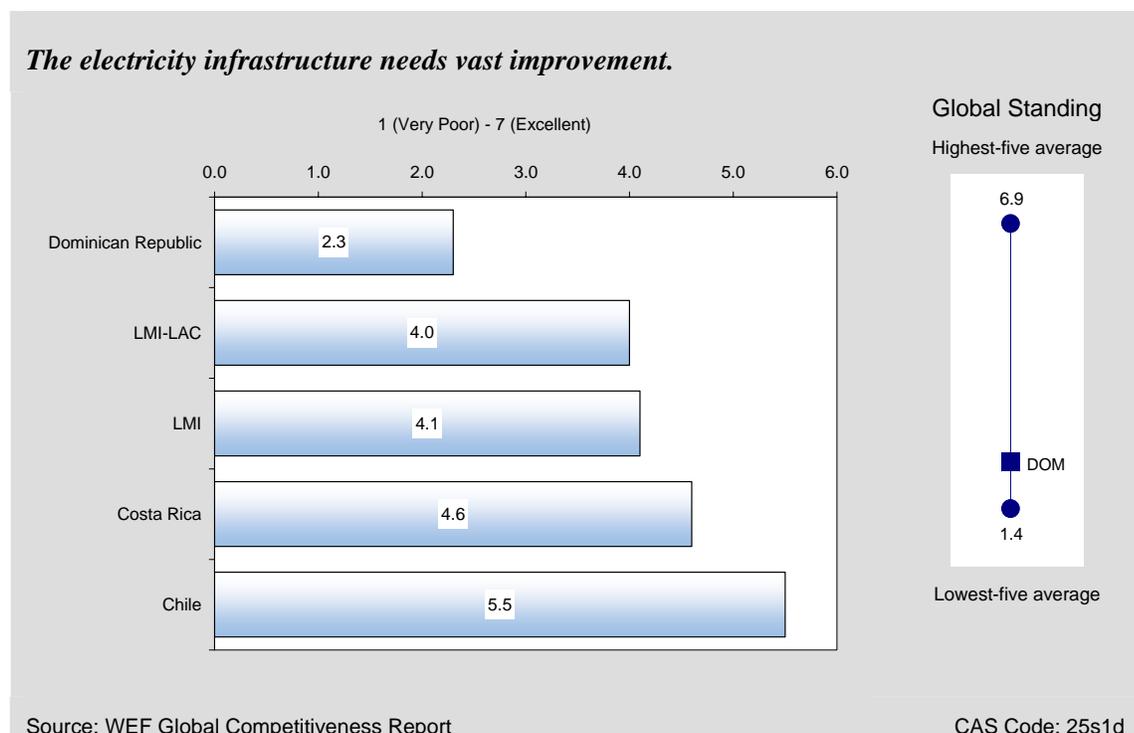
Figure 3-12
Overall Infrastructure Quality Index



length of paved roads does not imply a problem, because unpaved all-weather roads may be more efficient than paving secondary and tertiary roads in lower-income countries.

³⁶EIU Country Profile, p. 12

Figure 3-13

Quality of Infrastructure Index: Electricity

In terms of telecommunications infrastructure, Dominican Republic indicators show strong development in comparison to the LMI-LAC average. In 2003, telephone density in the Dominican Republic reached 386 lines per 1,000 people (including mobile phones), exceeding the LMI-LAC average of 320 lines and even Costa Rica's 362 lines; Chile has 732 lines per 1,000 people. Internet use is also growing rapidly in the Dominican Republic.³⁷ From 18 users per 1,000 people in 2000, the number reached 91 users in 2004, nearly 10 percent of the population.³⁸ This compares favorably with the LMI-LAC average of 74, but it remains far below the levels achieved in Costa Rica and Chile (235 and 279 users, respectively).

The overall picture, then, is clear. With the important exception of electricity, the Dominican Republic has developed above-average infrastructure compared to that of its lower-middle-income peers in Latin America. There is certainly scope for improvement, but basic infrastructure problems (again, excepting electricity) do not appear to be a critical constraint on private sector development.

SCIENCE AND TECHNOLOGY

Science and technology are central elements of a dynamic growth process because technical knowledge is a driving force for rising productivity and competitiveness. Even for lower-middle-income countries such as the Dominican Republic, transformational development increasingly

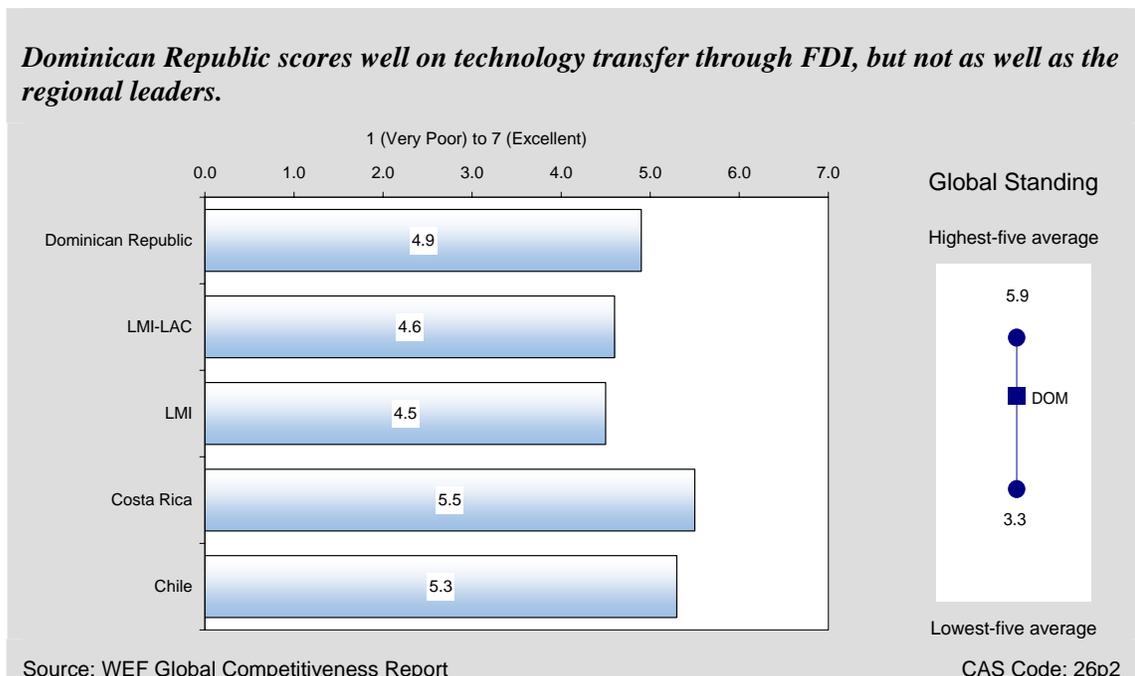
³⁷ Telephone density is an MDG indicator.

³⁸ Internet users per 1,000 people is an MDG indicator.

depends on acquiring and adapting technology from the global economy and applying it in ways appropriate to the country's level of development. A lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization.

Unfortunately, few international indicators of science and technology are available for judging performance in low-income countries. Such is the case for the Dominican Republic. Of the standard indicators used for this series of reports, Dominican Republic data are available only for the FDI Technology Transfer Index. This index measures business executives' perceptions of the quality of FDI as a source of new technology on a scale of 1 (FDI brings little new technology) to 7 (FDI is an important source of new technology). The Dominican Republic's score of 4.9 for 2004 is above the LMI-LAC average of 4.6 but below other benchmarks. Chile and Costa Rica had scores of 5.3 and 5.5, respectively, and the regression benchmark for the Dominican Republic is 5.2. As with many indicators discussed in previous sections, the technology transfer score for Dominican Republic declined from the previous year (5.2 in 2003). These figures show that the Dominican Republic could do a better job of acquiring technology through FDI (Figure 3-14).

Figure 3-14
FDI Technology Transfer Index



Turning to scientific development, none of the standard indicators is available for the Dominican Republic. Looking at other data, the Dominican Republic scores below both Chile and Costa Rica on the Networked Readiness Index. The country ranked 78th out of 104, while Chile ranks 35th and Costa Rica 61st.³⁹

³⁹ The Networked Readiness Index is from the WEF Global Information Technology Report 2004–2005. This is not a standard indicator for this series but is considered here because of the lack of other data.

Technology is so important to modern economic growth that the Dominican Republic needs to be much more aware of technology transfer when promoting investment and evaluating projects. The lack of reliable data, in itself, points to the need for government to improve intellectual capacity and human capital through research and development, education, and training. For the Dominican Republic, foreign investment geared toward more sophisticated free-zone industries would likely bring about increased technology adoption, greater process improvement, and higher added value.

4. Pro-Poor Growth Environment

Rapid growth is the most powerful and dependable instrument for poverty reduction, yet there is not a mechanical link from growth to poverty reduction. In some cases, income growth for poor households exceeds the overall rise in per capita income; in other conditions, growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor while reducing the poor's vulnerability. Pro-poor growth is associated with improvement in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development, and gender equality.⁴⁰ This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

HEALTH

The provision of basic health services is a major form of human capital investment and a significant determinant of growth and poverty reduction. Although health programs do not fall under the EGAT bureau, an understanding of health conditions can influence the design of economic growth interventions.

Indicators for the Dominican Republic show that overall health care is poor—the country falls short of the benchmarks in key areas. The situation was exacerbated by the recent economic crisis, as inflation drove up food and medicine prices, putting these things out of the reach of large segments of the population.⁴¹

Life expectancy at birth, the most common indicator of overall health conditions, was 67.1 years in 2003. This is below the LMI-LAC average (70.2 years) and exceedingly low by comparator country standards: in Chile, life expectancy was 76.4 years, and in Costa Rica, 78.6 years. One factor contributing to lower life expectancy is a relatively high rate of HIV infection by regional standards. For the Dominican Republic, the infection rate in 2004 was 1.4 percent,⁴² compared to the LMI-LAC average of 0.7 percent and rates in Chile and Costa Rica of 0.3 percent and 0.6 percent, respectively.

⁴⁰ This report focuses on economic growth performance; it does not cover emergency relief.

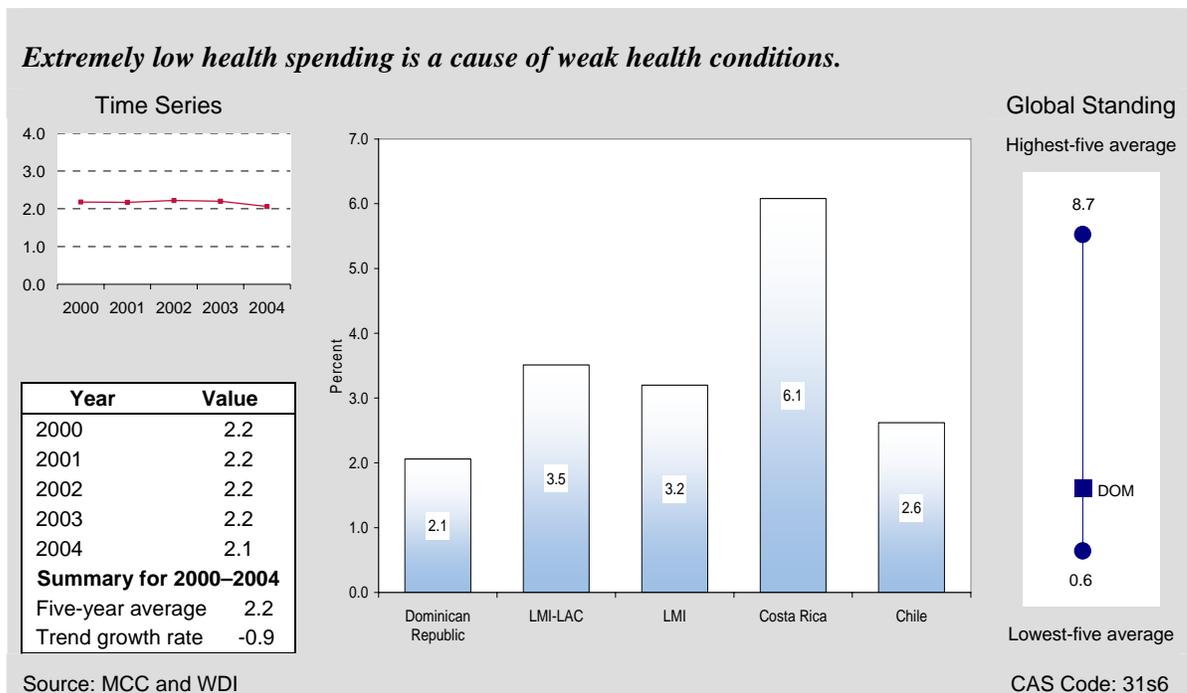
⁴¹ Country Assistance Strategy, p. 10

⁴² UNAIDS/WHO “AIDS Epidemic Update: December 2005,” based on overall HIV prevalence among pregnant women measured in the 2004 round of sentinel surveillance.

Another troubling sign is the maternal mortality rate (MMR) (an MDG indicator)—an estimated 150 deaths per 100,000 live births in 2000 (latest data). Even though this equals the LMI-LAC average, it is nearly four times higher than the MMR in Costa Rica (43) and five times higher than the rate in Chile (31).

Spending on health (as a percentage of GDP) has been flat and lags behind the benchmarks. Latest Millennium Challenge Corporation estimates (from the fiscal 2006 report) show that the public health expenditure equaled 2.1 percent of GDP, considerably lower than the LMI-LAC average of 3.5 percent and only one-third of Costa Rica's 6.1 percent (Figure 4-1). The World Bank reports that the low level of health spending is aggravated by a lack of transparency and inefficiency.⁴³

Figure 4-1
Public Health Expenditure (% of GDP)



Bright spots include the number of births attended by skilled health professionals⁴⁴ and access to improved water sources.⁴⁵ Both indicators match or exceed most benchmarks. An estimated 98 percent of all births in the Dominican Republic are attended by a skilled health professional. The LMI-LAC average is just 80 percent, and the regression benchmark is 74.8. Indeed, the Dominican Republic figure compares well with rates in Costa Rica and Chile, 98 percent and 100 percent, respectively. However, the Dominican Republic's high MMR clearly indicates serious problems with the quality of care. As for water supply, 93 percent of the population has

⁴³Country Assistance Strategy, p.10

⁴⁴ An MDG indicator.

⁴⁵ An MDG indicator.

access to improved sources; this is better than the LMI-LAC average (89.5 percent), close to the figure for Chile (95 percent), and not far behind Costa Rica's figure (97 percent).

Despite these favorable signs, poor health conditions compound the effects of poor nutrition, impeding growth and contributing to persistent poverty. Multilateral and bilateral donors have introduced numerous health initiatives, but the problems cannot be addressed in a sustainable way without increased efficiency on the part of the government.

EDUCATION

The education system in the Dominican Republic is strong at the primary level, but improvements are needed at the secondary, vocational, and tertiary levels.

The net primary enrollment rate⁴⁶ shows the percentage of children of primary school age who are enrolled in school. For the Dominican Republic, net enrollment was 96.4 percent for 2002 (latest year), which is better than the regional benchmarks. The LMI-LAC average is 95.1 percent, while the corresponding figures for Costa Rica and Chile are 90.4 percent and 86.4 percent, respectively. Although enrollment rates are high, only 69 percent of the students persist to grade 5.⁴⁷ This is well below the persistence rates for Chile (99.9 percent) and Costa Rica (91.6 percent) (Figure 4-2). The secondary school enrollment rate is estimated to be 35.5 percent, while the rate for tertiary education is 34.5 percent.⁴⁸

The quality of education, however, is difficult to gauge. One rough proxy is the pupil-teacher ratio in primary schools.⁴⁹ The Dominican Republic's ratio of 39:1 is much higher than the average of 24:1 for LMI-LAC and the ratios for Costa Rica (23:1) and Chile (33:1).

Another quality indicator is government's expenditure per student, as a percentage of per capita GDP. At the primary level, the Dominican Republic lags behind the benchmarks, at 9.0 percent, compared to 12.7 percent in the average LMI-LAC country. At the secondary level, spending is woefully inadequate. In 2002, the Dominican Republic spent just 3.5 percent of per capita GDP per secondary student, one of the lowest figures in the world. Indeed, the average for the lowest five countries in the world is 6.0 percent. The figure for the Dominican Republic is far behind Costa Rica's 22.9 percent and Chile's 15.6 percent, and nearly two-thirds lower than the LMI-LAC average of 11.1 percent. (Comparable data for the Dominican Republic are not available at the tertiary level.)

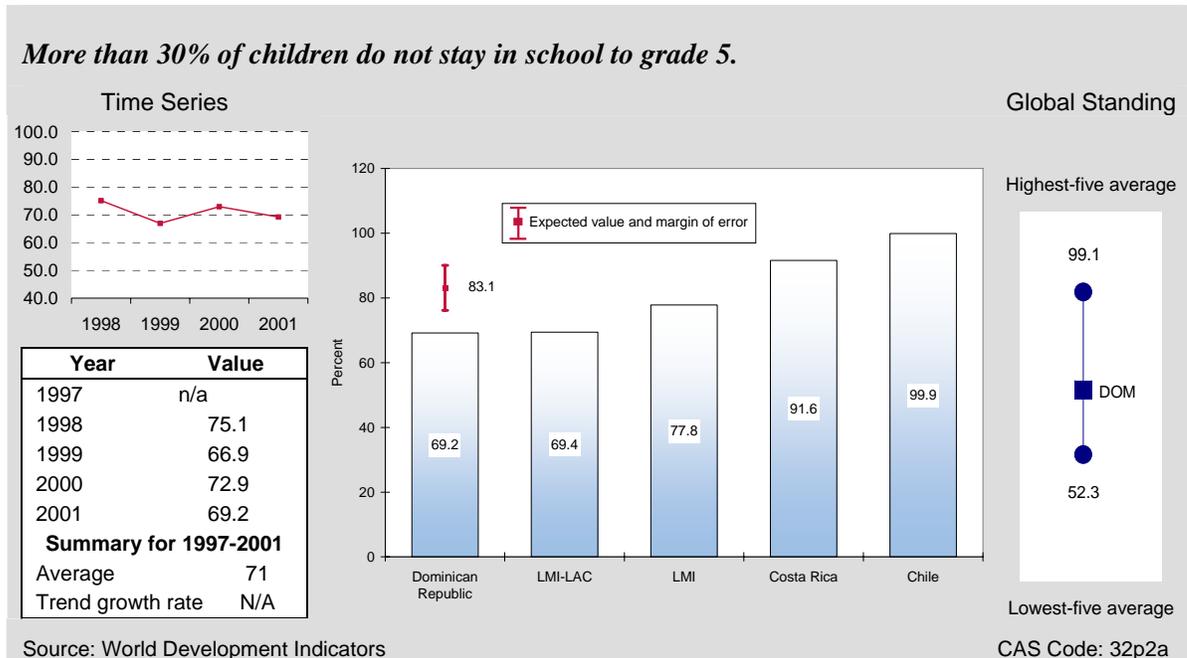
⁴⁶ An MDG indicator.

⁴⁷ Persistence to grade 5 is an MDG indicator.

⁴⁸ UNESCO Education Statistical Tables 2006. This is not a standard indicator for this series of reports but is included here because of the importance of higher education for middle-income countries. The survey year is 2002/03. The secondary figure is for net enrollment while the tertiary figure is for gross enrollment.

⁴⁹ Evidence of the link between class size and quality of education is far from conclusive. However, there is a presumption that small class size enables teachers to offer more individualized attention, thereby facilitating learning and retention. In this regard, the pupil-teacher ratio is widely used as a rough indicator of education quality and a measure of commitment to primary education.

Figure 4-2
Persistence to Grade 5



Education is a cornerstone of development. Hence, the government, with donor support, must do a better job in addressing the country's education needs. Programs to retain children past primary school, increase enrollment in secondary and tertiary school, and improve the quality of the education programs should be considered high priorities.

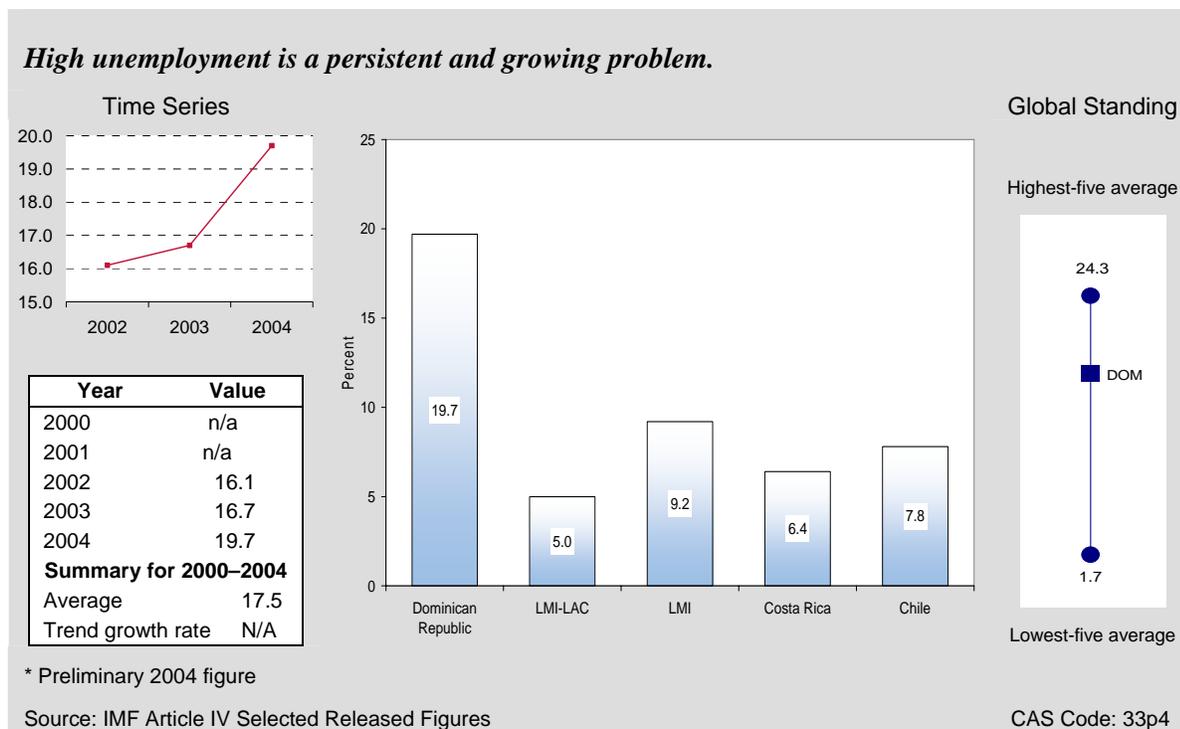
EMPLOYMENT AND WORKFORCE

The Dominican Republic needs to create productive jobs and income-generating opportunities for a growing population. The workforce is estimated to be increasing by 2.5 percent per year. Although this is comparable to the average rate for LMI-LAC of 2.3 percent, the economy still needs to create jobs for roughly 95,000 new workers each year and address the serious problem of structural unemployment. Even in 1999, before the banking crisis, 13.8 percent of the workforce was unemployed. The 2003 contraction worsened the situation, and unemployment reached 19.7 percent in 2004. This is extremely high compared to the 5 percent average for LMI-LAC (Figure 4-3). Women and young workers have been especially affected.⁵⁰ Furthermore, these figures are probably understated because people who have never held a job and are not seeking work are not counted—and these are disproportionately the young. Reducing unemployment is thus a high priority and can be accomplished only by creating an environment to foster private investment, business expansion, and productive opportunities for self-employment, as well to

⁵⁰ EIU Country Profile, p. 19.

improve education and training. Labor laws and regulations are also a problem, though not a critical impediment to job creation.⁵¹

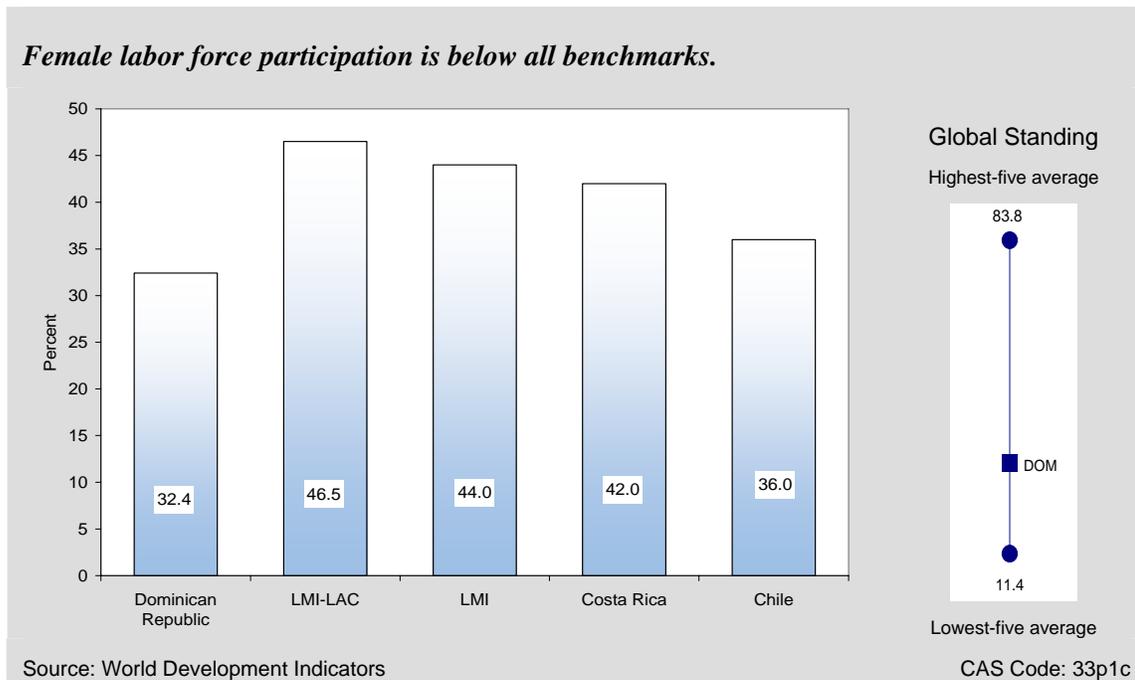
Figure 4-3
Unemployment Rate



The labor force participation rate of 63.5 percent is in line with the LMI-LAC average of 62.9 percent, as well as the rates observed in Chile and Costa Rica (65.7 percent and 64.4 percent, respectively.) However, women’s participation is low by all benchmarks, at 32.4 percent (Figure 4-4). As educated young women seek to join the labor force, the need for job creation will be even greater, highlighting the need for programs targeted at improving opportunities for women.

⁵¹The World Bank’s index of Rigidity of Employment, which measures difficulty in hiring and firing workers on a scale of 0 to 100 (with higher values indicating greater rigidity), gives the Dominican Republic a score of 44, identical to the LMI-LAC score and only marginally higher than Costa Rica’s score of 39.

Figure 4-4
Female Labor Force Participation Rate



AGRICULTURE

As mentioned in the Economic Structure section, agriculture has accounted steadily for about 11 percent of GDP in recent years, yet employment in the sector exhibits a declining trend. This combination is a sign of healthy gains in labor productivity. Indeed, the underlying growth trend in agriculture has been reasonably strong, with value added rising at an average rate of 4.0 percent from 1999 to 2003 (in spite of a decline of 3.0 percent in 2003); this is double the LMI-LAC average of 2.0 percent. Agriculture value added per worker rose by 5.4 percent per year, reaching US\$4,142; this is almost twice the regional benchmark of US\$2,102 for LMI-LAC and well above the regression benchmark of US\$2,560. But the Dominican Republic is slightly behind Costa Rica, with \$4,472 per worker, and far from the standard set by Chile, at US\$6,431 (Figure 4-5).⁵² Similarly, cereal yields improved 4.7 percent annually, reaching 4,855.1 kg per ha—more than double the LMI-LAC average of 2,413 kg.

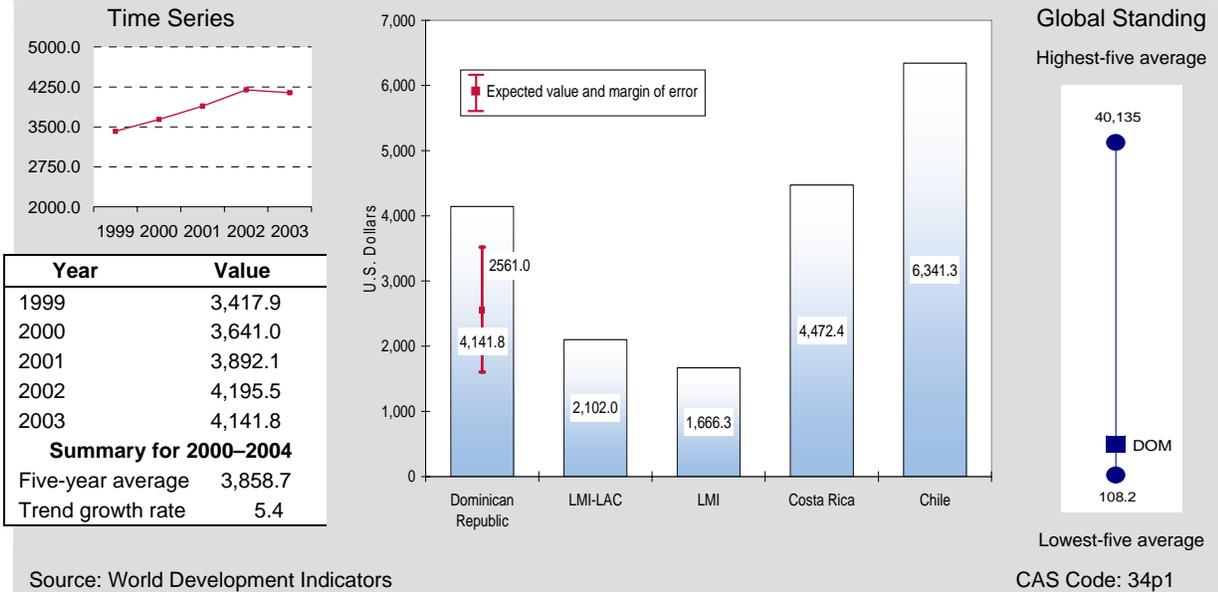
The sector's good performance is due largely to a boost from diversification into crops such as pineapples, bananas, oranges, vegetables, and flowers since the 1990s, together with development of more efficient agroindustry. The production of organic crops for the U.S. and European markets has also grown strongly in recent years.⁵³

⁵² Data measured in constant 2000 US\$.

⁵³ EIU Country Profile, p. 20.

Figure 4-5
Agriculture Value Added Per Worker

Value added per worker in agriculture is almost double the regional benchmark.



5. Conclusion: Key Findings

In 2005, GDP growth in the Dominican Republic rebounded from the 2003–2004 crisis, reaching 9 percent; the projected growth rate for 2006 is about 5.4 percent. Although lower than the rates achieved in the mid- to late 1990s, this is strong performance compared to the benchmarks. Fixed investment has remained high, averaging 23.5 percent between 2002 and 2004, though effects of the crisis have been evident in labor and capital productivity. Some of the drivers of more rapid growth are improvements in the quality of the labor force, through investment in education, training, and health; measures to reduce the large gender gap in job opportunities (female labor force participation was just 32.4 percent in 2004, compared to 86 percent for males); improvements in the business climate; strengthening of the financial system; and promotion of more technology-intensive investment.

The latest poverty and inequality indicators for the Dominican Republic date from before the financial crisis, which pushed an estimated 15 percent of the population (about 1.3 million people) into poverty and worsened living conditions across most income groups. Even before the crisis, 25 percent of the population was unable to obtain a minimum level of dietary energy consumption. Undernourishment seriously affects labor productivity and earning capacity and should be a priority for the government and donors. The remedy may involve interventions to improve rural development, the distribution infrastructure, and basic education and health, as well as transfer payments to assist the most vulnerable groups.

The Dominican Republic's score on the Economic Sustainability Index indicates that the environment is suffering serious degradation, exacerbated by the rapid growth of tourism. The country lags behind in areas such as biodiversity, land, water quality, quantity, and water stress. Improvements are needed in environmental governance, along with initiatives to shift tourism from the mass market to higher-value ecotourism.

The government has done an excellent job of restoring macroeconomic stability in the wake of the crisis, but programs to strengthen fiscal management, budget planning, and tax administration remain a high priority if this stability is to be sustained. In recent years, government expenditures have risen while revenues have fallen (relative to GDP). Benchmark comparisons indicate that there is room to improve the revenue yield, which averaged 18.5 percent of GDP from 2000 to 2004; this would increase the resources available for delivering public services to promote growth and equity. Immediate reforms are needed to compensate for an anticipated revenue loss of nearly 3 percent of GDP from the elimination of taxes on international trade following Dominican Republic-CAFTA implementation.

The international benchmarks show that the Dominican Republic is still a difficult place to do business. Corruption is a central concern, but other regulatory constraints also impair private

sector development. The country ranked 103rd out of 155 on the World Bank's overall Ease of Doing Business ranking. Consequently, the government and donors should focus on programs to combat corruption and promote institutional reform.

The Dominican Republic's financial sector does not provide the quality of services needed to promote economic and business growth. The main indicators—domestic credit to the private sector and intermediation costs—worsened as a result of the financial collapse of 2003. In addition, the Dominican Republic is far behind its peers in developing capital markets and creating competitive sources of finance to broaden and deepen the financial sector. The development of programs to deepen and strengthen the financial sector clearly should be a high priority for the Dominican Republic and donor agencies.

The Dominican Republic is a highly open economy, with trade in services, primarily tourism, especially strong. Domestic merchandise exports (distinct from free-zone exports) account for less than half of earnings from the export of goods and services (net of free-zone inputs). The free-zone sector itself has been struggling since the beginning of the decade, with a gradual loss of U.S. market share, particularly in the garment sector, which accounts for 50 percent of free-zone exports. The DR's trade with CAFTA partners has remained practically unchanged over the five years to 2004, with the United States absorbing 99 percent of exports to CAFTA partners. Trade with other partners did increase, but from an extremely low base. The Agreement should give a substantial boost to trade with other partners, but the United States will continue to be the dominant trading partner. Dominican Republic could benefit from programs to increase backward linkages from the free zones and facilitate export diversification, especially in light of greater global competition after the lifting of textile quotas in 2005.

Workers' remittances also contribute greatly to the current account. Innovative interventions to enhance the growth and developmental impact of remittances (through reduced fees, efficient payment circuits, and programs to attract more funds into investment) could also be beneficial.

Foreign aid has not been a major source of external financing for the DR, and its role has been declining. At the same time, FDI inflows have been fairly strong, compared to regional benchmarks. However, capital flight during the financial crisis led to a virtual exhaustion of international reserves, which remain critically low. This underscores the need for export promotion measures and measures to attract more private capital.

Overall healthcare provision is weak. Life expectancy at birth was 67.1 years in 2003, lagging behind all benchmarks, and the maternal mortality rate was four to five times higher than in Costa Rica and Chile. The situation was exacerbated by the crisis, as inflation drove up prices for food and medicine, putting them out of reach for large segments of the population. Public spending on health has been flat at the very low level of 2.1 percent of GDP, aggravated by inefficiency and lack of transparency. Poor health conditions impede growth and contribute to persistent poverty. Multilateral and bilateral donors have introduced numerous health initiatives, but efficiency in the health sector needs to improve for the problems to be addressed in a sustainable way.

The Dominican Republic's education system is strong at the primary level but has clear deficiencies at the secondary, vocational, and tertiary levels. Although primary enrollment rates are high, just 69 percent of students persist to grade 5. Secondary school enrollment is estimated

to be just 35.5 percent, while the rate for tertiary education is 34.5 percent. Programs are needed to retain children through primary school and beyond and to improve the quality of education.

The Dominican Republic needs to create productive jobs and income-generating opportunities—for roughly 95,000 new workers each year—and even more, to reduce structural unemployment. With the unemployment rate reaching 19.7 percent in 2004, reducing unemployment is a top priority. This can be accomplished only by improving education and training and by creating an environment that fosters private investment, business expansion, and productive opportunities for self-employment.

Appendix.

CRITERIA FOR SELECTING INDICATORS

This economic performance evaluation is designed to balance the need for broad coverage and diagnostic value, on the one hand, and the requirement of brevity and clarity, on the other. The analysis covers 15 economic growth-related topics and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table (below) provides a full list of the indicators examined for this report. A separate Data Supplement contains the complete data set for Dominican Republic, including data for the benchmark comparisons, and technical notes for every indicator.

For each topic, our analysis begins with a screening of primary performance indicators. These “level I” indicators are selected to answer the question: Is the country performing well or not in this area? The set of primary indicators also includes descriptive variables such as per capita income, the poverty head count, and the age dependency rate.

In the areas where level I indicators suggest weak performance, the analysis proceeds to review a limited set of diagnostic supporting indicators. These “level II” indicators provide additional details, or shed light on why the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil-teacher ratio.⁵⁴

The standard indicators have been selected on the basis of the following criteria. Each one must be accessible through USAID’s Economic and Social Database or convenient public sources, particularly on the internet. They should be available for a large number of countries, including most USAID client states, to support the benchmarking analysis. The data should be sufficiently timely to support an assessment of country performance that is suitable for strategic planning purposes. Data quality is another consideration. For example, subjective survey responses are used only when actual measurements are not available. Aside from a few descriptive variables, the indicators must also be useful for diagnostic purposes. Preference is given to measures that are widely used, such as Millennium Development Goal indicators, or evaluation data used by the Millennium Challenge Corporation. Finally, an effort has been made to minimize redundancy. If two indicators provide similar information, preference is given to one that is simplest to

⁵⁴ Deeper analysis of the topic using more detailed data (Level III) is beyond the scope of this series.

understand, or most widely used. For example, both the Gini coefficient and the share of income accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler, and more sensitive to changes.

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Dominican Republic relative to the average for countries in the same income group and region—in this case, Latin America and Caribbean countries with lower middle incomes.⁵⁵ For added perspective, three other comparisons are examined: (1) the global average for this income group; (2) respective values for two comparator countries selected by the LAC Bureau (in this case, Chile and Costa Rica); and (3) the average for the countries with the five highest and five lowest indicator values globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account where this information sheds light on the performance assessment.⁵⁶

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.⁵⁷ This approach has three advantages. First, the benchmark is customized to the country's specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows one to quantify the margin of error and establish a “normal band” for a country with Dominican Republic's characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.⁵⁸

Finally, where relevant, Dominican Republic's performance is weighed against absolute standards. For example, if the Corruption Perception Index for a given country is below 3.0, this is a sign of serious economic governance problems, regardless of the regional comparisons or regression result.

⁵⁵ Income groups as defined by the World Bank for 2005. For this study, the average is defined in terms of the median, rather than the mean, because the values are not distorted by outliers.

⁵⁶ The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverges from the underlying trend.

⁵⁷ This is a cross-sectional OLS regression using data for all developing countries. For any indicator, Y , the regression equation takes the form: Y (or $\ln Y$, as relevant) = $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$ – where PCI is per capita income in PPP\$, and Region is a set of 0-1 dummy variables indicating the region in which each country is located. After estimates are obtained for the parameters a , b , and c , the predicted value for the Dominican Republic is computed by plugging in Dominican Republic-specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

⁵⁸ This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a “normal band” that is too wide to provide a discerning test of good or bad performance.

LIST OF INDICATORS

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Code
OVERVIEW OF THE ECONOMY			
Growth Performance			
Per capita GDP, \$PPP	I		11P1
Per capita GDP, current US\$	I		11P2
Real GDP growth	I		11P3
Growth of labor productivity	II		11S1
Investment productivity—incremental capital-output ratio (ICOR)	II		11S2
Gross fixed investment, % GDP	II		11S3
Gross fixed private investment, % GDP	II		11S4
Poverty and Inequality			
Human poverty index	I		12P1
Income-share, poorest 20%	I		12P2
Population living on less than \$1 PPP per day	I	MDG	12P3
Poverty headcount, by national poverty line	I	MDG	12P4
Income-share, richest 20%	I		12P5
Ratio of income shares, richest 20% to poorest 20%	I		12P6
PRSP Status	I	EcGov	12P5
Population below minimum dietary energy consumption	II	MDG	12S1
Poverty gap at \$1 PPP a day	II		12S2
Economic Structure			
Labor force structure	I		13P1
Output structure	I		13P2
Demography and Environment			
Adult literacy rate	I		14P1
Age dependency rate	I		14P2
Environmental sustainable index	I		14P3
Population size and growth	I		14P4
Urbanization rate	I		14P5
Gender			
Adult literacy rate, ratio of male to female	I	MDG	15P1
Gross enrollment rate, all levels, ratio of male to female,	I	MDG	15P2
Life expectancy at birth, ratio of male to female	I		15P3

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Code
PRIVATE SECTOR ENABLING ENVIRONMENT			
Fiscal and Monetary Policy			
Govt. expenditure, % GDP	I	EcGov	21P1
Govt. revenue, % GDP	I	EcGov	21P2
Growth in the money supply	I	EcGov	21P3
Inflation rate	I	MCA	21P4
Overall govt. budget balance, including grants, % GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3
Business Environment			
Corruption perception index	I	EcGov	22P1
Ease of doing business ranking	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Cost of starting a business, % GNI per capita	II	MCA / EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
Financial Sector			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II		23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
External Sector			
Aid, % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Code
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9
Trade, % GDP	I		24P10
Exports of services, % total exports	I		24P11
Imports of services, % total exports	I		24P12
Actual and expected trade size, index	I		24P13
Time to trade, days	I		24P14
Merchandise exports from CAFTA countries, US\$ million (current)	I		24P15
Merchandise imports to CAFTA countries, US\$ million (current)	I		24P16
Concentration of exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA, EcGov	24S6
Composition of merchandise exports from CAFTA countries, by country, US\$ million (current)	II		24S7
Composition of merchandise imports to CAFTA countries, by country, US\$ million (current)	II		24S8
Economic Infrastructure			
Internet users per 1,000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure—railroads, ports, air Transport, and electricity	II		25S1
Telephone cost, average local call	II		25S2
Science and Technology			
Expenditure for R&D, % GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
PRO-POOR GROWTH ENVIRONMENT			
Health			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Code
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, % GDP	II	EcGov	31S6
Education			
Net primary enrollment rate	I	MDG	32P1
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, % GDP	II	MCA/ EcGov	32S1
Expenditure per student, % GDP per capita—primary, secondary, and tertiary	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
Employment and Workforce			
Labor force participation rate—female, male, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
Agriculture			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

^a Level I—primary performance indicators, Level II—supporting diagnostic indicators

^b MDG—Millennium Development Goal indicator

MCA—Millennium Challenge Account indicator

EcGov—Major indicators of economic governance, which is defined in USAID’s Strategic Management Interim Guidance as including “microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth.” The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.