I. Introduction and Context

Country Context

The Dominican Republic has experienced strong economic growth over the past decade. Between 2001 and 2011 the GDP growth rate for the DR was 5.2 percent, almost fifty percent higher than the average growth rate for Latin America over the same period (3.5 percent). The GNI per capita (Atlas method) rose from $2,620 to $5,240, accelerating it towards the regional average ($8,544 in 2011 for LAC). The Dominican Republic also showed resilience both during the 2003 financial and banking crisis and during the global economic slowdown of 2009. The growth rate for 2006 and 2010, the years after the crises, were 10.7 percent and 7.8 percent respectively, among the highest in the region over this decade.

Poverty, inequality and unemployment experienced a fast reduction between 2004 and 2008 but have remained relatively stagnated since then. The poverty rate fell from 43 percent of the
population in 2004 to 34 percent in 2010. The rate of inequality, as measured by the Gini Index, reduced from .52 in 2004 to 0.47 in 2010. The rate of unemployment fell from around 18.4 percent in 2004 to 14.1 percent in 2008; however since then it has remained unaltered at around 14 percent in spite of solid economic growth. The poverty rate still remains high and concentrated in particular regions, for example, the regions of Del Valle and Enriquillo in the South West of the country comprise 53 percent of all poor households in the country. Similarly poverty rates in urban areas were 25.9, almost half of poverty rates in rural areas (46.1 percent).

Employment has remained fairly constant over the past decade with a constant increase in the share of informal workers. The employment rate was 47.6 percent in 2000 and 48 percent in 2011, having reached the lowest point during the economic crisis of 2003 (45.2 percent). Tourism, commerce and agriculture are the sectors that have contributed most significantly to employment growth. The fall in sectors like manufacturing compensates the expansion in services and explains the stability of the overall employment figures. This compositional change in employment towards services is consistent with the retraction of formal employment. The proportion of informal workers went up smoothly from 53% in 2000 to 57% in 2011.

Unemployment went down between 2004 and 2008 while the economy recovered from the 2003 banking crisis but has stabilized around 14 percent since then, despite the positive and strong growth in 2009 and 2010. Unemployment has hit youth (24 percent) and women (20 percent) particularly hard. One third of all young women in the labor force were unemployed in 2011. Surprisingly, the unemployment rate for people that completed secondary school (18 percent) is higher than for those with just primary level (11 percent) or people that completed tertiary level (16 percent). Finally, the highest regional unemployment rate in 2011 was reported in the metropolitan area of Ozama, which includes Santo Domingo.

The DR economy is well integrated to the US with three crisis-transmitting channels: Free Trade Zones (FTZ) exports, tourism and remittances. In 2005 these three sectors accounted for one third of the DR economy. Although this overall share was less important in 2011, FTZ accounted for 8.7 percent of GDP, tourism represented 7.7 percent and remittances accounted for 5.7 percent of GDP. The employment loss in manufacturing is largely explained by the stagnation of FTZ exports which grew on average 0.5 percent per year between 2005 and 2011, losing 5.5 percentage points in the GDP share. Tourism, in contrast, grew on average by 2 percent per year over the same period. The expansion of this labor-intensive sector explains the employment growth of the service sector. Remittances, on the contrary, are negatively related to employment due to their reservation wage role.

The stagnation of employment and unemployment since 2009 in spite of the economic growth suggests that policy intervention maybe necessary for development purposes and even more relevant in less positive phases of the economic cycle. The stable share of unemployment in the workforce (in particular young women with secondary education), the expansion of the informal sector and the high poverty rates indicate that the benefits from growth are not reaching the most vulnerable sectors. Moreover, employment may be affected by the proposed tax reform (envisioning higher tax rates and a reduction of exemptions), recently approved by congress, to address the growing fiscal deficit (4.8 percent of GDP at the end of 2012). Entrepreneurs in the private sector have raised concerns that these measures, while improving the fiscal deficit, could have a severe adverse impact on some sectors (such as FTZs), which may result in employment losses.
sectoral and institutional context

The government is aware of the unemployment and poverty challenges and has been gradually developing its national employment system (nes) to address these issues through the provision of a wider set of active (and passive) labor market policies (amlps). the current system comprises several institutions, including the ministry of labor (mol) which, like counterparts in oecd countries, implements a few small scale active labor market programs. senade (servicio nacional de empleo), a network of 14 offices that provides services to firms and job seekers, both employed and unemployed, is responsible for labor intermediation. training services are provided by both infotep (instituto de formación técnica y profesional) and the mol. infotep, a tripartite-funded institution chaired by the mol, provides a wide range of on-demand vocational training courses across the country. the mol has been providing training courses targeted to idle youth (ni-nis) through the programa juventud y empleo (pjye). the direct employment creation programs are relatively recent. the mol successfully launched a pilot temporary employment program (tep) in the city of santiago in 2010. the dr does not currently implement any complementary passive labor market programs, such as unemployment insurance or early retirement programs. in countries with extended informality in the labor markets, temporary employment programs such as the pilot santiago trabaja play the role of passive programs to mitigate income and job losses in times of economic crisis.

To sharpen its focus on unemployed youth, the mol initiated the pjye in 2001 and has trained more than 75,000 at risk youth. the youth training program pjye combines classroom training programs (both vocational and life-skills) with on-the job training during the internship phase. originally launched to compensate educational gaps of young people (16-29 years old) dropping out of school and unable to find work, the design has been slightly modified to accommodate the underlying needs of the target population. targeted at ni-nis (neither at school nor at work), the pjye was originally focused on vocational training, incorporating the life-skills training courses in 2006. the results arising from rigorous impact evaluations (ie) show that the effects on employability (employment and wages) were much stronger due to life-skills than to vocational courses. other indirect effects are observed, such as a reduction in teenage pregnancy resulting from the reproductive health components of the life-skills component. these results are in line with the 2012 world development report which states that amlp's have effective but modest results, and that the heterogeneity of the results is largely explained by design features like the combination of work and training, both in-class and on the job. given these positive results, the mol has decided to continue this program and provide sustainable financing through infotep, increasing the intensity of life-skills courses and extending the duration of on-the-job training.

Moreover, to address the intense negative shock on employment in santiago in 2010, the mol effectively piloted for the first time a temporary employment program. the program provides the poor and less employable with an income to help them support their families, which is particularly important in times of crisis, but also provides them with a temporary job with benefits and health coverage. based on the experience from the pjye santiago trabaja includes a life-skills training program to motivate program graduates to search for a more permanent job. using savings from the implementation of the pjye, the mol launched the pilot tep to cover 4 thousand beneficiaries. the program has provided temporary public-sector jobs to 3,300 beneficiaries and expects to exceed the target goal of 4,000 beneficiaries by june 2012. the program pays a monthly benefit of approximately us$ 100, which is consistent with the minimum wage legislation (hourly rate), implying an overall cost per beneficiary which is among the lowest in the region. although ie was
thought for this pilot program, the design of the program is in line with the best practice for providing passive income programs in large informal market settings (e.g. MGREGA in India, Trabajar in Argentina, EGPP in Bangladesh, Uruguay Trabaja, etc.). According to evidence presented by Ravallion (1998), Jalan and Ravallion (1999), and Galasso and Ravallion, 2003 these type of programs have positive effects on income and welfare and are well targeted to the poor and unemployed due to the modest benefits and work requirements. Moreover, TEPs can play a role in social safety nets by protecting individuals affected by an economic shock or natural disaster.

**Relationship to CAS**

The FESP is in line with the overall objectives set out in the Country Partnership Strategy 2010-2013, which in turn is derived from the National Development Strategy. Its main goal is to “….support the country in reducing its vulnerability to internal and external factors while producing results for its citizens”. This project is also aligned with the broader Human Development Strategy given the complementary nature of the protection and promotion of human capital formation the proposed activities are addressing. This new project, therefore, represents a deepening of the ongoing and evaluated labor market related activities in the DR.

**II. Proposed Development Objective(s)**

**Key Results (From PCN)**

(i) The employment rate of participants from the TEP is, on average, 10 percent higher than the control group.

(ii) The earnings of graduates from the TEP are, on average, 10 percent higher than the control group.

(iii) At least 60 percent of beneficiaries of the PJyE come from the priority areas I and II as identified in the DR Poverty Map, based on SIUBEN.

**III. Preliminary Description**

**Concept Description**

The proposed project will strengthen the NES support to the expansion of the temporary employment program, and the consolidation of the training program, PJyE, into more permanent and sustainable policies to train idle youth. The TEP will be geographically expanded to 4 additional cities or regions in phases, covering 20 thousand beneficiaries. With respect to PJyE, the MoL will continue to transfer the youth training program to the INFOTEP. This knowledge and capacity transfer from the MoL to INFOTEP started successfully under the current Youth Development Project. The integration of training programs for both poor unemployed youth as well as other workers in one agency to improve the efficiency of its integration and to ensure the sustainability of its financing is amongst the first reform of its kind in the LAC region. This transfer will also ensure that the INFOTEP includes training programs that have strong evaluations of their performance.

The new version of both programs will introduce improvements based on the results coming from the rigorous impact evaluation and the lessons learned from the pilot program. The scaled up version of the TEP will introduce modifications in the design to reflect the lessons learned from the pilot program. The duration of the beneficiary on the program will be extended to 6 months; vocational training will be included to complement the life-skills courses; intermediate certification
of the skills acquired will be issued, and additional resources to finance tools and materials will be eligible under the sub-projects. Finally, the new version of the PJyE will also experience improvements. Based on the results from the IE, the program will double the life-skills training component by up to 150 hours. In addition, a targeted wage subsidy program will be incorporated since the PJyE will cover the cost of the internship that was previously afforded by the firm. In both cases, the project implemented by the MoL will look at improving the employability of disadvantaged populations while expecting to generate indirect effects for these people and their communities resulting from improving social behavior or improving community facilities.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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VI. Contact point

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