



EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Dominican Republic for 2022

Dominican Republic “Transition to a greener and more inclusive economy” (SRPC)

ANNUAL PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Transition to a greener and more inclusive economy CRIS number: NDICI LA/2021/43788 OPSYS number ACT-61489 Financed under the Neighbourhood, Development and International Cooperation Instrument (<u>NDICI-Global Europe</u>)
2. Team Europe Initiative	Yes. The Budget Support (BS) will be part of the Team Europe Initiative (TEI) on Green and sustainable transition in the Dominican Republic
3. Zone benefiting from the action	The action shall be carried out in the Dominican Republic
4. Programming document	Multi-Annual Indicative Programme (MIP) 2021-2027 for the Dominican Republic
5. Link with relevant MIP(s) objectives / expected results	This action intends to contribute to all three MIP priority areas: 1. <u>Priority area 1: Increasing economic opportunities, especially for women and youth</u> <ul style="list-style-type: none"> – Improving the Business Climate, and enhancing trade and investments with the EU – Facilitate MSMEs development through improving productivity, strengthening value chains and competitiveness, with special focus on clean resources cycles, digital solutions, and enhancing the participation of women and youth – Promote inclusive and sustainable employability 2. <u>Priority area 2: Nature and cities for people</u> <ul style="list-style-type: none"> – Make cities and human settlements safe, inclusive, resilient and sustainable

	3. <u>Priority area 3:</u> <ul style="list-style-type: none"> – Closing the circle on public finance management reform – Empower autonomous and accountable local authorities to manage, finance and implement local development 			
PRIORITY AREAS AND SECTOR INFORMATION				
6. Priority Area(s), sectors	250 - Business and other services 151- Government and civil society 410 – General environment protection			
7. Sustainable Development Goals (SDGs)	Main SDG: SDG 8: ("Decent Work and Economic Growth"), Other significant SDGs: SDG 1 ("No poverty"), SDG 5 ("Gender Equality"), SDG 10 ("Reduction of inequalities"), SDG 12 ("Responsible Production and Consumption"), SDG 13 ("Climate Action"), SDG 16 ("Peace, Justice and Strong Institutions")			
8 a) DAC code(s)	15111 – Public Finance Management and 15114 Domestic Resource Mobilisation 30% 15112 - Decentralisation and support to subnational government 10% 25010 – Business policy and administration 10% 25030 – Business development services 10% 32130 - Small and medium-sized enterprises (SME) development: 30% 41010 - Environmental policy and administrative management 10%			
8 b) Main Delivery Channel	12001 Central Government			
9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	
	Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	BUDGET INFORMATION			
12. Amounts concerned	Budget line(s) (article, item): 14.020141 Total estimated cost: EUR 13 000 000 Total amount of EU budget contribution EUR 13 000 000, of which: EUR 10 700 000 for budget support and EUR 2 300 000 for complementary support. The BS will be part of the TEI on Green and sustainable transition in the Dominican Republic			
MANAGEMENT AND IMPLEMENTATION				

13. Type of financing¹	Direct management through: <ul style="list-style-type: none"> - Budget Support: Sector Reform Performance Contract - Procurement
--	---

1.2 Summary of the Action

The Sector Reform and Performance Contract (SRPC) on ‘*Transition to a greener and more inclusive economy*’, intends to support the implementation of the priorities of Dominican Republic’s (DR) sector policies related to public finance management & business climate (including green public finance management -PFM-), micro, small and medium sized enterprises – MSME – development and clean production practices / circular economy of MSMEs, in line with sectoral policies declined in the main planning document of the current government, which is the National Multi Year Plan of the Public Sector (PNPSP 2021-2024). This SRPC contributes to the Team Europe Initiative (TEI) on Green and sustainable transition in the Dominican Republic².

The *overall objective* of the action is to contribute to a greener, sustainable and inclusive economic transition in the Dominican Republic by supporting the implementation of the related priorities of the PNPSP.

Its *specific objectives* are:

- To develop the business environment and competitiveness of MSMEs, improving sustainable/green production practices, with special attention to women and youth, and with a territorial approach.
- To strengthen the sustainable management of public finances, which allocate the resources according to the priorities of national development and conducive to equitable distribution of national income, including transition to green PFM and PFM at local level.

The action takes into account: (i) the strategic objectives of the EU-DR relationship (as enshrined in the MIP) and strong demand from the government; (ii) the DR’s political and socio-economic context; (iii) the priorities established in the national sector policies and their declination in the multiannual plan 2021-24 (PNPSP); (iv) the added value of past EU-DR cooperation and the fields of expertise of the EU and a trust relationship built with key line ministries; and (v) a focused approach as a prerequisite for effectiveness in light of limited financial means.

Through this action, the EU will support the DR policies that promote a greener, more sustainable and inclusive economic model, and in this way address all three priorities of the MIP. Priority area 2 (“Nature and cities for people”) will be addressed through the transversal focus on encouraging more sustainable policies (incorporation of sustainable, low carbon and circular practices in consumption and production systems, and greening PFM), and further materialized through EFSD+ operations and complemented by EU Member States’ investments in water, transport and green and circular economy.

- In partnership with the Ministry of Economy and the Ministry for Industry and Trade, the action will focus on supporting the **national MSME sector policy, creating a conducive business environment and increased productivity and competitiveness of MSMEs. Inclusivity will be a key aspect, as the action targets women and youth in particular, and takes into consideration the territorial level.** The EU will continue promoting stronger, quality-oriented MSMEs at macro level (regulatory national quality system, and adaptation to EU quality and sustainability standards) and meso level (business development services and value chain articulation). MSMEs development will be facilitated, and their productivity, value chains and competitiveness (including digital solutions) will be supported, with a particular focus on women and youth.

- When supporting the business environment and the MSMEs, particular attention will be given to promoting **circular economy solutions, efficiency and clean resources cycles** through a sustainable use of natural resources (policies led by the Ministry of Environment) and clean production practices.

- The **Public Finance Management reforms** currently accompanied by the EU will continue to be supported through this programme, both at central and local level (in line with the territorial approach of the current government), thereby contributing to priority area 3 of the MIP. The efforts related to maintaining macro economic stability, increasing transparency, improving public procurement, etc., are essential for the DR to implement all public policies and at the same time will positively impact the business climate. The programme intends to support

¹ Art. 27 NDICI

² This TEI foresees green investments and proposes to contribute to a transition towards an inclusive, sustainable and territorially integrated economic model, embracing a culture of sustainable production and consumption.

specific government efforts related to the greening of PFM. **Institutional support** will be a transversal part of the programme, since the efficiency of public institutions both at central and municipal level is required in order to boost economic recovery and deliver on the DR's development agenda. Local authorities will be empowered to manage, finance and implement **local development**, leading to an improvement in the quality of local public services.

This Action links up with the ongoing EU programme/initiative(s) and contributes to the progressive achievement of SDG 8 (Decent employment and economic growth) and SDG 12 (responsible consumption and production),. It also contributes to SDG 1 (no poverty), SDG 5 (gender equality), SDG 10 (reduced inequalities), SDG 16 (peace, justice and strong institutions), and SDG 17 (partnerships).

2 RATIONALE

2.1 Context

The proposed action ("Green and sustainable transition in the Dominican Republic") is guided both by the geopolitical priorities of the EU and the development plans of the DR, namely the National Multiannual Plan of the Public Sector (PNPSP 2021-2024) in which the main priorities of sector policies are declined, in line with the National Development Strategy 2030³.

The action will contribute to the main political goals of the EU, such as the 2030 Agenda and its Sustainable Development Goals (SDGs), enshrined in the new European Consensus on Development, as well as the European Green Deal (strengthening environmental protection in key policies, such as the PFM and the clean production practices/circularity). In its ambition to boost the alliance for sustainable and inclusive growth and jobs, this action will be enshrined in the Global Gateway. The action incorporates a focus on youth as well as women, in line with the Gender Action Plan 2021-2025⁴. It will contribute to the three main priorities of the Caribbean window of the regional LAC programme for 2021-2027: green deal, economic recovery and trade, and governance, security and human development.

The EU's MIP in the DR is aligned with the national development plans enshrined in the END and PNPSP and focuses on three priority areas: (1) Increasing economic opportunities, especially for women and youth, (2) Nature and cities for people, (3) A modern state close to its citizens. This action will contribute to the MIP's first priority, aiming to improve business climate, facilitate MSMEs development, and promote inclusive and sustainable employability, as well as the third priority (public finance management reform, enhancing local capacities for development).

This action is part of Team Europe⁵ efforts focusing on green and sustainable economy. The proposed Team Europe Initiative (TEI) seeks to help the DR transit towards an inclusive, sustainable and territorially integrated economy that creates and deconcentrates wealth, generates sustained growth with equity and decent employment, enjoys integration in global economy and embraces a culture of sustainable production and consumption, while protecting the environment and promoting a sustainable use of natural resources, and promoting green investments in energy, transport, water, etc. This Budget Support (BS) action thus adds up to Team Europe interventions in this direction.

The EU has positioned itself as a reliable development partner in the DR, enjoying a good deal of access to key ministries. It is in EU's interest continue nurturing political and policy dialogue with the Dominican Republic in a wide range of topics, from climate change, public finance management, trade issues, etc. On the other hand, DR authorities are keen to continue receiving the EU's support and inspiration in promoting national reforms.

³ "Estrategia Nacional de Desarrollo" (END), adopted in 2012 (Law No. 1-12)

⁴ In particular, it corresponds to its thematic areas of engagement "Addressing the challenges and harnessing opportunities offered by the green transition and the digital transformation" and "Promoting economic and social rights and empowering girls and women".

⁵ The TEI's main contributors will be the EU Delegation, EIB, AFD/France, AECID/Spain, and GIZ/Germany.

Political and socio-economic context

The DR is a likeminded country, a stable constitutional democracy and promoter of multilateralism, and represents a bridge between the Caribbean and Latin America⁶. It shares an island with one of the most fragile states in the world, Haiti. The EU continues enjoying good relations with the DR, with which it shares fundamental values. Some challenges persist in relation to human rights protection and in terms of transparency⁷, but significant progress is made by the current government (GoDR) to strengthen the rule of law (independence of the judiciary, zero tolerance to corruption). The alignment of policy priorities with the budget is also a high priority of the GoDR. A new medium term (2021-2024) planning makes this connection explicit. Gender disparities exist in women's participation in politics: as of February 2021, 27.9% of seats in parliament were held by women.⁸

The DR is an upper middle-income country, a market economy and a fertile ground for investments. Tourism, remittances, foreign direct investment, mining revenues, free-trade zones, and telecommunications have helped make the DR one of the fastest-growing economies in the Latin America and the Caribbean (LAC) region. Since 2005, the DR grew at an average rate of 5.8% per year. The economy, though affected by the COVID-19 pandemic, is now back to its prepandemic growth rates, supported by exemplary management of the pandemic, including maintaining the increase of the DR's debt at acceptable rates and still attracting a high influx of investment, reaching 12.3% growth in 2021. Thus, macroeconomic stability is maintained.

Yet, this **high economic growth has not translated into shared gains for the whole society**. There are huge socio-economic inequalities prevailing in the country (GINI coefficient in 2020 –last measured–was 39,6). More than 50% of the workforce is informal and 70% of the population earned less than 300 euros/month in the year of measurement. Gender inequalities in the DR are extremely important as they lead to social and economic losses. The DR has scarce opportunities for youth entering the job market. Territorial inequalities are high, as most wealth is concentrated in the biggest cities. The COVID-19 crisis severely affected the population living in most vulnerable situations and revealed the large digital gap. The poverty rate kept its increasing trend during 2021, reaching 23.9 percent, representing over a 300.000 people falling into poverty since the pandemic crisis began. It is therefore urgent to address these inequalities so that the economic recovery can be consolidated and socialised, and this is a priority of the GoDR.

Micro, Small and Medium-sized Enterprises (MSMEs) are the main employment providers in the DR, but most of them are informal, while access to credit is difficult and low productivity levels and poor quality affect their competitiveness. The COVID-19 crisis made the most fragile MSMEs disappear, and put a lot of pressure on lower middle classes that recently came out of poverty. The GoDR is conscious that a dynamic and sustainable business sector is essential for development, economic growth, decent and green jobs creation, increasing incomes and reducing poverty.

Sustainability of the economic model is key for the medium and long term development of the DR. The economic gains of the DR are based on the service and industrial sectors, insufficiently considering the impact of the prevailing production model on its fragile ecosystem, the country being amongst the most vulnerable to climate change. The DR is highly dependent on tourism revenues, mainly beach tourism, and the conservation of remaining forests is key to preserve the water resources, which is in turn capital to preserve life on an island. The cities lack proper services like water, sewage and solid waste management systems. With more than 350 landfills, none of which complies with existing regulations, the final disposal of waste remains unmanaged and pollutes waters, rivers and protected areas, exacerbating vulnerability to natural hazards and climate change. Electricity generation is mainly based on fossil fuels, while agricultural production needs to improve its sustainability in relation to the sustainable use of natural resources and limiting the use of pesticides. Poverty and exclusion also increase the vulnerability of certain parts of the country to natural (including climate-related) hazards. Clean production and consumption policies and practices are embryonic and need support and strengthening. Linking poverty reduction to environmental protection through the sustainable management of natural resources is critical to the long-term inclusivity and sustainability of the country's socioeconomic development.

⁶ The Alliance for Development in Democracy with Costa Rica and Panama is a good example.

⁷ According to the 2021 *Transparency International Corruption Perceptions Index*, DR ranks 128th out of 180 countries.

⁸ <https://data.unwomen.org/country/dominican-republic#:~:text=In%20the%20Dominican%20Republic%2C%2083.3,parliament%20were%20held%20by%20women.>

2.2 Problem Analysis

The DR's economic growth needs to be consolidated to ensure its resilience, and requires a stronger focus on environmental sustainability, as well as inclusivity. In order to have a more resilient and green and sustainable economy, the DR must address structural issues in relation to institutional and public finances reforms, policies related to the business model and in particular MSMEs, the reduction of social, gender and territorial inequalities, and the environmental sustainability of the production and consumption model. This is also necessary to confront new shocks such as the economic impact of Russia's war of aggression against Ukraine on rising oil prices, among others.

Some interrelated problems that hinder the consolidation of the DR's sustainable and inclusive economic growth are:

i. The DR's economy suffers from structural weaknesses and it is too vulnerable to external shocks, with high levels of informality and obstacles in the business climate, plus weaknesses related to the competitiveness of micro, small and medium sized enterprises.

Structural weaknesses in the DR economic system still require reforms to consolidate economic resilience, and to address urgent environmental issues and social inequalities. This resilience will also be beneficial in relation to external shocks (pandemics, wars, climate-induced disasters). Low levels of education, especially for women due to traditional expectations, teen pregnancy, poverty and gender-based harassment limiting girls' education⁹, and technical qualifications of the workforce are part of the structural challenges of the DR, despite recent efforts to tackle them and better adapt the technical and vocational education and training (TVET) offer to the labor market needs. Targeted reforms will help to improve debt sustainability and to gather the necessary internal resources (domestic resource mobilisation – DRM) required to finance the DR's development, in particular for the needed investments in key areas such as water and sanitation, waste management, sustainable transport and energy, as well as in (climate resilient) infrastructure and human capital. Well-sequenced reform implementation, to foster inclusive growth and improved social outcomes, will also help to strengthen policy frameworks. In particular, reforms will improve public financial management and transparency, which are key for the implementation of all public policies and to ensure a healthy business environment. Further efforts are needed to address social issues, to reduce territorial and gender inequalities, and would help rendering the DR's growth more inclusive and equitable.

There are high levels of informality in the DR economy, with more than 50% of the DR workforce being informal. The pandemic contributed to further increasing the informalization of the labor market. While the unemployment rate decreased from 8.8% to 6.5% between 2014 and 2019, it picked up to a level of 7.1% in 2020. The unemployment rate for women (age 15+) is 9.5% and for men 4.1%.¹⁰

The MSME sector, which represents a big share of the DR's economy (98% of companies with a participation in the GDP of 38.6% and main providers of employment in the DR), suffer from other obstacles to their development, such as access to credit, low productivity levels and challenges related to quality and environmental standards, including a digital gap and gender gap, which affect their competitiveness. It is also necessary to strengthen support schemes for institutional, financial and business development services.

Furthermore, in order to achieve sustainable and inclusive growth, the DR needs to continue strengthening its institutions, including at municipal level, to face structural challenges: unequal access to and low quality of public services, corruption, citizen security issues and low citizen trust in institutions.

ii. Social, gender and territorial inequalities.

⁹ <https://www.unicef.org/dominicanrepublic/en/node/2026>, one in four women between 20 and 49 years old has had a child before turning 18 and almost half of them had a child before 20 and 22% of women have suffered sexual harassment in educative environments.

¹⁰ idem

There are huge socio-economic inequalities prevailing in the country (GINI coefficient in 2020 was 39,6). High levels of inequalities are also registered at the level of the territory as well as within cities. Access to economic activities by women and youth presents many obstacles, as well as for citizens outside of the capital. For three consecutive years, since 2017 until 2020, the DR scored 0.7 in the gender gap index, which shows a gender gap of approximately 30 percent¹¹. The 2019 UN Gender Inequality Index of 0.455 shows strong disparities and levels comparable to less developed LAC countries. The DR continues to present high rates of violence against women, including domestic violence, and a persistent high number of femicides (the 5th highest rate in the region) and sexual violence.

iii. Unsustainable production and consumption practices: high impact on a fragile island ecosystem.

Natural resources, a big source of economic activity and jobs (tourism, agribusiness MSMEs) are under extreme pressure on an island that is highly vulnerable to climate change, and challenges related to unsustainable production practices such as water treatment and solid waste in a highly urbanised country remain outstanding.

The DR lags behind other countries in the LAC region in regards to circular economy, which is still incipient, and the existing Clean Production policy and the National Policy for Sustainable Consumption and Production (SCP, 2010) need to be prioritised and socialised further. The General Law on Integrated Waste Management and Coprocessing (Law 225-20) introduces certain elements of circularity (e.g. waste prevention and minimisation, waste recovery and valorisation, eco-efficiency, separation at source, waste marketplaces and the Extended Producer Responsibility), and opportunities exist as the GoDR is setting more ambitious green goals and practices with the adoption of a new Law and National Policy on Green Procurement and developing a National Plan on Solid Waste Management.

Productive development and economic growth in the DR needs to converge with a sustainable production set-up, especially for MSMEs.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

Within the Sector Reform and Performance Contract framework, the lead actor is the Ministry of Economy, Planning and Development (MEPyD), which has the mandate, according to Law 468-6, to formulate the development strategy and the multiannual plan (PNPSP), including the necessary coordination at the national, local and sectoral levels to ensure coherence between policies, plans, programs and actions, and including the coordination of international cooperation programmes.

Other key actors (duty-bearers) are: Ministry of Finance (MH) (PFM reforms, BS eligibility criteria), Ministry of Industry and Commerce (MICM) (MSMEs policies), Ministry of Environment and Natural Resources (MARENA) (clean production policies) and their dependencies.

The Ministry of Public Administration (MAP) and Ministry of Labor (M-Trabajo) may be associated to the action for specific issues related to the capacities of municipalities and the policies related to MSMEs and employability.

Private sector Organizations (e.g. CODOPYME¹², AIRD¹³, ANJE¹⁴, Promipyme¹⁵), Universities and Civil Society Organizations (in particular those working with economic empowerment of Women and Youth and on circular economy and clean production techniques) will be associated to the dialogue.

During the implementation of this action, a plan will be developed to establish a useful institutional coordination framework according to the mandates and roles of each of the mentioned stakeholders.

¹¹ Women are 30 percent less likely than men to have equal opportunities and show weak political empowerment.

¹² Confederación Dominicana de la Micro, Pequeña y Mediana Empresa

¹³ Asociación de Industrias de la República Dominicana

¹⁴ Asociación Nacional de Jóvenes Empresarios

¹⁵ Consejo Nacional de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa

The DR also has an institutional set up for BS interinstitutional committees and Steering Committees that will be adapted and used to the stakeholder composition of this action.

2.3 Additional Areas of Assessment

2.3.1 Public Policy

The Multi-annual National Plan for the Public Sector (PNPSP) is the instrument where selected objectives from sectoral policies are prioritized, and which defines and organizes the contribution of the public sector to fulfill the National Development Strategy (END)¹⁶ in the medium term, based on a 4-year period. The update of the PNPSP is carried out every year and corresponds to the guidelines of the END, as well as the fiscal policy and the financial framework of the Multiannual Budget.

The PNPSP aims to ensure better planning and programming of public investment interlinked with the implementation of revised sectorial policies, organized in integrated value chains. The PNPSP 2021-2024 was adopted in order to allow the new administration to put in place a new productive apparel to consolidate the post pandemic economic recovery and allow more equity and sustainability in the repartition of the economic growth among DR's citizens.

The Dominican government directs the policies to promote MSMEs, seeking to reduce poverty, social inequality and lack of employment, while promoting productive development, employment and improvement of people's quality of life. The PNPSP establishes the main guidelines in terms of public policy for the establishment of regulations, public policies, programs and projects for the promotion of MSMEs and economic, sustainable and inclusive development.

The PNPSP contains 32 priority policies, of which 5 are linked to MSMEs (Micro, Small and Medium-sized Enterprises), sustainability of production, and efficient and transparent public administration (including PFM).

- Policy 1: Dignified, formal and sufficient **employment**. Formalisation of MSMEs –main providers of employment- is a sub-objective of this policy.
- Policy 21: **Trade**, an important activity: one of its targeted results is to increase the value of MSMEs exports and strengthen capacities for MSMEs development.
- Policy 23: **Promotion of micro, small and medium-sized enterprises**. It aims at tackling the numerous obstacles for MSMEs development: high degree of informality, vulnerability and lack of resilience, low productivity, difficulties to access credit and low levels of exports.
- Policy area 25: **Implement the national policy on sustainable production and consumption**
- Policy area 15: **Towards a modern and institutional State** (Sustained support for efficient, transparent and results-oriented public administration)

Gender equality is a transversal axe of the PNPSP 2021-2024.

Also, the GoDR has developed a **competitiveness and an innovation strategy** aligned to priorities of the PNPSP.

Relevant to the sectoral approach of this budget support action, other regulations that support this sectorization are described in:

- Law 488-08, which establishes a Regulatory Regime for the Development and Competitiveness of MSMEs,
- Law 688-16 on entrepreneurship,
- Decree 182-15 that facilitates the process of formalizing companies through a single window,

¹⁶ The END is the highest-ranking strategic instrument in the National Public System of Investment (SNPIP). It is based on Law 1-12 and its Regulations, approved by Decree 134-14. END 2030 defines the vision of the country, as well as the main commitments assumed by the powers of the State and the political, economic and social actors involved, with a time horizon of 30 years.

- and Law 37-17 that promotes simplification of procedures through its mandates.

Financing and costing of the PNPS

The elaboration of the PNPS priorities policies is linked with the elaboration of the national budget. PNPS priorities correspond to priorities integrated in each ministry's sector plan.

The DR has a National Public Investment System, which consists of a set of principles, rules, bodies and processes through which policies, objectives, targets and priorities for economic and social development are established. For each PNPS policy area, development results were defined, which constitute the set of medium term national objectives, to which any public intervention, including projects, are to contribute. They are financed by sectorial allocation from the national pluriannual budget. There is a high level of alignment between the expected investment flows for the four-year period 2021-2024 and the policies prioritised in PNPS.

The PNPS has a monitoring system with indicators, baseline and targets. Some sustainability indicators are associated with the prioritized policies. The statistical and monitoring systems with respect to the field of policy covered with quality are sufficient to generate credibility of the policy. The government has managed to integrate most of the public sector around a unique system of indicators and monitoring of government goals.

The Planning Directorate and the National Statistics Office of the Ministry of Economy (ONE), Planning and Development periodically generate reports on the different PNPS indicators and have systems that allow real-time analysis to be generated. Data availability and accuracy are available to support the budget support program specifically for the evaluation of the variable tranche indicators.

Law 468-6 establishes that the National System of Planning and Public Investment, therefore the PNPS is framed in full respect of the principles of cooperation and coordination with the different branches of government, governing bodies and levels of administration. It implies that planning authorities at national and local level should ensure that there is due harmony, coherence and coordination in the definition and implementation of plans.

This law also establishes that the Ministry of Economy, Planning and Development must formulate the Development Strategy and the Multiannual National Public Sector Plan, including the necessary coordination at the national, local and sectoral levels to ensure due global coherence between policies, plans, programs and actions.

The structure for coordinating reforms and reviewing progress is led by the government in the governing council, with openness to the coordination of reforms with the participation of cooperation partners, actors from the public sector, the private sector and civil society.

The focus on the key sectoral policies in support of economic recovery and in particular MSMEs, which are included in the 21-24 Public Sector Multiannual Plan, will allow the policy dialogue to continue with the sectoral ministries with which the EU shares a relationship of trust and a longstanding cooperation, and to ensure coherence and an integrated approach to consolidate the economic recovery. The END 2030, the Strategic Guidelines for the Formulation of the National Multiannual Plan for the Public Sector 2021-2024 (PNPS), the Institutional Strategic Plan of the Ministry of Industry, Commerce and MSMEs show consistency in the recognition of the areas and actions that are priorities for the definition of public interventions in favor of the development of MSMEs.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.2 Macroeconomic Policy

Before the COVID-19 pandemic, the Dominican economy had a strong record of growth and showed a steady path towards improving quality in the conduction of macroeconomic policy, but vulnerability to external shocks remained high, as shown by the COVID-19, which halted economic growth for the first time in 16 years, and eroded the fiscal and external accounts of the country. The GoDR took a series of short term measures that translated into a high economic growth in 2021, while pursuing other mid and long term structural reforms that

were needed to enhance the resilience of the DR economy. These reforms need to be consolidated to ensure stability of the macro economic framework.

On the fiscal front, the stock of debt is manageable in the short term, but conditions must be met in order to achieve a sustainable path in the medium term. Fiscal restraint in the near future and decisive support in some areas of the fiscal reform, increasing the quality and efficiency of spending, and improving tax collection capacity, to ensure sustainability.

On the external front, conditions seem supportive for resuming of growth in the short term, in particular, the strengthening of external demand, the reactivation of non-resident tourist flows to the country, and increasing remittances. Still, in the medium term, the DR must continue enhancing the flexibility of the economy to adapt to external shocks.

The IMF Article IV Consultation report of 2021 identifies a set of risks factors and vulnerabilities that will need to be closely monitored. However, these risks are described as being relatively contained and are well balanced in scope and time, thus current macroeconomic conditions are sustainable in the mid-term. Despite identifiable risks, the Government has the capacity and tools to preserve fiscal and external stability in the country.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3 Public Financial Management

Public Finance Management (PFM) in the Dominican Republic is mostly well aligned to international good standards and practices, and it stands-out as a reasonably sophisticated system with respect to most other countries in the region. Although there has been progress in all substantive areas since the last Public Expenditure and Financial Accountability Assessment (PEFA) report (2016), there are still some persistent weaknesses in some of the main PFM functions. For example, in the field of aggregate fiscal discipline, there are areas which have a strong potential for improvement, namely fiscal risk reporting, public asset management, reporting of central extra-budgetary government operations and multiannual budgeting. Regarding strategic allocation of resources, both legislative scrutiny of the budget and domestic revenue mobilization, are identified as a weaknesses of the system. As for efficient service delivery, weaknesses are still identified in the areas of legislative scrutiny of audit reports, internal and external auditing.

In a noteworthy attempt to address these remaining issues with an integrated, cohesive and adequately sequenced methodology, MoF approved formally in March 2020 –with support from the EU under the BS PROGEF programme- a three-year, 2020-2022, reform action plan to further strengthen PFM in the Dominican Republic. This PFM Reform Action Plan (PFM-RAP) follows on from the NDS 2030 and was put together after an extensive participatory process which included detailed consultations with officials from 15 different entities from four key PFM institutions: MoF, the Ministry of Economy, Planning and Development (MEPyD), the Office of the Comptroller General (CGR), and the Court of Auditors of the Dominican Republic (CCRD). Its main objective is to strengthen public financial management to ensure: i) medium and long-term sustainability of income, spending and debt financing, ii) allocation of resources in line with public policy priorities and a results-oriented focus, and iii) provision of efficient public services with clear and effective accountability requirements.

Due to the effect of the Pandemic, the PFM reform action plan (PFM-RAP) was revised and its implementation period extended until 2023. By the end of year 2020, implementation of the PFM reform initiatives had reached 26% of all actions programmed for the year, a period plagued by the COVID-19 pandemic. Implementation of the reform initiatives as of 30 June 2021 had reached 31% and as of 31 December 2021 51% of all programmed activities for the year.

The PFM-RAP is coordinated by the MoF Treasury Viceministry. Institutional capacity within the participating institutions to undertake the implementation of the policy reform initiatives registered in the PFM-RAP is reasonable and ownership of the reform is high. Most initiatives are included in the strategic development plans (PEI) of all entities and financial and technical resources are assigned through the operative development plan (POA). Both types of plans are registered and monitored by the Planning Directorate of the MoF. A specific PFM-RAP quarterly progress report has been produced by the MoF's Planning Department.

A **PEFA Assessment** for 2022 and PEFA gender¹⁷ will be implemented in DR starting in July 2022 with EU support. A PEFA Climate is in preparation with IADB support.

Domestic Resource Mobilization (DRM) was negatively affected in 2020 by the consequences of the COVID-19 pandemic, after a period of consistent growth in tax revenue. The situation was well re-established from 2021 on. However, DR remains one of the countries of the LAC region with the lowest tax pressure (around 13%). Giving the current post-pandemic situation and unsuccessful attempts at fiscal reforms in the region (i.e. Colombia 2021) the DR government decided at the end of 2021 to reduce the scope of the announced fiscal reform (Pacto Fiscal) and rather concentrate on the quality of the spending, while defining a roadmap for other tax reforms.

Tax reforms in DR need to focus on increasing the capacity of the government to cover the increasing social needs of the population. This could require not only a more efficient public expenditure but also an increase of revenue collection. To introduce corrections that will raise tax revenues to levels closer of those of the rest of the region, a comprehensive reform is required.

The government is aware that the fiscal reform is necessary, but is seeking to reach sufficient backup from the socio economic context to implement it to the extent needed.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4 Transparency and Oversight of the Budget

Budget and fiscal transparency remains a high-priority commitment of the GoDR. This is reflected in the latest Open Budget Index Transparency scores of 75 in 2019 and 77 in 2021, and the timeliness with which all budget approvals and modifications to the original document were published in 2020 and 2021, even during the pandemic crisis. Budget transparency is at the centre of all MoF actions.

Transparency and budget oversight in the Dominican Republic are assessed with respect of the 2021 General State Budget approved in 2020 and made available to the public on 18 December 2020 and the 2022 General State Budget, which was approved in 2021 and made public on 13 December 2021. Thus, the latest two budgets have been approved before the start of the corresponding fiscal year. All documentation is available to the public either through the Budget Directorate's own webpage or the fiscal transparency webpage, <https://www.digepres.gob.do/presupuesto/gobierno-general-nacional/> and <https://www.transparenciafiscal.gob.do/>

The assessment of the evolution between the 2012 PEFA and 2016 PEFA assessments, as well as more updated documents from the national administration, allow to appreciate progress in terms of budget documentation, better the debt stock presentation; enhanced disclosure of fiscal risks; more detailed information on financial assets; public access to fiscal information, completeness and availability of the annual executive budget proposal documentation; in-year budget reports, timing improvement; and annual financial reports. Improvements have been made in terms of completeness, and application of accounting standards.

Some weaknesses persist and should be consequently addressed in terms of budget documentation, presentation of the current fiscal year's budget; operations outside financial reports: more than 5% of expenditure incurred by budgetary and extrabudgetary units reported outside central government financial reports, around 70% of extrabudgetary units have provided ex-post detailed financial reports; public access to fiscal information; in-year budget reports and annual financial reports, coverage and accuracy needs to be improved. Overall, indicators related to Central Government extrabudgetary operations, external audit, including coverage and follow-up, and legislative scrutiny perform poorly.

DR needs to pursue further its transparency efforts by: increasing the information provided in the Executive's Budget Proposal; providing more information on the macroeconomic forecast and its potential impact on the budget, including interest rates, as well as detailed information on extra-budgetary funds.

¹⁷ <https://www.pefa.org/gender>

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **Overall Objective (Impact)** of this action is to contribute to a greener, sustainable and inclusive economic transition in the Dominican Republic. The action will support the implementation of the related priorities of the PNPSP.

The **Specific Objectives (Outcomes)** of this action are :

SO 1 - Developed business environment and competitiveness of MSMEs with improved sustainable/green production practices, focused on women and youth, with a territorial approach.

SO 2 - Strengthened sustainable management of public finances, allocating resources in accordance with national development priorities and leading to an equitable distribution of national income, including transition to green PFM and PFM at local level.

The **Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Induced outputs

IO 1.1 - Improved legal, regulatory and institutional frameworks related to business environment and competitiveness of MSMEs.

IO 1.2 - New services developed for MSMEs, in particular for women and youth entrepreneurs (contribute to SO 1).

IO 1.3 –Improved knowledge of MSMEs in relation to sustainable and green production practices and increased number of MSMEs that adhere to environmental regulations (contribute to SO 1).

IO 2.1- Improved PFM systems, including green PFM and PFM at local level. (contribute to SO 2).

Direct outputs of the BS

DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds. Financial transfers received from the EU under this sector reform contract will directly benefit the DR's general budget.

DO2. Policy dialogue better coordinated and more conducive for implementation of the PNPSP in the DR. Policy dialogue will continue with relevant authorities to ensure the effective implementation of the PNPSP.

DO3. Improved dialogue and involvement with the private sector and relevant CSOs.

DO4. Improved policy monitoring and reporting. Authorities will be required to closely monitor the achievement of the PNPSP priority objectives and targets based on regular progress reports, supported by discussions at technical and political levels.

3.2 Indicative Activities

Type of activities relating to Induced Outputs:

Activities relating to Induced Outputs 1.1, 1.2 and 1.3:

- Improve the business climate simplifying commercial and administrative procedures and records that make business formalization difficult. This may involve merging those related procedures to avoid duplication, or suppressing those procedures that have lost their original purpose.
- Improve the provision at the local and national level of support services for MSMEs (technical assistance training, business linkages, access to financing, business formalization, clean production practices, circular economy, gender sector analysis) in particular for women and youth; capacity building on organic production and phytosanitary norms, facilitation of access to markets, particularly to the EU (exports).
- Stimulate coordination between institutional actors MICM / MIMARENA (Sustainable Production Unit) / DGCP (MdH) to support MSMEs in the adoption and implementation of circular economy practices (training, technical assistance, development and implementation of monitoring systems).

Activities relating to Induced Output 2.1:

- Consolidate implementation of PFM reforms in favour of MSMEs development, more transparency and efficiency of PF mobilization (DRM) and control, results based budgeting/programming. Better public service to MSMEs, stimulate green public procurement, develop capacity building actions for local authorities in relation to PFM.

Main activities relating to the Direct Outputs:

Budget support:

The main activity will be the monitoring through policy dialogue of the implementation of PNPSP 2021-2024 and more concretely the priorities of the plan prioritising MSMEs, sustainable production and PFM reforms, through the preparation of budget support disbursement dossiers and the related transfer of the foreseen Budget Support (BS) tranches over the period of the program.

The EU Delegation will seek deepening a sector policy dialogue with the Government and more specifically with the MEPYD and institutions involved in the implementation of the activities identified in the PNPSP priorities that will be accompanied by this action (MdH, MICM, MARENA).

This policy dialogue will be structured in regular and formal organized sessions but also in the format of informal exchanges and technical meetings. The policy dialogue will also focus on key elements, including cross-cutting issues such as gender equality, inclusion of people with disabilities, green economy, climate change mitigation and adaptation measures.

The programme foresees the disbursement of a total amount of EUR 13 million, of which indicatively 10.7 million EUR are budget support and EUR 2.3 million are for complementary support including technical assistance/capacity development.

DO1- Additional fiscal space:

DO1- The **transfer of indicatively EUR 10.7 million** to a national treasury account **and EUR 2.3 million** of complementary support to the GoDR over the period 2023 to 2026 is foreseen on the basis of the achievement of the targets.

DO2- Policy dialogue:

DO2- **Improving policy dialogue:** activities aimed at enhancing the relevance and effectiveness of the policy dialogue between the EU, the MEPYD, and the institutions/bodies involved in the implementation of the action: MICM, MdH, MIMARENA.

DO3- Improved dialogue and involvement with the private sector and CSOs:

DO3- **Policy dialogue on issues** such as business climate, sustainable production (and investments), gender equality (women and youth inclusion and green production, circular economy), public finances reform.

DO4- Improved policy monitoring and reporting.

DO4- Technical dialogue:

a) **Dialogue on the progress** made towards meeting the objectives under the Performance Assessment Framework and the SRPC indicators.

b) **Continuous dialogue with the actors involved** to coordinate and increase effectiveness of the priorities of the PNPSP.

c) **Support for the implementation** of sustainable and inclusive economic recovery policies of the PNPSP (also through technical assistance).

d) **Strengthening public finance management.** (DO1, DO4)

e) Regular monitoring of the **eligibility criteria for budget support** (general conditions, macro, PFM-DRM, budget transparency).

Complementary measures:

Complementary support with technical assistance and capacity development would be needed in particular areas to achieve objectives and outcomes of this action. The technical assistance would support the Mepyd, MdH, MICM and MIMARENA in strategic areas relevant for PNPSP management and implementation.

Technical assistance: Long term and short term Technical assistance that will support the implementation of economic recovery policies focused on promoting MSMEs competitiveness of the PNPSP through (i) green practices (sustainable production, circular economy), (ii) digitalisation (e-commerce,...), (iii) boosting innovation, (iv) increasing capacities of MSMEs, (v) improving the business climate and facilitating trade. (vi) Improving the inclusion of Women and Youth in SMEs (leadership, employability),(vii) improving public finances.

3.3 Mainstreaming

The proposed action seeks to have an indirect impact on main cross cutting issues:

- Climate change and environmental protection (reduced levels of polluting emissions from waste, water, agricultural production, use of plastic) are targeted by the objective to improve sustainable production practices.
- Gender equality, human rights (to enhance inclusivity of the DR economy and in particular, women and youth in MSMEs).
- Democracy is addressed throughout the action and more in particular in the increased efficiency of PFM and DRM reforms.

Environmental Protection & Climate Change

Environmental protection and climate change are at the core of the Action. Regarding the Rio markers, the Action is labelled as ‘1 – significant objective’ with respect to climate change mitigation, thanks to the expected improvements in relation to clean production practices –energy efficient methods, waste disposal and recycling, etc., by MSMEs.

Regarding the OECD DAC general policy objective, the Action is set as ‘1 – significant objective’ with respect to aid to environment. The Action promotes the incorporation of sustainable, low carbon and circular practices in consumption and production systems, resulting in environmental co-benefits for natural systems. Thanks to its climate mitigation effects, the Action also contributes to the objectives of the Paris Agreement, reflected in the DR through its Nationally Determined Contributions¹⁸.

¹⁸ The Dominican Republic's updated NDC was submitted to the UNFCCC in December 2020. <https://ndcpartnership.org/countries-map/country?iso=DOM>

The Action is not expected to create significant environmental hazards. On the contrary, the Action brings direct and clear benefits for a greener economic growth in the DR, improving the health of its population and ecosystems. Its focus and results are contributing towards a sustainable development and green growth in the country.

To ensure a sound and comprehensive mainstreaming, attention will be placed on a multi-ministerial approach.

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions). The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project). The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project). The Climate Risk Assessment (CRA) screening concluded that this action is no need for further assessment.

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective of this budget support programme. When developing Dominican businesses, the action will focus on the strengthening of MSME led by women, enhance training and employability of women and mainstream gender in public finance.

The design and implementation and monitoring of this action is done to avoid negative impacts or risks that could perpetuate gender inequalities and prevent inclusive economic growth. This programme also provides space for policy dialogue and positioning of issues such as generating economic opportunities for women, or gender violence in public policies.

Human Rights

This action will contribute to strengthen Dominican businesses and increase employability without leaving groups living in vulnerable situations behind, especially women and youth, but also persons with disabilities, migrants, and people living in poverty. This programme will be complemented by policy dialogue on human rights. The action will also apply the working principles of the human rights based approach (HRBA): applying all human rights for all, meaningful and inclusive participation and access to decision-making, non-discrimination and equality, accountability and rule of law for all, and transparency and access to information supported by disaggregated data.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. However, to the extent possible, the inclusion of persons with disabilities will be taken into account in the activities and the policy dialogue.

Democracy

This action seeks to strengthen public institutions, guarantee transparency and fight corruption. Policy dialogue will continue to be held to improve PFM and DRM. This action recognizes the importance of local governments to promote social inclusion, equity and economic development.

Conflict sensitivity, peace and resilience

MSMEs are the main employment provider in the DR. The facilitation of MSMEs development will thus contribute to strengthen the resilience of the DR economy by increasing the resilience of individuals, households and communities to future economic shocks. At the same time, promotion of sustainable production and circular economy will decrease the use of solutions that are unsustainable and have a negative impact on the environment. The budget support programme is designed to promote inclusive sustainable growth that will contribute to decrease social inequalities and conflictivity that stems from large socio-economic gaps in the society.

Disaster Risk Reduction

This budget support programme takes into account the vulnerability of the DR to natural hazards and climate change and the need to enhance sustainability and circularity in the business environment. Environmentally friendly and disaster- and climate-resilient practices will be promoted among MSMEs as part of their development. The efforts seeking to improve business climate will enable to scale up sustainable finance and spur green and sustainable investments. Through this Action the EU aligns with the National Plan for Comprehensive Disaster Risk Management¹⁹ / the implementation of the Sendai Framework for Disaster Risk Reduction 2015-2030.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment	After the 2024 elections, an eventual change of government ministers and general directors may involve the change of decision makers in the PNPSP Management.	L	H	Policy dialogue with the MEPYD, MdH and the sectorial ministries such as MICM and MIMARENA to encourage their commitment to implement the priorities of the PNPSP.
People and the organisation	Political risks: the success of the EU intervention depends on the GoDR long-term commitment to continue with its political priorities and reforms.	L	H	The AAP has been defined jointly with the relevant governmental institutions and counts with strong commitment from Government stakeholders.
Planning, processes and systems	Institutional risks: the complex institutional system of the GoDR could imply coordination risks.	M	H	MEPyD will have a strong coordination role in the programme, facilitating fulfilment of objectives. The EU BS will reinforce the coordination between institutional actors. ²⁰
External environment	A possible decline of national or international economic activity, or an increase in oil prices, would likely result in deterioration of tax	M	H	Policy dialogue in the framework of the BS operation for the DR to promote actions to reduce fiscal deficit given the possibility of external shocks. Improvements in relation to fiscal reforms could contribute to mitigate that risk.

¹⁹ Decree n. 275-13 (2013).

²⁰ Previous BS operations in the Dominican Republic have brought significant improvements in terms of coordination among different institutions, making this one of the strongest added value features of the BS modality.

	income and an increase of fiscal deficit.			
External environment	Economic risks: development support is subject to the general economic situation (price fluctuations, consumption levels) and macroeconomic variables (monetary and fiscal policies). Energy and transportation are two areas that restrict productive development in the DR and require reforms.	M	H	<p>Set up of adequate measures to absorb and mitigate economic and social shocks.</p> <p>The EU contributes to mitigate these risks by providing technical assistance, especially to strengthen fiscal discipline of the public budget.</p>
External environment	Natural hazard-related risks: a major disaster triggered by a natural hazard (the country is prone to hurricanes and earthquakes) could set back productive development, and change policy priorities and budget allocations. In the short and medium term, climate change can undermine progress towards sustainable socio-economic development.	M	H	<p>Policy dialogue through the BS operation to support DR actors' willingness to adopt a sustainable socio-economic development (in order to make DR's society more resilient to adverse impacts caused by climate change in the future).</p> <p>EU support to disaster risk management at regional level in the Caribbean.</p> <p>EU intervention will allow for some flexibility in implementation in cases of "force majeure".</p>

Lessons Learnt:

The BS modality, largely used in our cooperation with the DR, has proved effective, enhancing policy dialogues, sometimes long standing ones, with key ministries, promoting reforms and laws, and strengthening coordination mechanisms as well as dialogue with different stakeholders (institutional, private sector, civil society). BS operations in the DR have had a significant institutional, socioeconomic and environmental impacts.

The country's Risk Management Framework (RMF) profile in 2020 for budget support in the DR shows a slightly higher moderate risk (2.21) compared to 2019 (2.12).

3.5 The Intervention Logic

Through this BS programme, the EU seeks to support the consolidation of the economic recovery of the DR and enhance its inclusiveness and sustainability as well as resilience to external shocks. The support to MSMEs related sector policies as declined in the multiannual government plan 21-24 (PNPSP), which are strong priorities of the government, has a strong potential as they represent a key economic sector throughout the territory, and they are the main providers of employment in the country, with a strong potential of inclusion of underprivileged sectors of society such as women and youth in the economy. They also have potential to integrate clean production practices and circular economy approaches as well as digital solutions, which is needed for their resilience to economic crises (by building on their competitiveness). The combination of this support with the continuation of necessary PFM reforms will strengthen national development frameworks as well as improve the business climate.

Through the BS, the EU will accompany and push further ongoing reforms and policies for which there is a strong political leadership and have a strong demand from the Dominican society, but which remain complex.

Policy dialogue will allow to reinforce the prioritisation by the DR administration of issues such as transparency, fiscal reforms, green practices in procurement, MSMEs formalisation and development, gender equality, inclusiveness/equity of the economic growth, clean production practices.

The complementary measures (technical assistance) will allow to reinforce capacity both at central (MEPYD, MdH) and sectoral ministries level (MICM, MIMARENA) and eventually municipalities in the coordination of various actors, but will also bring additional and specific technical capacities to the administration teams.

Reinforcing the capacity of the Dominican administration, MEPYD, MdH, MICM, MIMARENA specifically in the mentioned areas, provides sustainability to current EU interventions (reform of public administration, reform of PFM, reform of TVET), in which EU impact and added value have been highlighted by national authorities and key partners.

Finally, this action would underpin the efficiency of EU cooperation in all sectors, given the umbrella dimension of the PNPSP, and would be complementary to future EU support, including investments under EFSD+, Trade policy, Euroclima, Eurosocal, regional Caribbean actions, etc.

3.6 Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (year 2021?2022?)	Targets by the end of the budget support contract (year 2026)	Sources of data (1 per indicator)
Indicative Impact of the policy	To contribute to a greener, sustainable and inclusive economic transition in the Dominican Republic	1- WEF's Competitiveness Index	1- 2019: 78th /141 Score 58.3 Rank +4	1- 2025: TBC Score 62.3 Rank +4	1- World Economic Forum (WEF)
		2- WEF's Inclusive Development Index	2- 2018: 4.19	2- 2025: 4.50 (TBC)	2- World Economic Forum (WEF)
Expected Outcomes of the policy	SO1 Developed business environment and competitiveness of MSMEs with improved green/sustainable production practices, focused on women and youth and with a territorial approach.	1.1- Number of MSMEs that have access to public procurement markets (state supplier) disaggregated by sex/age/geographically *	1.1- 2021: 9,421 MSMEs	1.1- 11,821 MSMEs (An annual increase of between + 8 and +10% is estimated)	1.1- DGCP and PNPSP reports
		1.2- Number of days of the process to register a MSMEs in the MSMEs formalization portal (formalizate.gob.do) (cf. zero bureaucracy plan) *	1.2- 2022: 10 days (SRL,Individual)	1.2- all within 4 days (tbc)	1.2- MICM reports
		1.3- Number of MSMEs registered in the tax registry *	1.3- 2021: TBD	1.3- TBD	1.3- MICM-MdH-DGII reports

	SO2 Strengthened sustainable management of public finances, allocating resources in accordance with national development priorities and leading to an equitable distribution of national income, including transition to green PFM and PFM at the local level.	2.1- % of execution of the PFM action plan *	2.1- 2021: TBD	2.1- TBD	2.1- MdH reports
		2.2- Tax collection-DRM	2.3- 2021: TBD	2.3- TBD	2.3- MdH-DGII reports
		2.3- Number of municipalities implementing the SIGEF municipal"	2.4- 2021: 0	2.4- TBD	2.4- Federations of municipalities-MoF reports/ SIGEF Municipal
Induced Outputs	IO 1.1- Improved legal, regulatory and institutional frameworks related to business environment and competitiveness of MSMEs	1.1.1 Number of MSMEs prepared by PRODOMINICANA for export (PNPSP) *	1.1.1- 2021(TBC) 50	1.1.1- 65	1.1.1- PNPSP / PRODOMINICANA
		1.1.2 % of formal MSMEs that receive financing from PROMIPYMES (Access to credit for MSMEs through PROMIPYMES) *	1.1.2- TBD	1.1.2- TBD	1.1.2- MICM report and PNPSP reports
		1.1.3 Number of MSMEs receiving loans by PROMIPYMES (disaggregated by sex/geo) *	1.1.3- 2021: 144,231	1.1.3- 173,615	1.1.3- PNPSP / PROMIPYME
		1.1.4 Number of MSME employees with RNC (DGII-PNPSP) *	1.1.4- 2021: 618,672	1.1.4- 676.039 (annual increase of between 3 and 5% is estimated)	1.1.4- MICM-MdH-DGII reports

	IO 1.2- New services developed for MSMEs, in particular for women and youth entrepreneurs	1.2.1 Number of MSMEs which benefited from business development services (<i>what exists and how it is measured, quantity and quality</i> /disaggregated by sex/age/geo?) *	1.2.1- 2021: 950	1.2.1- 1,300	1.2.1- MICM / PNPSP report
		1.2.2 Number of women entrepreneurs receiving TA (PNPSP) *	1.2.2- 2021: 50	1.2.2- 2024: 100	1.2.2- MICM report and PNPSP reports
		1.2.3 Number of people trained in entrepreneurship culture (for women and youth) (PNPSP) *	1.2.4- 2021: 4,040	1.2.4- 16,850 (tbc)	1.2.4 -MICM report and PNPSP reports
		1.2.4 Number of women beneficiaries of business development services who registered their own business, including social enterprises	1.2.5- tbd	1.2.5- tbd	1.2.5- MICM reports
	IO 1.3– Improved knowledge of MSMEs in relation to sustainable and green production practices and increased number of MSMEs that adhere to environmental regulations	1.3.1 Number of MSMEs in the environmental compliance registry (ICA) *	1.3.1- 2021?:	1.3.1-	1.3.1- MICM-MIMARENA-PNPSP(?)
		1.3.2 a) Creation of Clean Production Practices Registry b) % Number of enterprises registered in Clean Production Practices Registry (PNPSP/pol of environmental sustainability) *	1.3.2- 2021?: 0 for MSMEs	1.3.2-tbd	1.3.2- PNPSP and MIMARENA reports

		1.3.3 Number of MSMEs that have access to public procurement markets respecting the criteria of green public procurement disaggregated by sex/age/geographically) *	1.3.3- 2022: draft law of green public procurement available (law still to be adopted and implemented)	1.3.3-	1.3.3- DGCP reports
		1.3.4 Number of Micro, Small and Medium Enterprises applying Sustainable Consumption and Production practices with EU support (GERF 2.6)	1.3.4	1.3.4	1.3.4
	IO 2.1 Improved PFM systems including green PFM and PFM at local level	2.1.1 % of the budget allocated to results-oriented budget programs* (level of compliance with prioritized production)	2.1.1- 2021?:	2.1.1-	2.1.1- Mepyd- MoF- DIGEPRES reports
		2.1.2 % of budget covered by completed external audit, with income and expenses of public institutions contained in financial reports *	2.1.2- 2021?:	2.1.2-	2.1.2- Court of Auditors reports
		2.1.3 % of completed audits with approved reports on income, expenses, assets and liabilities of central government entities. *	2.1.3- 2021?:	2.1.3-	2.1.3- Court of Auditors reports
		2.1.4 Number of local governments trained in PFM (and green PFM) *	2.1.4- 2021?:	2.1.4-	1.2.4- MoF, federations of municipalities

		2.1.5 Number of local governments trained and accompanied for the formulation of public investment projects including green public investments *	2.1.5- 2021?:	2.1.5-	2.1.5- MoF, federations of municipalities
		2.1.6 Status of the Public Expenditure and Financial Accountability (PEFA) supplementary framework for assessing gender responsive public financial management (GRPFM)	2.1.6- 2021: 0	2.1.6- PEFA gender existing	2.1.6-MoF reports, PEFA 2022 report
		2.1.7 Number of local governments trained in the national public procurement and contracting system *	2.1.7- 2021?:	2.1.7-	2.1.7- MoF, federations of municipalities,, DGCP
Direct Outputs	DO1. Additional fiscal space created by the transfer of funds and increased predictability of funds.	1.1 Transfer of BS funds to the national budget of DR	1.1 0€	1.1 Max EUR10.7million	1.1 Reports from the Treasury
	DO2. Policy dialogue better coordinated and more conducive for implementation of the PNPSP in DR.	2.1 Number of policy dialogue meetings at high level (annual base) on PNPSP related priorities of this action	2.1 0	2.1 At least 3	2.1 Reports/minutes of meetings

	DO3. Improved dialogue and involvement with the private sector and relevant CSOs .	3.1 Number of dialogue meetings with private sector representation (SMEs) and CSO implemented on PNPSP related priorities of this action	3.1 0	3.1 At least 3	3.1 Reports/minutes of meetings
	DO4. Improved policy monitoring and reporting.	4.1 Number of Technical dialogue meetings on PNPSP implementation (in particular on the priorities targeted by this action and monitoring implemented)	4.1 0	4.1 At least 6	4.1 Reports/minutes of meetings

Please complete the missing baseline and target

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Dominican Republic.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 10 700 000, and for complementary support is EUR 2 300 000 (including an amount of EUR 140 000 that is reserved for evaluation and audit).

This amount is based on the estimated cost of a technical assistance contract to accompany the programme, based on the needs (both long term and short term components).

4.3.2 Criteria for Disbursement of Budget Support

- a) Conditions. The general conditions for disbursement of all tranches are as follows:
 - Satisfactory progress in the implementation of the selected policy areas in relation to public finances, business environment and MSMEs development under the National multiannual plan of the public sector (PNPSP) and continued credibility and relevance thereof or of the subsequent policy.
 - Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
 - Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
 - Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.
- b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:
 - Indicators related to micro, small and medium sized enterprises (MSME) development sector policy (productivity, competitiveness, formalisation), with strong inclusivity aspects (particular focus on women and youth), promoting clean and sustainable production practices, and with a territorial approach.
 - Indicators related to PFM/DRM (procurement, tax policy, transparency, local management of public finances), business climate and private sector development;
- c) Modifications. The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the

following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

- d) Fundamental values: In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Dominican Pesos (DOP) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The budget support will be disbursed over a three year period through a combination of fixed and variable tranches. Following the signing of the Financing agreement, an initial fixed tranche will be paid, subject to the general conditions for disbursement being met. There will be four subsequent annual assessments, each resulting in the payment of a fixed tranche in Year 1, fixed and variable tranche in Year 2 and Year 3, and variable tranche only in Year 4, subject to the general conditions and performance indicators being met respectively.

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Assuming signature of the Financing agreement in 2022, the indicative disbursement timetable will be as follows:

	Year 1	Year 2	Year 3	Year4	
Deadlines of indicators	NA	Q4, 2023	Q4, 2024	Q4,2025	Total
Request/payment	Q3, 2023	Q1, 2024	Q1, 2025	Q1, 2026	
Fixed Tranche 1	1,000,000	500,000	500,000		2,000,000
Variable Tranche 1		2,000,000			2,000,000
Variable Tranche 2			3,000,000		3,000,000
Variable Tranche 3				3,700,000	3,700,000
Total	1,000,000	2,500,000	3,500,000	3,700,000	10,700,000

A set of maximum 8 indicators (3 years are foreseen) will be developed during the drafting of the Financing agreement and its annexes, in line with the monitoring system and indicators of the PNPS of DR government.

A proposal of 80% of the amount in variable tranche and 20% in fixed tranche will be confirmed during the drafting of the Financing agreement.

Complementary measures are foreseen under the form of Technical Assistance to reinforce sector dialogue and coordination between the actors involved in the implementation of the economic recovery priorities of the PNPS.

4.4 Implementation Modalities for complementary support to a BS

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures²¹.

4.4.1 Direct Management (Procurement)

A call for tenders will be launched to contract the complementary support (technical assistance –TA- support) to serve both specific objectives of the programme. Under this contract, long term and short term technical assistance will be provided.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	10 700 000
Procurement (direct management) – total envelope under section 4.4.1	2 160 000
Evaluation – cf. section 5.2	100 000
Audit – cf. section 5.3	40 000
Totals	13 000 000

4.6 Organisational Set-up and Responsibilities

The Ministry of Economy and Planning (MEPyD) will continue as the key focal point for the management of this budget support, in line both with its mandate in the definition of the country's development policy, as coordinator of international aid²² and rector of the territorialization of public policies. The lead beneficiaries will be Ministry of Industry, Trade and MSMEs (MICM) and the Ministry of Finance (MdH) who will report on implementation, while the Ministry of Environment (MARENA), MEPyD (vice-ministry of Land Planning), and their dependencies, will also be part on the sustainable production policy.

All official communications regarding the Financing agreement shall be between the MEPyD and the EU Delegation to the Dominican Republic.

The MEPyD will have overall responsibility to coordinate the action and provide the required information and reporting on compliance with the general and specific conditions for tranche payments. MICM, MdH and

²¹ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

²² MEPyD has a strong record in implementing EU financed BS operations in the Dominican Republic and in coordinating different actors.

MARENA will be the lead institutions for reporting on all indicators and will support the MEPyD by preparing reports relating to sector policy and performance against all specific indicators.

A **Steering Committee** will be established with representatives from all relevant stakeholders. This Committee will review progress on the implementation of sector policy as well as the specific indicators.

The steering committee of the programme allows more regular meetings at least twice a year, with the key stakeholders of the action at high level, in this case Ministers and/or Vice-ministers.

The Policy Dialogue set up will be based on the existing (since 2013) **Inter-institutional Budget Support Committee, led by MEPyD**, in order to better articulate policy dialogues and to plan annual disbursements. This Committee holds annual meetings with the participation of all the institutions that are stakeholders of BS at high level of Ministers and Vice-ministers (MEPyD, MdH, MARENA, Ministry of the Presidency, Civil society, Private Sector, etc.) with the EU Ambassador and Cooperation team representatives.

Policy dialogue priorities will be defined to focus on key economic recovery issues of the PNPSP. This proposed set up could be adapted during the drafting of the financing agreement.

Regular technical meetings also take place within the **Budget support technical committee**: Provide technical follow-up of targets measured by the SRPC indicators; supervise the commitments and actions agreed for the budget support; and make timely decisions to ensure satisfactory implementation. The committee will be integrated by: MEPyD (PNPSP unit, Cooperation team), MdH (VM Treasury and team of the PFM reform action plan), MICM (VM Mipymes, Director of Mipymes), MIMARENA (VM Sustainable production and team), EUD cooperation team.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Delegation may participate in the above governance structures set up for governing the implementation of the action.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities – the government of the Dominican Republic, led by MEPyD. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the partner's policy (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The Ministry of Economy, Planning and Development (MEPyD) has built over the years the necessary administrative and monitoring capacity to efficiently implement this Budget Support Programme and report on the programme's outputs and achievements.

MEPyD prepares annual reports on global achievements of the National Development Strategy and other overarching development strategies. Additionally, monitoring and evaluation of the programme will be reinforced by monthly and annual reports prepared by the MEPyD's General Directorate of Economic and Social Development, whose monthly and annual reports on the PNPSP 2021-2024 (National Multi-annual Plan of the Public Sector) are part of the MEPyD reporting on achievements.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: The information produced by the National Statistics Office (ONE) of the DR is key to monitoring this programme, since the ONE participates in the production of data and accompanies other departments in the production of data for the monitoring of the PNPSP 2021- 2024. The ONE recently underwent an international evaluation by the Inter-American Development Bank. Stat production in DR is constantly improving. The EU and the donor community have been supporting the ONE to strengthen its capacities and the support will continue during the implementation period of this action. If corrective measures are needed during the implementation of the programme, these will be addressed through the policy dialogue meetings.

Some studies may need to be implemented in order to define some of the baselines and targets in the logframe.

The collection of sex-disaggregated data as part of the project's monitoring systems provides an opportunity to monitor the project's engagement across groups and to tailor interventions to promote gender equality and women's empowerment. All monitoring and reporting shall also assess how the action is taking into account the human rights based approach and gender equality.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation may be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this programme constitutes the main flagship in the 2021-24 period and the only new Budget support programme in the Dominican Republic under the MFF 2021-24.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country in recent years, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 21 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination²³. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

The evaluation shall assess to what extent the action is considering the human rights based approach, as well as how it contributes to gender equality and women's empowerment. Expertise on human rights and gender equality will be ensured in the evaluation team.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

²³ See best [practice of evaluation dissemination](#)

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.