The Dominican Republic: Defying the Odds
Draft Case study, World Bank 2011

Key lessons
- There has been political support for tourism since the early 1970s, with emphasis on decentralized growth.
- First investments were initiated by the public sector in a project at Puerto Plata. It was replicated by the private sector in other zones.
- In 1972 there were 1,600 hundred rooms in the DR; there are now over 60,000.
- DR provides over 90% of its hotel supplies locally, the only island in the Caribbean to do so.
- The first project was implemented by a department of the Central Bank, INFRATUR, which dismantled when the Government concluded that the private sector could promote new projects competently itself.
- While there was considerable domestic funding, the DR also benefited from investment by Spanish chains that promoted the all-inclusive market, then quite limited in the Caribbean but now quite generalized.
- The DR has a positive profile amongst international investors, not least because of the growth of the tourism sector.

Key problems
- When the hotel construction phase began, it was hampered by lack of long-term funds for hotel credit, which led to a second project. Long-term loans were channelled through the Central Bank to local banks.
- Provision of sanitation in tourism zones was severely lacking but is now picking up.
- Provision of employee housing was not adequately addressed and remains a problem.

Introduction

In 1972, there were no more than 1,600 hotel rooms in the Dominican Republic (DR), compared to 9,000 in Puerto Rico and 6,600 in Jamaica at the time, and one international airport. Now, there are over 60,000 hotel rooms and six international airports. The Dominican Republic now hosts more tourists than any other destination in the Caribbean and tourism is an integral part of the economy, having overtaken sugar as the most import export. Over 40% of all exports are based on tourism. How did it happen?

Tourism data

From the time the projects were on the drawing boards in 1971 until they were completed in 1989, arrivals in the DR rose from 137,000 in 1971 to 1.4 million in 1989; Puerto Plata alone hosted 360,000 tourists in 1989. In terms of expenditure, in 1979, tourism receipts were US$124 million equivalent and grew to US$0.9 billion by 1989. Hotel capacity nationally was 1,600 rooms in 1972 and rose to 18,500 in 1989, overtaking the Bahamas then with 14,800 rooms, and Jamaica, then with 13,000 rooms. The project was designed for 1,900 rooms; at project completion, there were 3,292 rooms. This occurred, in spite of the fact that Playa Grande remained undeveloped, with only one hotel. Tourism is also good for the budget: a per capita arrival tax of US$10 is collected at point of entry and there is a departure tax (originally US$10 but recently raised to US$20) that both generate a buoyant stream of revenue for government. A value added tax is also levied for tourism at 8%. Overall, according to UNWTO, the DR received 4.5 million international arrivals in 2009 and total international tourist receipts were

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1 World Bank mission findings (September 2005)
2 Data based on UNWTO and ASONAHORES data.
3 ITBIS: Impuesto a las Transferencias de Bienes Industrializados y Servicios
US$4.1 billion. According to WTTC, tourism’s contribution to GDP was 17.7%. Total direct and indirect employment in the sector is equivalent to 679,000 thousand jobs.

**Sector history and background**

In the early 1970s, President Balaguer made the decision, contrary to advice the Government was receiving from a Spanish technical assistance team to promote other sites (notably the capital, Santo Domingo), to choose Puerto Plata as the first publicly supported site for tourism in the DR. It was the first project, in his mind, to support the regions rather than the capital. The Puerto Plata region is strategic for trading the produce of the country’s fertile Cibao valley. It is a thriving community with a preserved colonial urban core and one of the earliest forts in the Caribbean, the Fortaleza de San Felipe. At that time, it was a market town with a protected port that had little or no tourism. The area chosen for development included the city and two potential resort areas along the north coast beaches, Playa Dorada (2 km. from Puerto Plata) and Playa Grande (80 km. to the east). The countryside is diverse, with mountains in the background, extensive plantings of sugar, and Caribbean sandy beaches and clear waters along the Atlantic coast, protected by reefs and fringed by palm trees. The World Bank partnered with the government to fund the proposed development under two separate projects.

**Case history**

The project was designed by the London partnership of Shankland Cox and was funded by UNDP, with the World Bank as executing agency and ultimately as lender (1977). A department of the Central Bank, the Tourism Infrastructure Department (INFRATUR) supervised the project. INFRATUR was modeled on Mexico’s experience with a similar organization, FONATUR, a fund under the Ministry of Finance that was largely responsible for launching tourism in Mexico. But for the Mexican experience, the choice of the Central Bank as implementing agency would have seemed quite unusual; in the event, it worked very well. The Central Bank was a powerful, well-managed organization and, later, when tourism was well launched, it withdrew from its role of promoting tourism. But for this project, INFRATUR supervised land acquisition,

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4 See Staff Appraisal Report Dominican Republic: Puerto Plata Tourism Project, Loan 1051 - DO, October 10, 1974.
5 Departamento para el Desarrollo de la Infraestructura Turística
execution of the works and marketing serviced plots with investors, as one of the country’s most efficient agencies.

The project’s objective was to provide infrastructure for an integrated resort and launch an international destination in the north of the Dominican Republic. Project components included land acquisition in two sites\(^6\), Playa Dorada and Playa Grande, and land use plans to create critical mass to support 1,900 hotel rooms and 375 apartments. Investment costs and a financial plan are shown below. Serviced land was to be sold or leased to hotel investors to recover investment costs and the completed infrastructure handed over either to a local authority, municipality or appropriate utility.

Note that the utilities provided technical standards and approval of project works but procurement and construction was managed by INFRATUR. The fact that all works were managed by a single agency greatly facilitated project coordination. The private sector association ASONAHORES\(^7\), the Hotel and Restaurant Association, was kept apprised of progress.

| Costs for Puerto Plata Tourism Project I (US$ 000s)\(^8\) |
|---|---|---|---|---|---|
| Item | Appraisal | Actual |
| | Local costs | Foreign exchange | Total | Local costs | Foreign exchange | Total |
| Playa Dorada | 5,355 | 6,447 | 11,802 | 16,368 | 4,136 | 20,504 |
| Playa Grande | 3,255 | 2,110 | 5,365 | 3,326 | 281 | 3,607 |
| Airport | 1,665 | 3,016 | 4,681 | 6,223 | 3,603 | 9,826 |
| Hotel school | 179 | 287 | 466 | 925 | 190 | 1,115 |
| Investment promotion | 54 | 479 | 533 | 428 | 372 | 800 |
| Project administration | 149 | 25 | 174 | -- | -- | -- |
| Technical assistance | 525 | 1,075 | 1,600 | 1,392 | 1,223 | 2,615 |
| Professional services | -- | -- | -- | 1,827 | 1,710 | 3,537 |
| Contingencies | | | | | | |
| Physical | 930 | 1,571 | 2,501 | | | |
| Price | 3,055 | 5,816 | 8,871 | | | |
| Land acquisition | | | | 7,528 | 7,528 |
| Total | 15,167 | 20,826 | 35,993 | 38,017 | 11,515 | 49,532 |

After completion, INFRATUR kept an office in Puerto Plata that ensured provision of common services in the resort (landscaping and maintenance, street lighting, upkeep of common space and administration). Finally, these services, rather than being retained by government were privatized through sale to an association of the hotel companies operating in Playa Dorada (Playa Grande, on the other hand, remained the property of INFRATUR until recently when it was sold to a

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\(^6\) Land was acquired on a negotiated basis, not expropriated.

\(^7\) ASONAHORES, The Hotel and Restaurant Association, at http://www.asonahores.com/

\(^8\) See World Bank, Project Completion Report, Number 9544, April 30, 1991.
The project faced a number of physical, contractual and import delays. This is not unusual as tourism projects are complex and must adapt to unforeseeable changes on the ground. But it survived to create a lasting destination with direct flights (over 50 scheduled and charter carriers) from Europe, North and Latin America. Due to non-performance of several contractors, construction periods and costs doubled those estimated at appraisal. A major concern also was that, by 1983 six years after the project was launched, in spite of incentives (Law 153 of 1971), only 300 rooms had been constructed against an expected total of 1,900. Typically, these large-scale resort complexes require long lead times, a phenomenon noted in several projects of the era and funding for an initial anchor hotel is useful to overcome the hesitancy of prospective first movers. The hotel school was opened in 1983 and eventually transferred to the Catholic University in Puerto Plata – it continues to provide a range of training courses for the industry. A number of other changes had also to be made. Playa Grande (240 hectares), in spite of its superior beach and upscale golf course (Robert Trent Jones), attracted only one hotel and most project funding was therefore diverted to Playa Dorada; estimates of employee housing requirements proved difficult to make and that component was dropped; the contract for sewerage at Rio San Juan was judged too costly and was also subsequently dropped. These actions had significant environmental and social repercussions, as explained below.

In final planning, it was understood that the DR Central Bank itself would build some hotels (to be managed or leased by professionals and ultimately sold) and also make loans to investors. In the event, there were enough private investors and the Central Bank only invested in the first hotel (Jack Tar9).

**Second project.** Slow progress in hotel investment was due *inter alia* to the absence of long-term mortgage finance in the DR market. To address this constraint, a line of credit, was appraised and funded as a second tourism project10. This project included: an apex line of credit to INFRATUR to be on-lent through twelve pre-qualified commercial banks to finance the debt portion of hotel projects; improvements in the Puerto Plata harbor to receive cruise ships; support for handicrafts;

| Costs for Puerto Plata Tourism Project II (US$ millions) |
|---------------------------------|----------------|----------------|
| Category                        | Original forecast | Revised forecast | Actual |
| Line of Credit                  | 23.6             | 23.9            | 20.4   |
| Urban works                     | 0.6              | 0.6             | 0.7    |
| Handicraft center               | 0.3              | 0.2             | 0.1    |
| Technical assistance            | 0.5              | 0.3             | 0.3    |
| **TOTAL**                       | 25.0             | 25.0            | 21.5   |

9 Jack Tar was a Texas company, now defunct, and the hotel was sold to Allegro Hotels, a Dominican company, and subsequently to Spain’s Occidental Hotels, one of four the company has in the Playa Dorada complex.

and strengthening sector policies and administration. 96% of funds under the line of credit were disbursed for hotel investments in Playa Dorada. Costs are shown in the accompanying table.

A number of problems also arose for this case, as well as a number of changes. Commitment of funds was delayed by three years, as the government was unfamiliar both with apex lines of credit and hotel lending terms (see box following). The economic situation was deteriorating and there were shortages of key products, such as cement. In addition, with rising inflation, the sub-loans, whose interest was capped at 12%\(^{11}\), became highly concessionary, as commercial rates rose to 24% and the Central Bank became reluctant to on-lend. Although initial interest was lukewarm, reflecting the lack of experience in planned tourism development, several investors did come forward.

**Hotel Finance\(^{12}\)**

- Role of INFRATUR was to manage WB funds
- Review of commercial banks and their eligibility to make and service loans
  - 12 were pre-qualified.
- Commercial banks were required to blend their own resources with WB funds to ensure their financial implication.
- Loans were denominated in US dollars.
- Determination of lending terms and processes for credit approval – on-lending margins and rates for borrowers.
- Ceiling of 12% was augmented by an up-front closing cost of 3-4%, to enhance returns for banks
- Establishment of financial conditions for sub-loans and model feasibility studies
- Credit approval procedures and supervision of implementation
- Process for sub-loan identification
- Contract negotiations and conditions
- Technical supervision

**Results**

As noted above, the two Puerto Plata projects went through substantial changes. The political and economic environment changed with every four-year presidential election. It must be noted that most of the investors in Playa Dorada were not hotelmen but rather wealthy landowners and industrialists; they had a steep learning curve and made mistakes along the road, especially by slashing prices and contracting with unstable operators when business turned down. The projects could have taken much longer to develop if there had not already been an interest on the part of Spanish hotel groups to invest in the Caribbean, especially Cuba and Mexico (Barceló, Méliá Sol, Occidental, RIU, etc.). In the 1990s, room rates barely covered salaries and direct inputs for food and there was no spare cash for rehabilitation or promotion, far less profits. It was then that a new resort, Punta Cana, came on stream and threatened the very survival of Puerto Plata. Occupancy rates slipped below 60% in Puerto Plata in the mid-1990s but have since recovered in spite of an increase in capacity. Critically, tour operators supported Puerto Plata, believing that there was a new market *niche* for the Caribbean, that of high volume, rather than the traditional, high-end Caribbean tourism. Moreover, through knock-on effects from Playa Dorada, the north coast, from Puerto Plata, via Sosua, to Cabarete, to the Samana peninsula, was building a strong market that supported expansion of tourism in the region. In addition, in the 1990s, the DR invested heavily in infrastructure, especially roads, and access to many tourist areas is now much better. In the early days, hotels were not all-inclusive and restaurants and bars flourished in

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\(^{11}\) In addition, closing costs of 3-4% were also charged to offset low interest rates.

Puerto Plata. When hotels switched to all-inclusive plans (as a result of the economic downturn), local restaurants suffered and some closed their doors; many resorts became enclaves. The move to all-inclusive is a project legacy that has both advantages and disadvantages. They procure a great deal of supplies locally and much of their employment comes from local towns and villages. It remains a strong market force, popular with middle-income families, and explains how Playa Dorada was able to build a market from zero and weather the stringent economic conditions in the mid-1990s. Now, however, individual travel is growing rapidly again and boutique hotels are emerging in Sosua and other north coast locations.

By 1991, there were fourteen hotels in Playa Dorada, four owned by Spanish interests and ten by Dominican companies. The handicrafts center was cancelled, as it failed to take off after six years of experimentation, and the balance of the funding went for upgrading the port park and Puerto Plata’s EPZ. The government estimated that 40,000 jobs were created by the first project alone, 12,000 of them direct. 8,800 were in Puerto Plata itself. With completion of the second project, there figures increased by at least 50%, with about 4,300 in hotels alone.

The projects, notwithstanding the move to all-inclusives, had a profound impact on the economy of Puerto Plata, where outlets for tourist services line the streets (car rental, food outlets, equipment, etc.). Thirty percent of workers are women and 97% are Dominican. The combined economic rate of return on the two projects ex post at evaluated 12%, compared to an ex ante evaluation of 17.5%. This comparatively low rate of return is explained by the slow build-up of hotels and cost increases. However, it is based on direct inputs only – it includes neither indirect nor induced effects. With direct/indirect activities, the internal rate of return exceeds 20%.

Despite delays, cost overruns, and institutional difficulties, the combined results of the two projects were considered “a substantial and important success” by the World Bank’s independent audit. By 1999, ten years after the projects were completed, international arrivals on the DR reached 2.7 million, and by 2009 had reached a shade under 4 million. By 1999, expenditures reached US$2.8 billion and by 2009 US$4.05 billion. Average daily expenditure is about US$100 and the length of stay between 9 and 10 days. By 1999, overall hotel capacity had grown to about 50,000 rooms and by 2009 to 67,197 (with about 17,000 in the Puerto Plata zone, almost 30% of the country’s total). The average national hotel occupancy rate was 66.9% in 1999 is at about that level today (it increased to over 70% in 2000 and 2003 but fell back during the recent recession and slowdown in international travel). Occupancies in Puerto Plata hotels tend to be several points lower than the national average.

More recently, another major area, which shot the Dominican Republic into its premier position in the Caribbean today, was rolled out: Punta Cana, a major resort complex of over 40 hotels and several real estate developments in Altagracia Province in the east of the country. It drew heavily on the experience of Puerto Plata. It began with two purchases of land in the Bavara and Punta Cana areas, the former, by Barceló Hotels (Mallorca, Spain) and the latter by investors who sharpened their skills in Playa Dorada, as well as well-known personalities like Julio Eglesias and

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13 In a study of eight all-inclusive resorts in the Caribbean 2004, GTZ (CSR beyond charity, 2006) found that the average wage bill was US$ 1.7 million per establishment (resorts ranged up to from 100 to 300 rooms) and procurement of local goods and services averaged US$1.6 million per year. Three star hotels create one employee per room and, five star hotels, 1.5-2.0 employees per room; in addition, each direct job created 3-5 indirect jobs. Over 96% of employees were nationals of the country. In the DR, it found that compared to the basic national salary of US$ 110/mo., a hotel employee earned a basic wage of US$180, plus benefits (social security plus a mandated 10% tipping policy), which raised the total to US$182; and with meals and transport, the total reached US$282. As important, was the fact that employees were permanent, had a contract, had social security paid and received 30 days paid vacation annually. Employees and suppliers seem to win with all-inclusives but taxi drivers and local businesses suffer.

14 ASONAHORES estimates that the hotel sector employs about 0.8 employees per room.
Oscar de la Renta (the latter had originally been associated with Casa de Campo). In this case, the government and private owners sold land to the investing companies on a negotiated basis. These investors built the trunk and network infrastructure, including a private international airport; brought in water by aqueduct; constructed sewerage and sanitation systems; and built a private power plant (serving the tourism and local communities and connecting with the national power distributor, CDE). They also promoted hotel investment and attracted many companies, many of them Spanish and with similar operations already in Cuba and Mexico\(^\text{15}\), which constructed over 40 hotels for a total of 23,000 rooms in the province. A new real estate company, Cap Cana\(^\text{16}\), is anchored by a Jack Niklaus golf resort.

The projects also had important spin-off effects: there are now over 16,000 rooms along the north coast in Cofresi Beach, Sosua and Cabarete, as well as Playa Dorada. Sosua, a small town sitting on a protected bay with a beautiful curved beach, has developed up-market hotels; and Cabarete, a rough and tumble development built on kite surfing and surfing, has also expanded rapidly. In spite of tourism expansion, the project areas still have vast fields of sugar cane and their essential character has been maintained. They have served as a model for replication in other areas and for responsible expansion.

Lessons and conclusions. As the completion report points out: “In reality, it can be safely assumed that little or none of the tourism development at Puerto Plata would have occurred in the absence of the infrastructure investments, hotel credit and demonstration effects of the two projects.” The World Bank judged the project sustainable, based on the evidence of the sector growing from a minor industry to a growth sector in twenty years and evidence of its continuing growth, in terms of budgetary impact; foreign exchange earnings and employment creation. In spite of the problems encountered during construction, the Puerto Plata projects created the base for the DR’s tourism industry and secured its place as an integral part of the economy. But there is no reason for complacency. Tastes change and new competition is always on the horizon. Customers are looking for activities and experiences and these cut across demographic groups. Sun and sand is a commodity, traded irrespective of location, often at rock bottom prices. The DR has the elements to support change, unlike many Caribbean islands. It has valuable natural resource and cultural assets for tourism and a diversified economy. The rich agricultural area of Cibao supplies the tourism resorts all over the country and a trained work force. It has entrepreneurship and a willingness to test new ideas.

The lessons from the cases are summarized in the following points:

- None of the tourism development at Puerto Plata would have occurred in the absence of the infrastructure investments, hotel credit and demonstration effects of the two projects. In many ways, the projects helped launch a new industry.
- The government stepped in to help launch a new industry but stood aside when it was apparent that the private sector could take the lead. While the government promoted the Puerto Plata project, it was finally fully privatized with the purchase of INFRATUR’s management unit by the local association of hotel owners. It now resembles the Punta Cana resort in many ways as a private, independent resort facility. The government still has an important role in policy formulation and setting strategic direction to lead the sector to the next level.
- The projects had the effect of improving the Dominican Republic’s image as an FDI investment destination, as well as its overall investment climate, beyond tourism.
- ASONAHORES and the Ministry have adopted a code of ethics.

\(^{15}\) Only Spain, Mexico and Venezuela had diplomatic relations with Cuba at the time.

\(^{16}\) [www.capcana.com](http://www.capcana.com)
• It is unfortunate that the sanitation and employee housing components were dropped from the projects, as they are both critical services for an environmentally sound tourism sector. For sanitation, in the north coast, the government is now implementing a World Bank funded program to connect Sosua and Cabarete to the sewerage system and provide an ocean outfall. For employee housing, the opportunity was missed to in effect create an urban environment and create urban services close to the main resort areas - several hotel companies are working on solutions to this question. There may be a possibility of putting in cooperatives of even low cost condominia for Dominican families working in resort areas.

• The all-inclusive operating model is a subject of debate everywhere. Service inside these resorts is of high quality but tourists are in an enclave environment that prevents practically any non-formal/informal contact with the local people and it is almost impossible to gain access to them. The idea of mine host “open to the public” is lost here and even beaches are the private domain of the resorts. The all-inclusive formula has put Dominican resorts in a fiercely price competitive market that exerts downward pressure on prices. One or two groups (Victoria Hotels in Playa Dorada and STARZ Hotels in Sosua) are opening up with boutique hotels that attract a much higher room rate. Moreover, Casa de Campo (La Romana) and hotels in real estate developments have always relied on an individual clientele. Cap Cana appears to be relying on an individual market as well.

• The region and the country are now establishing a brand image beyond the particular benefits of single resort hotels and it should distinguish between the country’s different regions. The Government and ASONAHORES are cooperating on this through the Tourism Promotion Council.

Playa Dorada remains a sound model for planning and replication in other areas. With tourism continuing to grow but also facing some problems, the government should ensure a planning framework with clear regulations to ensure that carrying capacities are not overstretched.

Sources:
Dominican Republic: Puerto Plata Tourism Projects, 1974-1982, WB draft (unpublished)
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