



Challenges for Sustainable Growth through
Tourism in the Dominican Republic
Emma Fawcett



*Challenges for Sustainable Growth through
Tourism in the Dominican Republic*

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*Challenges for Sustainable Growth through
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***Challenges for Sustainable Growth
through Tourism in the Dominican
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Foreword

The Global Foundation for Democracy and Development (GFDD) in the United States of America and the Fundación Global Democracia and Desarrollo (Funglode), headquartered in Santo Domingo, Dominican Republic, are dedicated to promoting research and awareness in areas crucial to the democratic, social and economic sustainable development of the Dominican Republic and the world. GFDD and Funglode organize meetings, educational programs and research as well as generate studies and publications that contribute to the development of new perspectives, enrich public policy debate and proposals, and promote the search for innovative solutions and transformative initiatives on a national and international level.

GFDD and Funglode are honored to present the publication series Research and Ideas, which offers the results of research projects, academic articles and keynote speeches that address critical issues of the contemporary world from local, regional and global points of view.

These selected works present scrupulous analysis, introduce innovative ideas, and transmit inspiration. We hope they will contribute to a better understanding of the world, empowering readers to act in more informed, efficient, and harmonious ways.

On this occasion, the series showcases the work titled Challenges for Sustainable Growth through Tourism in the Dominican Republic, which presents an analysis of tourism sector in the Dominican Republic, identifying key challenges in establishing sustainable, inclusive growth through tourism, while proposing a series of policy recommendations to address these challenges.

Natasha Despotovic
Executive Director
GFDD

Preface

The Dominican Republic has long been viewed primarily as an exporter of sugar, coffee, and tobacco, but in the last decades the service sector has overtaken agriculture as the economy's largest employer, due in part to growth in the tourism industry. Indeed, located about 800 miles from Miami between the Caribbean Sea and the Atlantic Ocean, the Dominican Republic's proximity to the large North American market and its tropical climate make it ideal for tourism. The industry itself is concentrated in the coastal beach towns to the north, east, southeast, southwest and in the capital city of Santo Domingo.

In light of these issues and in an effort to enhance public understanding of the tourism sector in the Dominican Republic, this study performed by Emma Fawcett, a PhD candidate in international relations at the School of International Service, American University identifies the key challenges in establishing sustainable, inclusive growth through tourism. Offering practical policy solutions that highlight the need for capacity building, partnership creation and the public participation of all relevant stakeholders within the tourism industry at the national, regional and local level, Ms. Fawcett's research makes an important contribution to GFDD's vision to bring new perspectives and innovative approaches and solutions to the challenges of contemporary society in the Dominican Republic and the world.

The Fellows Program provides opportunities to Masters and Doctoral candidates to undertake high-level research in the Dominican Republic on issues related to democracy and development. During their studies, researchers work in close coordination with GFDD and Funglode teams as well as with national academic advisors to guide their search for information and data. In this study, Ms. Fawcett worked closely with GFDD/Funglode staff to develop her work, including Mandy Sciacchitano, Lorie Sánchez, and Christy Armand.

Ms. Fawcett's research was carried out in September 2014 in different regions of the country, including Santo Domingo and the Punta Cana-Bávaro-Verón-Macao region. During her time in the country, she carried out numerous interviews including, but not limited to, the following organizations: Radhames Aponte, Vice Minister, Ministry of Tourism, Crucito Báez Jiménez, President, Consejo de Desarrollo

Económico y Social de Verón-Punta Cana, Clara Barriola, Director of Hospitality School, Universidad PUCMM, Paul Beswick, Director of Social Projects, Punta Cana Foundation, Miguel Calzada, President, Caribbean Traveling Network, Dr. Pilar Constanzo, Executive Director, Universidad Iberoamericana (UNIBE) Recinto Cap Cana, Laura del Castillo, Subdirectora Técnica, Consejo Nacional de Competitividad, Department of Ecotourism, Ministry of Environment and Natural Resources, Ramón González, Director, Department of National Accounts and Statistics, Central Bank, Jake Kheel, Environmental Director, Punta Cana Ecological Foundation, Matias Mut, CEO, GrayLine Tours, Juan Carlos Sánchez, Head of Bavaro-Punta Cana Cluster, Bienvenido Santana, Deputy Minister for Marine and Coastal Resources, Ministry of Environment, Ruben Torres, Director, Reef Check, Elizabeth Tovar, President, OPETUR and TURENLACES.

We hope that this report on the sustainable development of the tourism industry will encourage debate on economic, democratic and social development, not only in the Dominican Republic but also in other Latin America countries.

Marc Jourdan

UN Programs & Outreach Manager
GFDD

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Tourism in the Dominican Republic*

Emma Fawcett

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I. Abbreviations

ASONAHORES	Dominican Republic National Hotel and Restaurant Association
IDB	Inter-American Development Bank
CTO	Caribbean Tourism Organization
CNC	National Competitiveness Council
PPT	Pro-poor Tourism
SME	Small and Medium-sized Enterprises
SIDS	Small Island Developing States
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WTTC	World Travel and Tourism Council

II. Introduction

This report explores tourism sector governance in the Dominican Republic, identifying key challenges in establishing sustainable, inclusive growth through tourism. I begin with an overview of the Dominican Republic's rise—and future—as a regional tourism leader and the legal framework that has supported the sector's growth. Then, I review lessons learned from the existing academic literature on inclusive growth through tourism and address both recommendations of pro-poor tourism scholars and practitioners, and skepticism from those who find that tourism and development cannot ever be mutually reinforcing. Next, I address four challenges I have identified within the Dominican tourism sector: 1) ensuring economic development reaches the country's poorest, 2) generating growth in basic services and infrastructure that keeps pace with tourism development, 3) environmental and carrying capacity concerns, and 4) modernizing the framework for fiscal incentives. Finally, I provide a series of policy recommendations to address these challenges.

While some of these challenges affect tourism throughout the country, it should be noted that this report focuses particularly on the Bávaro-Punta Cana tourism pole. As the country's (and indeed the region's) leading destination, it offers important lessons as tourism continues to grow nationwide. Furthermore, policy changes directed at the east coast are likely to have the greatest impact on private sector actors, tourists, and local residents.

III. The Dominican Republic as a Regional Tourism Leader

After several false starts, the Dominican Republic's rise as a tourism leader took place fairly rapidly. In the mid-twentieth century, private hoteliers took advantage of the "authoritarian ineptitude" of the Trujillo regime to build a high end tourism infrastructure, much as they had in Cuba under Batista.¹ Provisional governments and political instability hampered the growth of the sector during the 1960s and early 1970s. While Puerto Plata benefited from government support and community integration in the mid-1970s, the country's largest and most successful tourism poles (like Punta Cana) were developed entirely by private investors. The all-inclusive model was seen as the only option for development along the eastern coast, as the area lacked government-supplied infrastructure, security, or sanitation; provision of these services in an enclave environment with private investment prevailed. To attract resort development, the country has offered an impressive package of incentives to developers: long-term (up to 50 years) leases of beachfront property, tax exemptions on revenues and importation of materials for specified periods, a specialized labor code for the tourism sector, and more.

Today, the Dominican Republic welcomes more than five million tourists a year—more than any other Caribbean country—and is home to 25% of the region's hotel rooms. The sector has enjoyed steady growth over the last four decades. Between 1970 and 2000, stayover arrivals increased by more than 12% per year. Tourism accounts for 15.3% of the Dominican Republic's GDP (4.7% direct contribution), and 14% of its employment (4.2% of direct employment). Travel and tourism draw 4.6% of total national investment, and visitor exports generated 35.3% of total exports in 2013.² The tourism sector is highly self-contained, as most visitors stay in all-inclusive resorts with pre-paid packages, and resort developments are concentrated in four key areas—Puerto Plata, La Romana, Santo Domingo, and Punta Cana.³ 95% of the international

1 Evan Ward, *Packaged Vacations: Tourism Development in the Spanish Caribbean* (Gainesville: University Press of Florida, 2008), 157.

2 WTTC, "Dominican Republic - Travel and Tourism Economic Impact 2014" (World Travel and Tourism Council, 2014), www.wttc.org.

3 Padilla, Art and Jerome McElroy. "The Tourism Penetration Index in Large Islands: The Case of the Dominican Republic." (2005). *Journal of Sustainable*

class rooms in the country are foreign-owned and 80% of them are part of chains. About 65% of the country's tourists arrive in Punta Cana International Airport (one of eight international airports), which is surrounded by all-inclusive hotels. As one industry insider points out, "tourism is the oil of the Dominican Republic."⁴

While high, low, and shoulder seasons are still present, occupancy rates have become more even throughout the year. As in much of the Caribbean, August is sold-out up to a year in advance to the European market. However, the sector's growth prospects are dismal; according to the WTTC, the country ranks 155 out of 184 countries for growth in the 2014 forecast, and 154 out of 184 countries for long-term growth in the 2014-2024 forecast.⁵ The 2015 Travel & Tourism Competitiveness Index provides further guidance on the sector's relative strengths and weaknesses. In terms of overall competitiveness, the Dominican Republic ranks near the middle of the pack, at 81 of 141 countries studied. The Dominican Republic's prioritization of travel and tourism (rank 7 of 141) is particularly strong, though it fares poorly in safety and security (120 of 141), price competitiveness (110 of 141), and environmental sustainability (131 of 141). The country ranks most highly in travel and tourism government expenditure, with the sector capturing 21.8% of the government budget.⁶ Whether the Dominican Republic can sustain the sector's growth remains to be seen, although the sector is an economic policy priority. President Danilo Medina has set a goal of reaching 10 million tourists by 2022, which will require considerable efforts in promotion and diversification (of investment, touristic products, and source markets).

Tourism. 13 (2005), 357.

4 Personal interview with tourism sector entrepreneur

5 WTTC, "Dominican Republic - Travel and Tourism Economic Impact 2014."

6 "The Travel & Tourism Competitiveness Report 2015" (World Economic Forum, 2015), 136, http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf.

IV. Legal Framework of the Dominican Tourism Industry

The legal framework for tourism—commencing with Laws 541 and 542 in 1969—has evolved little since its inception, and Dominican scholars and business leaders alike acknowledge that the framework is outdated. The 1969 Constitutional Law for Tourism declared state tourism promotion to be “for the public good and in the national interest,” and places emphasis on locations that express the country’s cultural heritage. The law also establishes the National Department for Tourism within the executive branch, and charges it with establishing province-level tourism agencies, engaging in international promotional campaigns, and liaising with the private sector. The law also creates regulations and licensing for travel agencies, tourist guides, hotels and restaurants, and provides sanctions (including fines and possible jail time) for failure to comply with such regulations.⁷ The Constitutional Law for the Promotion of the Hotel Industry and the Development of Tourism, also passed in 1969, created the Corporation for Hotel Industry Promotion and Tourism Development, responsible for the acquisition, construction, financing, improvement, and maintenance of hotel and other tourism businesses.⁸ Law 541 was modified in 1979, which replaced the National Department for Tourism with an expanded Secretary of State for Tourism.

Incentive laws followed soon after those establishing state institutions for tourism; the first was passed in 1971. Law 153, entitled “Promotion and Incentive for Tourism Development,” recognized the central role of the state in fostering economic development: “it is the essential function of the Dominican State to create the necessary conditions for expanding the sources of production that generate wealth, and to establish the necessary mechanisms such that this results in improved wellbeing that reaches all sectors of the Dominican population.” The law provides the following fiscal incentives: 1) 100% exemption from income tax, 2) exemption from construction taxes, 3) exemption from incorporation taxes, 4) exemption from

7 El Congreso Nacional, “Ley No. 541 Orgánica de Turismo de La República Dominicana,” 1969, http://www.sectur.gob.do/Portals/0/docs/LEY_541-69.pdf.

8 El Congreso Nacional, “Ley No. 542 Orgánica de La Corporación de Fomento de La Industria Hotelera Y Desarrollo del Turismo,” December 22, 1969, http://www.sectur.gob.do/Portals/0/docs/Ley_542-69.pdf.

federal and municipal taxes on patents and public performances, and 5) exemption from import taxes, including customs duties, for products and materials that are not accessible (in appropriate quality or at competitive price) in-country, for construction, furnishing and business operations. For most businesses, these incentives last for ten years, with the possibility of a five-year extension, but only those located in areas designated as priority tourism poles are eligible. The law includes some reporting requirements, such as the filing of architectural plans and economic feasibility studies with the National Tourism Director. The law was repealed in 1992 and replaced by the Tax Law of the Dominican Republic.⁹ (Law 153 did not apply to Punta Cana until 1986, when Decree 1256-86-479 established Macao-Punta Cana as a priority tourism pole.)

Law 158-01, passed in 2001, reestablishes much of the incentive structure that had been provided under Law 153, but places greater emphasis on sustainable development and environmental protection. The preamble notes that there is remarkable competition to attract foreign investment in important economic sectors, particularly in the Caribbean. As such, the law provides 100%, ten-year exemptions from income tax, construction permit fees at both the national and municipal levels, import duties, and other taxes for all materials (construction, furnishings, etc.) needed to bring the business into operation. Importantly, violations of environmental law can result in the loss of incentives. The application of incentives is determined by CONFOTUR (the Council for Tourism Management), which includes representatives from several ministries and ASONAHORES, the National Hotel and Restaurant Association. Law 158 also establishes the Tourism Promotion Official Fund (TPOF), which is managed by the Ministry of Tourism with input from ASONAHORES. Funding for the TPOF comes from revenue generated from tourist cards at airports and ports, and from other port taxes.¹⁰ Under Law 184-02 and 318-04, the tourism poles to which the exemptions apply were expanded. Under Law 195-13, the tax exemptions were extended from 10 years to 15 years, and expanded to include renovations or refurbishments of facilities that

9 Pellerano & Herrera, Attorneys at Law, "Executive Summary: Law on the Promotion of Tourist Development" (Pellerano & Herrera, n.d.), 1, <http://www.phlaw.com/imagen?file=articulos/275/275>.

10 Pellerano & Herrera, Attorneys at Law, "Executive Summary: Law on the Promotion of Tourist Development."

are at least 15 years old, provided that the renovation includes at least 50% of the facility. Improvements on properties that are at least five years old are also exempt from the tax on the sale of industrialized goods and services (ITBIS).

As noted, several components of this framework are outdated and/or underdeveloped, which contributes to some of the sector's challenges in fostering sustainable, inclusive growth. Such challenges, particularly as relating to the legal framework for tourism, will be further explored in the sections that follow.

V. Methodology

Fieldwork for this report was supported by the Global Foundation for Democracy and Development and Fundación Global Democracia y Desarrollo (GFDD/Funglode), which provided me with a research fellowship commencing in July 2014. I undertook three weeks of fieldwork in the Dominican Republic in August and September 2014, in both Santo Domingo and Bávaro. I conducted semi-structured interviews with government ministry officials, academics, entrepreneurs, tourism sector employees, activists, consultants, and others associated with the tourism industry, employing a snowball sampling elite interviewing technique. To ensure that my sampling is not skewed by a heavy presence of one group of stakeholders (e.g. bureaucrats aligned with one political party), my initial sample included academics and industry consultants with divergent perspectives on the tourism sector; they referred me to sources that I might have otherwise overlooked by relying exclusively on policymakers and high-end hoteliers. Interviews were semi-structured and most were conducted in Spanish. While I prepared a list of open-ended questions in advance, semi-structured interviewing allows the interview to proceed as a conversation, and for both researcher and interviewee to deviate from the list when the need arises. It also allowed for the list of topics to evolve as the research progressed, as new questions emerged or additional clarifications were required. All translations from Spanish to English are my own. Interview data is complemented by secondary literature, newspaper reports, and legal documents from the Dominican government and international organizations.

VI. Challenges for Sustainable, Inclusive Growth through Tourism – A Look at Existing Literature

Much of the tourism and development literature is highly critical of tourism's impacts on environments, cultures, and communities—and some authors are skeptical of any potential benefits from tourism. This literature notes that tourism is dominated by transnational corporations, and, as such, its revenues are more likely to “leak” back to foreign enterprises rather than forge linkages with local communities. Its authors acknowledge that tourism is both a product and a source of globalization, thereby fueling a cycle of continued expansion. It calls for increased community involvement and local governance, designed to respect the needs and rights of local people and curtail uninhibited growth. Elements of this literature are sharply critical of the private sector and treat local involvement in the tourism planning and maintenance process as a panacea.

Reid expresses concern about the “commodification of tourism and its effects on community.”¹¹ Like many others in the field, he worries about leakages caused by foreign ownership of hotels and other tourism businesses, but takes this critique a step further, making a more damning assessment of the political economy of tourism:

“It is debatable whether a service industry such as tourism can play a significant role in creating sufficient capital to induce other development, or whether—given the low-income nature of service jobs in the tourism industry—it can lead to the development of an entrepreneurial class, as Hirschman suggests.”¹²

He concedes that tourism is neither inherently negative nor inherently positive, and that planning, management and power are critical for ensuring sustainable, community-driven tourism developments. Manuel-Navarette and his co-authors see the mass tourism discourse as creating a “hegemonic development vision(...) enforced by the alignment of the two most powerful groups: government and tourism corporations.”¹³

11 Donald G Reid, *Tourism, Globalization, and Development Responsible Tourism Planning* (London; Sterling, Va.: Pluto Press, 2003), 24.

12 *Ibid.*, 79.

13 Caribbean: Development Visions, Governance Structures, and Coping Strategies,” *Global Environmental Change* 21, no. 1 (2011): 252.

The private sector has struggled—either due to lack of willpower or to a range of structural challenges, depending on one’s perspective—to create profitable linkages between resorts and local agricultural sectors. There are a range of factors that hamper tourism and agricultural linkages in Latin America and the Caribbean, including supply and production-related problems (inconsistent or inadequate quantities produced, poor quality, high prices, small economies of scale among local farmers, poor growing conditions, lack of access to financial services, and inadequate labor supply due to the tourism sector), demand-related problems (preferences of high-end hotels and their guests for imported goods, distrust of local food due to sanitation concerns), and marketing/intermediary-related issues (failure to promote local goods, transportation and storage issues, and bureaucracy).¹⁴

Additionally, “primary production may suffer as a result of land, labor, and capital being invested in tourism,” resulting in suboptimal agricultural production.¹⁵ Luxury resorts typically seek out high-end goods, and budget-friendly all-inclusive desire bargains and familiarity for their guests—so both ends of the accommodation spectrum bypass local producers in favor of imported goods.

Moreover, “a compounding element is the demonstration effect, whereby tourist preferences for imported products are adopted by local populations, contributing to an overall lack of demand for domestic products.”¹⁶

Hotel owners and local producers alike are often dismayed by Caribbean tourists’ “fish and chip palate,” which when coupled with supply and marketing issues, limits linkages between tourism and local agricultural sectors.¹⁷

14 Rebecca Torres and Janet Henshall Momsen, “Challenges and Potential for Linking Tourism and Agriculture to Achieve Pro-poor Tourism Objectives,” *Progress in Development Studies* 4, no. 4 (October 1, 2004): 300–301, doi:10.1191/1464993404ps092oa.

15 Regina Scheyvens and Janet Momsen, “Tourism in Small Island States: From Vulnerability to Strengths,” *Journal of Sustainable Tourism* 16, no. 5 (2008): 28, doi:10.1080/09669580802159586.

16 Benjamin Timms and Stern Neill, “Convention Constraints and Contemporary Solutions for Linking Agriculture and Tourism in the Caribbean,” in *Tourism and Agriculture: New Geographies of Consumption, Production and Rural Restructuring*, ed. Rebecca Maria Torres and Janet Henshall Momsen (New York: Taylor & Francis, 2011), 106.

17 Polly Pattullo, *Last Resorts: The Cost of Tourism in the Caribbean* (London; New York: Latin America Bureau; Monthly Review Press, 2005), 41.

Caribbean tourism, in particular, is dominated by all-inclusive resorts and cruise tourism, which pose additional challenges for creating linkages to local economies in the absence of strong institutional frameworks. Tourism has transformed the region at an alarming pace.¹⁸ Leakages in the region range from 45% to 70%, and import rates range from 45% to nearly 90%.¹⁹ While I concur with Mitchell that any type of tourism can be made pro-poor (discussed further in the next section)²⁰, the presence of enclave tourism in Small Island Developing States (SIDS) requires special consideration. SIDS are typically vulnerable to exogenous shocks and heavily reliant on tourism. As reaching them generally requires air travel, Caribbean islands are at risk when terrorism fears are heightened or during regional health scares.²¹ Additionally, Caribbean tourists treat their vacations as luxury goods, which makes the islands vulnerable to economic downturns in source countries and sensitive to price competition.²² In SIDS, tourism sometimes reinforces existing inequalities by favoring local elites, requiring a stronger state-level regulatory framework.²³ Ultimately, tourism's effectiveness as a poverty alleviation tool depends on the strength of local value chains. Given tourism's enormous potential for local communities, the failure to develop strong linkages is another common critique the private sector faces in the tourism and development literature.

While some in the field see sustainable tourism as an oxymoron, the growing pro-poor tourism literature contends that in the right policy environment, any type of tourism can be made pro-poor. The pro-poor tourism (PPT) discourse, spearheaded by the Responsible Tourism Partnership and Overseas Development Institute in the UK, supports several key principles, including participation of local communities, a holistic livelihoods approach, a balanced approach across macro and

18 Pattullo, Last Resorts.

19 Dorothea Meyer, "Pro-poor Tourism: From Leakages to Linkages. A Conceptual Framework for Creating Linkages between the Accommodation Sector and 'Poor' Neighbouring Communities," *Current Issues in Tourism* 10, no. 6 (2007): 561–62, doi:10.2167/cit313.0.

20 Jonathan Mitchell and Caroline Ashley, "'Leakage' Claims: Muddled Thinking and Bad Policy?," *Overseas Development Institute* 81 (June 2007), www.odi.org.uk/opinion/docs/112.pdf.

21 Scheyvens and Momsen, "Tourism in Small Island States."

22 Evidiki Tsounta, "What Attracts Tourists to Paradise?" (IMF Working Paper, 2008), <https://www.imf.org/external/pubs/ft/wp/2008/wp08277.pdf>.

23 Scheyvens and Momsen, "Tourism in Small Island States."

micro levels, wide application to any tourism sub-industry, distribution of costs and benefits, flexibility based on local context, commercial realism (viability), and cross-disciplinary learning²⁴. It operates under three assumptions: “tourism can be pro-poor, it can be made more pro-poor, and any type of tourism can be pro-poor.”²⁵

According to a report that Goodwin prepared for the UK Department for International Development (DFID), the ppt approach can be explained as follows:

Accepting that tourism operations need to be profitable in a competitive world market if they are to be sustainable, there is a strong case for intervention at a local level in tourist destination areas to:

- Enable local community access to the tourism market and avoid enclaves;
- Maximize the linkages into the local economy and minimize leakages;
- Build on and complement existing livelihood strategies through employment and small enterprise development;
- Evaluate tourism projects for their contribution to local economic development, not just for their national revenue generation and increase in international arrivals;
- Ensure the maintenance of natural and cultural assets;
- Control negative social impacts;
- Control the rate of growth of tourism.²⁶

The focus on net benefits is important, Goodwin notes, because “there has been too much reliance on unsubstantiated trickle-down effects,” and because there is recognition that tourism has some negative effects

24 Stephanie Chok, Jim Macbeth, and Carol Warren, “Tourism as a Tool for Poverty Alleviation: A Critical Analysis of ‘Pro-poor Tourism’ and Implications for Sustainability,” *Current Issues in Tourism* 10, no. 2–3 (2007): 37.

25 Jonathan Mitchell, “An Unconventional but Essential Marriage: Pro-Poor Tourism and the Mainstream Industry,” accessed April 21, 2014, http://www.proparco.fr/lang/en/Accueil_PROPARGO/Publications-Proparco/secteur-privé-et-développement/Les-derniers-numéros/Issue-7-tourism/Article-Jonathan-Mitchell-An-unconventional-but-essential-marriage-pro-poor-tourism-and-the-mainstream-industry.

26 Goodwin Background Paper, cited in Harold Goodwin, “Pro-Poor Tourism: A Response,” *Third World Quarterly* 29, no. 5 (2008): 870, doi:10.1080/01436590802215287.

on the poor, and so positive impacts must overcome those to generate net benefits.²⁷ Perhaps the PPT movement's most significant contribution is its commitment to policy relevance, as advocates have prepared a wealth of guidance for how PPT principles can be implemented by local communities and other stakeholders.²⁸ For example, PPT scholars have provided methodological guidance on the use of value chain approaches to assess tourism's pro-poor impacts.²⁹

In their foundational text on pro-poor tourism, Mitchell and Ashley identify three pathways by which tourism affects the poor: 1) direct effects, such as labor income, improved infrastructure, or reduced access to resources (i.e. beaches or water supplies), 2) secondary effects, such as earnings from linked sectors (craftspeople, farmers, etc.), or the expenditures of those employed in the tourism sector, and 3) dynamic effects, such as long-term changes in the macro economy and natural environment. The framework that Mitchell and Ashley provide is particularly helpful conceptualizing future empirical studies. Furthermore, the authors tackle the "bold assertion made in parts of the critical tourism studies literature that: 'tourism does not benefit the poor.'³⁰ While there has been considerable debate about what "counts" as pro-poor tourism—for example, do the poor have to benefit more than any other income group? How should 'poor' be defined?—definitional issues should be secondary to policy questions. Mitchell and Ashley argue that the focus of policymakers and academics should be "how—and how much—to invest in developing tourism; the likely impact on poverty; and how to enhance the poverty reduction effect."³¹ They also deride leakage alarmists (described earlier) as "us[ing] muddled

27 Ibid.

28 See as an example of these efforts: Caroline Ashley, Harold Goodwin, and Douglas McNab, "Making Tourism Count for the Local Economy in Dominican Republic: Ideas for Good Practice," Pro-poor Tourism & Travel Foundation, 2005, <http://www.odi.org.uk/resources/docs/1945.pdf>. and Walter Jamieson, Harold Goodwin, and Christopher Edmunds, "Contribution of Tourism and Poverty Alleviation: Pro-Poor Tourism and the Challenge of Measuring Impacts," November 2004, <http://haroldgoodwin.info/resources/povertyalleviation.pdf>.

29 Jonathan Mitchell, "Value Chain Approaches to Assessing the Impact of Tourism on Low-Income Households in Developing Countries," *Journal of Sustainable Tourism* 20, no. 3 (2012): 457–75.

30 Jonathan Mitchell and Caroline Ashley, *Tourism and Poverty Reduction: Evidence, Impacts and Pathways to Prosperity* (London: Earthscan, 2009), chap. 3.

31 Ibid., chap. 1.

thinking and poor arithmetic to generate the wrong answer to an inappropriate policy question.³² Many payments in tourism are for services provided outside the host country (travel agencies, insurance, marketing, air transportation)—and these should not be considered leakages from the host country's economy. Many calculations also fail to account for tourist spending which is not included in package deals, which neglects an important inflow. These miscalculations have important implications for policy, as they may pressure "policy-makers to focus on plugging 'leakages' to external economies, instead of the more productive avenue of opening up linkages within their economy."³³

The PPT field is promising, despite its (thus far) limited application to the mass tourism sector. Critics cast doubts about the sustainability of PPT strategies and note that "not only is there a lack of convincing empirical evidence" to demonstrate that tourism helps the poor, but the industry alone cannot compensate for weak institutions and unfortunate policy decisions. Similarly, Scheyvens argues that "there needs to be more debate about the value of PPT as an approach to poverty reduction," as tourism can increase inequality and have devastating effects on local cultures, environments, and social structures, even when there are measurable economic benefits.³⁴ Harrison points out that PPT strategies can often find themselves focusing so heavily on sustainability that they "ignore the crucial role of markets and fail to consider the need for commercial viability."³⁵

In the context of these debates in the academic literature, this report will explore four key challenges to sustainable, inclusive growth within the Dominican tourism sector: 1) economic development that reaches the country's poorest, 2) growth in basic services and infrastructure that keeps pace with tourism development, 3) environmental and carrying capacity concerns, and 4) modernizing the framework for fiscal incentives.

32 Mitchell, "An Unconventional but Essential Marriage: Pro-poor Tourism and the Mainstream Industry."

33 Mitchell and Ashley, "'Leakage' Claims: Muddled Thinking and Bad Policy?"

34 Regina Scheyvens, "Exploring the Tourism-Poverty Nexus," *Current Issues in Tourism* 10, no. 2-3 (2007): 251.

35 David Harrison, "Pro-Poor Tourism: A Critique," *Third World Quarterly* 29, no. 5 (2008): 864.

a. Challenge 1: Ensuring Economic Development Reaches the Country's Poorest

The Dominican tourism sector is isolated, both geographically, given that most tourism takes place in relatively remote parts of the country, and economically, because of the fiscal incentives and heavy presence of foreign hoteliers which contribute to economic leakages.³⁶ In ensuring that economic development through tourism reaches the Dominican Republic's poorest, three issues are critical: 1) barriers to employment in the tourism sector, 2) unmeasured (and perhaps limited) linkages to domestic agriculture and other suppliers, and 3) the presence of the all-inclusive model, which limits the dispersion of tourist spending. I consider each in turn.

i) Barriers to Employment in the Tourism Sector

As the Dominican tourism sector has expanded, so have the professional capacities of its employees—and the hiring requirements of its companies. Access to quality public education remains a critical challenge in the Dominican Republic; a 2010 survey by UNESCO ranked the quality of primary school education in the Dominican Republic as the worst in Central America and the Caribbean.³⁷ Several tourism sector employees I interviewed pointed out that the sector's hiring requirements have become increasingly more demanding over the last fifteen years, making it more difficult for those without an eighth-grade education or a high school diploma to enter the sector. Once hired by a hotel, additional training and educational opportunities become available, but the required baseline has risen considerably, presenting a barrier to employment for those from lower socioeconomic groups.

36 Susan Pozo, José R. Sánchez-Fung, and Amelia U. Santos-Paulino, "Economic Development Strategies in the Dominican Republic," World Institute for Development Economics Research, no. 115 (2010), <http://www.econstor.eu/bitstream/10419/54022/1/639465773.pdf>.

37 Education in Crisis, "Dominican Republic," 2011, <http://www.educationincrisis.net/country-profiles/latin-america/item/514-dominican-republic>

One explained:

The problem is training outside the sector, as there are so many people who want to work. They'll say to me, "Show me your job requirements." [They look at them, and] they'll say, "I'm missing this, I'm missing that." This is a profession and they haven't studied and they aren't trained. Right now, the hotels are demanding at least the eighth-grade, and that's all the companies. As for professional training, university education—very few people have that. And this is a result of what's happened 15, 20 years ago. What you don't do today [in terms of education], within 15 years it is going to be a requirement of employment.

Without improved public education, the tourism industry will face a dearth of human capital, and relatively well-paying hospitality jobs will continue to be restricted to a small segment of the Dominican population.

ii) Unmeasured (and Perhaps Limited) Linkages to Domestic Agriculture and Other Suppliers

As noted, tourism sector leakages in the Caribbean region range from 45% to 70%, and import rates range from 45% to nearly 90%.³⁸ Yet these numbers are estimates, and the Dominican Republic—like many other countries in the region—does not collect the data needed to appropriately quantify tourism's linkages with other sectors and external leakages. Such data is particularly important because of the Dominican government's investments in the tourism sector and provision of fiscal incentives. Better data on linkages is necessary to assess the return on these investments and how they might be strengthened. Furthermore, the limited evidence that is currently available is contradictory. In an interview with Grupo Puntacana executives, they noted that 90% of the food they sell is sourced within the country, and that their only significant food and beverage imports are USDA beef and alcohol. Furniture and other amenities, though, are often sourced outside the country, thanks to tax incentives on imports.³⁹ All-inclusive resorts

³⁸ Meyer, "Pro-poor Tourism," 561–62.

³⁹ Personal interview economist

typically spend a large portion of their operating costs on food and beverage; linkages with local producers provide economies of scale and a more efficient supply chain. On the other hand, a study of Luperón, near Puerto Plata, found that the “local residents most likely to benefit [from enclave resorts] are the local elites.⁴⁰” Linkages with the local agricultural sector were also limited, because “perennial credit shortages and traditional economic arrangements with intermediaries to finance their instruments of production make it difficult for poorer farmers and fishermen to benefit from the increased demand for their harvests.⁴¹” Freitag takes issue with the idea that Dominican tourism is a serious national development strategy, as without careful fostering of local economic linkages, the industry alone cannot foster inclusive growth. Clearly additional research is needed to monitor and strengthen these linkages, particularly if the Dominican Republic is to double its visitor arrivals over the next seven years.

iii) All-inclusive Model Limits Dispersion of Tourist Spending

Despite positive employment impacts and potential integration with the agricultural sector, the all-inclusive model still faces a major challenge in dispersing tourist spending. In Punta Cana, tourists spend about \$30 per day outside their resort. By contrast, in Cancún, tourists spend \$110 per day. In Punta Cana, there are few reasons for tourists to ever leave their resorts—limited offerings of local restaurants, entertainment venues, shopping destinations, and other touristic sites—whereas Cancún has carefully cultivated these offerings. Without a process for building and expanding tourism, Dominican communities will continue to miss out on this important revenue stream. Public-private partnerships are necessary to create the infrastructure for tourists to leave the resorts and explore local towns—thereby spreading tourism dollars further and creating better linkages with the local economy.

In the early 2000s, the Dominican Republic developed a strategy to rebrand itself for luxury vacationers, focusing on wealthier clientele and a higher rate of return. While the strategy was successful in capturing a greater share of the luxury market, it makes the country’s daily

40 Tilman G. Freitag, “Enclave Tourism Development for Whom the Benefits Roll?,” *Annals of Tourism Research* 21, no. 3 (1994): 542, doi:10.1016/0160-7383(94)90119-8.

41 *Ibid.*, 544.

spending numbers all the more abysmal.⁴² Part of the problem is that, as one tourism researcher notes, “there is no government intervention for poor communities—there is no planning, they just build fences [referring to the cement walls that surround most all-inclusive hotel properties].⁴³” As a Dominican economist points out, the country needs strong municipalities, and the incentive structure provided to resorts has cut off the ability of municipalities to collect tax revenue. As such, they and the central government languish and continue to lack capacity. He points out: “The state doesn’t provide public goods, as it only serves as a machine for clientelism; there exists a relationship between the state and individuals, but not between the state and the citizenry. The only way that the DR will be able to successfully diversify its tourism sector is if the government supports towns.⁴⁴” Community development, then, is the gateway to cultural tourism, adventure tourism, ecotourism, and other niche tourism products—and to connecting resort goers with local artisans, markets, restaurants, guides, and other Small and Medium-sized Enterprises (SMEs).

b. Challenge 2: Generating Growth in Basic Services and Infrastructure that Keeps Pace with Tourism Development

The disconnect between resorts and local communities, whether in terms of economic linkages, as in the previous section, or in infrastructural and spatial linkages, as discussed next, remains an obstacle in the Dominican tourism sector. I begin with shortfalls in planning and land use management, which are partly to blame for the poor provision of basic services and infrastructure within local communities that surround tourism poles.

i) Planning and Land Use

According to a UNDP project begun in January 2015, “planning is a relatively new concept in the Dominican Republic, especially related to land use in tourism and environmental sectors.” There is no updated National Tourism Development Plan, which means that new developments are not required to conform to an overall strategy.⁴⁵

42 Personal interview with Punta Cana hotelier.

43 Personal interview with environmental scientist.

44 Personal interview with economist.

45 United Nations Development Programme and Global Environment Facility,

Moreover, when planning does occur, the process is opaque, “carried out by the Ministry of Tourism with foreign or national elite investors,” with little room for community participation. The lack of a national tourism development strategy means that careful planning and consideration of the needs and desires of local residents and fragile ecosystems simply does not take place.⁴⁶ When enclave tourism developments emerge, local residents (and their informal sector economic activities) are often relegated to a tourist “ghetto,” excluded both spatially and economically from interaction with visitors and formal sector activities.⁴⁷ As a former tourism sector official explained:

We have yet to integrate urban development [with tourism planning]. There isn't urbanism here—there are conglomerated communities that have sprung up in the zone and have occupied land in an irregular fashion(...) in conditions that don't correspond with their touristic surroundings. If we walk down here [pointing to resorts] we see that there's an infrastructure of the first order, but if we walk several meters that way, it's a different story. (...) Tourists that come here from developed countries don't understand why, if tourism is an economic activity that generates so much revenue, why there is a ring of misery and extreme poverty around it.

When tourism developments are permitted to take place without comprehensive planning and zoning, including environmental impact assessments, decisions about long-term objectives and opportunities, inspection and enforcement of building standards, and more, the impacts are felt hardest by local communities and the environment (discussed in the next section).

“Capturing Biodiversity in Coastal Areas Threatened by Rapid Tourism and Physical Infrastructure Development,” 2015, http://www.thegef.org/gef/sites/thegef.org/files/gef_prj_docs/GEFProjectDocuments/Biodiversity/Dominican%20Republic%20-%20%285088%29%20-%20Conserving%20Biodiversity%20in%20Coastal%20Areas%20Threatene/12-17-14_-_ProDoc.pdf.

46 Yolanda M. León, “The Impact of Tourism on Rural Livelihoods in the Dominican Republic’s Coastal Areas,” *Journal of Development Studies* 43, no. 2 (2007): 340–59.

47 Brian M. Kermath and Robert N. Thomas, “Spatial Dynamics of Resorts: Sosua, Dominican Republic,” *Annals of Tourism Research* 19, no. 2 (1992): 173–90.

ii) Basic Services and Infrastructure for Local Residents

The failure of the Dominican government to generate basic services and infrastructure that keeps pace with tourism development is particularly apparent on the east coast. The disparities between the local communities in Bávaro-Punta Cana and the pristine resorts that line the Boulevard Turístico del Este are striking to even the most casual visitor. The former have potholed roads, substandard housing, poor water quality, and inadequate access to medical care and other services. The weaknesses in infrastructure and basic services are particularly alarming given the tremendous economic contribution of tourism to the area; by one estimate, in-country visitor spending per resident in Punta Cana is \$7,941 (compared with \$2,291 in Puerto Plata, the country's next most-visited tourism pole).⁴⁸ As one tourism consultant explained:

We have a problem with [the belief that] that quantity matters more than quality. And now we're talking about bringing in 10 million tourists a year. But we don't have the human resources for this, or the basic infrastructure. I'm not referring to hotels, as they can be built just like that with fiscal incentives and promoting investment. But I'm talking about water systems, medical services; I'm talking about what tourism needs in terms of basic infrastructure to develop.

Numerous reports on Verón describe the abysmal conditions endured by local residents. One survey found that 50% of homes measured less than 40 square meters, and more than a third have just one room. 81% of homes lack a sink or washbasin, one in five homes lack a toilet, and one in three lack a kitchen. 85% of those surveyed considered the conditions in Verón and access to healthcare to be worse than that in their communities of origin.⁴⁹ A 2010 Virginia Tech report on water quality showed many samples taken from Verón households to be contaminated with *E. coli*, and local residents said they were dependent on bottled water for cooking and drinking.⁵⁰ Another

48 Art Padilla and Jerome L. McElroy, "The Tourism Penetration Index in Large Islands: The Case of the Dominican Republic," *Journal of Sustainable Tourism* 13, no. 4 (2005): 353–72.

49 Arismendy Calderón, "Bávaro: Entorno de Miseria," *Hoy Digital*, August 30, 2012, sec. El País, <http://hoy.com.do/bavaro-entorno-de-miseria/>.

50 Caitlin Grady and Tamim Younos, "Water Use and Sustainability in La Altagracia,

report identified the following development challenges as critical: poor roads, lack of primary and secondary schools, absence of sewage or trash collection system, insecurity and mistrust, lack of latrines or bathrooms in some homes, high cost of living for basic necessities, few opportunities for home ownership, lack of parks or a cemetery, and the presence of prostitution.⁵¹ The World Bank currently has a \$27 million loan project in Puerto Plata entitled “Water and Sanitation in Tourist Areas,” designed to improve water quality, wastewater treatment, and disposal services for 128,000 families. Additionally, the project seeks to create a national water and sanitation plan, and build technical capacity at a national level.⁵² While the project is running behind schedule, more initiatives like it are badly needed, particularly in the Bávaro-Punta Cana region.

c. Challenge 3: Environmental and Carrying Capacity Concerns

Two issues are central with respect to the environment and tourism development: 1) environmental degradation, through beach erosion, coral loss and other concerns, and 2) obstacles to remedying these issues, because of the limited collaboration with and compliance from hoteliers.

i) Beach Erosion, Coral Loss and Other Environmental Concerns

Particularly on the east coast, environmental concerns include impacts on coral reefs, beaches, and local flora and fauna. Species of particular concern are hawksbill sea turtles, crustaceans, fish populations, which have been negatively affected by “tourism, overfishing, and invasive species, such as lionfish.” Improper zoning of land (as described above) causes deforestation and erosion which also destroys coral reefs through siltation and desertification. Tourism and population growth can cause “overuse of resources, such as freshwater, result[ing] in shortages, pollution, and saltwater intrusion. Aquifers are particularly vulnerable to

Dominican Republic,” VWRRR SR49-2010, Virginia Tech, Blacksburg, VA, 2010, http://vwrrc.vt.edu/pdfs/specialreports/SR-49_dr_report.pdf.

51 UNDP, “Política Social: Capacidades Y Derechos” Volumen III” (Oficina de Desarrollo Humano del PNUD, 2010), <http://en.calameo.com/read/0003007164540cff21910>.

52 World Bank, “Dominican Republic: US\$27.5 Million for Water and Sanitation in Tourist Areas,” 2009, 5, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22127746~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>.

pollution because of the high rate of percolation of surface contaminants through limestone.⁵³ Most of the hotels in Bávaro sit on a wetland which is largely unprotected. As one industry observer notes, “we’re at the point where we’re losing our treasure—the main draw to this area—which is the beach.”⁵⁴ Elsewhere in the country, expanding tourism activities threaten the island’s delicate biodiversity. Jaragua National Park is home to endemic populations of the rhinoceros iguana, Ricard’s iguana, and dwarf gecko; it is also a critical habitat for sea turtles and freshwater turtles. Local environmental groups have fought the installation of mega-resorts, advocating instead for community-based ecotourism projects, which would better protect the fragile ecosystem and also better integrate the needs of local residents.⁵⁵

There is hope in pivoting towards a more environmentally friendly future. Grupo Puntacana has been lauded as a sustainable development leader; the group sets aside protected land within its own resorts, enforces strict capacity guidelines in its development projects, and has established an ecological foundation that engages in a variety of programs, like piloting a zero waste program. The Foundation has also partnered with a number of other institutions, including the Caribbean Tourism Organization (CTO) and several US universities (Harvard, Cornell, Virginia Tech, among others) on research and sustainability management initiatives. However, the success of the Punta Cana airport —also developed by Grupo Puntacana—“has enabled the rapid and uncontrolled expansion of tourism in the region [and] only a few of the other resorts in the area share Grupo Punta Cana’s vision of sustainable tourism development.”⁵⁶

ii) Limited State Capacity in Environmental Management

Though the situation is improving, the Dominican government has demonstrated limited capacity in tackling environmental issues. While the Ministry of Environment and Ministry of Tourism share the same building, the two institutions are not particularly well-integrated. Within the Vice Ministry for Protected Areas, for example, there is

53 Stephen M. Uzzo, “Puntacana Ecological Foundation and the Scaling of Sustainable Tourism Development,” *Ecology and Society* 18, no. 4 (2013):73.

54 Personal interview with environmental scientist.

55 Valerie Vilardo, “Dominican Republic: Tourism Threatens Natural Treasure,” *Tierramerica: Environment and Development*, May 30, 2009.

56 Scarpaci et al, “Marketing the Dominican Republic’s Last Frontier,” 1271.

a team devoted to ecotourism, but they have little collaboration with the Ministry of Tourism. The situation is slowly improving, as the two institutions have frequent roundtables and sometimes collaborate on initiatives. The Ministry of Environment was created in 2000, and prior to that its activities were carried out by the Secretariat for Agriculture. As a young institution, it is effectively playing regulatory “catch-up”—developments that were completed prior to 2000 are undergoing a registration process to ensure that they comply with the regulatory norms for conservation and sustainability established since then. This is particularly challenging in well-developed tourism zones like in Bávaro-Punta Cana, where “there are lots of projects on the coast—but they were before the norm was established or they had special permission to do so.”⁵⁷

When the Ministry finds a hotel or other business in violation of its regulatory norms, it can apply sanctions. If the damage is reparable, then a fine is issued depending on the magnitude of the damage. The Ministry also evaluates the economic costs associated with the loss of cubic meters of mangroves or coral reefs. When the damage is more serious, the cases typically go to court, where higher penalties can be applied. An official I interviewed noted that “sanctions work quite well” and that the Ministry pays particular attention to marine pollution. One recent case is that of Mario Monsi, an Italian entrepreneur who was fined RD\$158,000 (approximately USD\$3,500) for removing thirty large pieces of coral in January 2014, destroying the coral barrier so that his company’s boats could reach the shore.⁵⁸

While the Ministry’s activities are chiefly funded through the federal budget, it does partner with the private sector to carry out some of its activities. As the official pointed out:

The Dominican hotel sector is organized, and so we present them with proposals to improve the zone, and in general they support us—logistical support, use of transport, fuel, use of hotel areas for meetings and conventions. In many cases, they also give us financial support.

57 Personal interview with Ministry of Environment official.

58 Fausto Adames, “Condenan a Mario Monsi al Pago de Más de RD\$ 158,000 por Daño Ambiental,” *Bávaro News*, March 7, 2014, <http://www.bavaronews.com/semanal/index.php/impactos/actualidad/3714-condenan-a-mario-monsi-al-pago-de-mas-de-rd-158-000-por-dano-ambiental>.

For the appearance of propriety a few degrees of separation between regulator and regulated might be wise, but the official insisted that this collaboration was important, and that the government intervenes when conflicts arise between the Ministry and the private sector. This can lead to controversy, of course; in 2004, Cap Cana's one-thousand slip marina received quick approval from the Ministry of Environment, and environmental activists worried about the expedited process and that cutting into the limestone bedrock would result in salt water intrusion.

Essential to protecting coastal areas is changing regulations from the 1970s to ensure that new construction takes place further from the waterline. While a Ministry of Environment official noted that this has caused controversy within the private sector, "the environmental degradation reduces the economic value" of waterfront properties. Increasing consciousness about these issues requires education and training efforts with local communities and businesses. I asked about encouraging collaboration with European hoteliers on sustainability reforms, and the official pointed out that there is interest, but that interest alone is insufficient. But he also indicated that the impetus for these changes has to come through regulation and be in place when projects are first proposed. Within the government, there is pressure to make concessions for foreign hoteliers:

Many of these investors are quite aggressive, and the state is interested in investment and employment generation. But when there are aggressive investors, and when they say they need to build on the beach, the conversation gets pretty heavy. Many times they get concessions for that. This is getting better with time, though(...)it's gotten better through experience, through seeing the impacts of what happens.

Those impacts, of course, come in the form of further environmental degradation.

d. Challenge 4: Modernizing the Framework for Fiscal Incentives

In addition to the regulatory issues addressed earlier—environmental, planning and land use—the Dominican framework of fiscal incentives requires careful review and modernization.

The Dominican Republic's fiscal incentives have been particularly successful in attracting investment from Europeans, and are now experiencing similar success in attracting Central and South American investors in U.S. firms (e.g. Sheraton and Marriott). However, as one interviewee noted: "We're very lucky—we've been very successful, but not in a very professional way." While the incentive structure has evolved to remain competitive, there are serious gaps in operational regulation, including laws for tour operators.⁵⁹ Regulatory attention has also been applied unevenly throughout the country—Puerto Plata has received public investment, land use planning and operational regulations while Punta Cana has not. As an IDB report recently pointed out, the Dominican Republic's economic development model, which rests on attracting foreign direct investment through fiscal incentives and free zones, has generated higher than average growth (compared with the rest of the region), but has not generated enough formal employment to significantly reduce poverty and inequality.⁶⁰ A complete listing of the Dominican Republic's laws, regulations, and decrees for the tourism sector is provided in the Appendix.

Tax incentives, while a popular instrument for developing country governments, have long been discouraged by the World Bank and other financial institutions for a variety of reasons. They pose economic costs, hindering the efficient allocation of capital by encouraging investment in some industries and not others. They result in forgone tax revenue and their implementation is often costly to country governments. Additionally, they may encourage corruption, particularly when granting of incentives is at the discretion of government officials.⁶¹ A 2008 study found that the decrease in tax revenue to attract FDI from one country to another is a phenomenon that has intensified in the Caribbean over the last two decades.⁶² Despite their widespread use in the region, studies suggest that the economic benefits do not

59 Personal interview with tourism sector entrepreneur

60 "BID Indica Se Debe Repensar Desarrollo," Listindiario.com, accessed December 19, 2014, <http://www.listindiario.com.do/economia-and-negocios/2014/12/8/348421/BID-indica-se-debe-repensar-desarrollo>.

61 Stefan Van Parys and Sebastian James, "The Effectiveness of Tax Incentives in Attracting FDI: Evidence from the Tourism Sector in the Caribbean," Gent, Universiteit Gent, 2010, <http://core.kmi.open.ac.uk/download/pdf/6280340.pdf>.

62 Koffie Ben Nassar, Corporate Income Tax Competition in the Caribbean (International Monetary Fund, 2008), http://books.google.com/books?hl=en&lr=&id=hu8yGa3G_ioC&oi=fnd&pg=PA3&dq=nassar+corporate+income+tax&ots=E0bAibvWU2&sig=ZKUC1wJYXWPue7VndWnX-B2xPU.

necessarily make these policies profitable instruments in the tourism sector, especially in the Caribbean. Using panel data from 1990 to 2003 for six Eastern Caribbean Currency Union (ECCU) member countries, Chai and Goyal found that the benefits of tax exemptions (measured by increased FDI), were less than the economic costs, in the form of tax flows not captured by the state. Forgone tax revenues “rang[ed] from 9.5 to 16% of GDP annually, while the effect of tax incentive regimes on FDI appears to be modest.” The authors’ firm-level analysis of 145 companies receiving concessions excluded tourism firms due to lack of data⁶³, which indicates that further firm-level research is necessary to understand the role that tax concessions play in firm decision-making and local value chains. Lost tax flows ranged from 10% to 16% of GDP in the Bahamas, Barbados, Belize, the Dominican Republic, Guyana, Jamaica, Haiti, Suriname, and Trinidad and Tobago. A similar conclusion was arrived at when comparing the fiscal incentive structures for tourism in Nicaragua (where they are expansive) and Costa Rica (where they are minimal) and the scant difference in the levels of investment generated.⁶⁴ Moreover, there is no clear evidence that the demand for tourism is more elastic than that for other goods and services, and the opportunity cost of tax exemptions for developing countries can be very high. Gago et al. found that the introduction of taxes on hotels and other lodgings in Spain had minimal effects on the hotel industry.⁶⁵

Evidence from econometric studies demonstrates that, for developing countries, fiscal incentives cannot effectively counteract an investment climate with unattractive conditions (like poor infrastructure and weak governance) that affect private investment and FDI in most sectors, including tourism. Therefore, it is necessary to first resolve the deficiencies in those public goods, so that a return on investments can be generated. Additionally, regional cooperation can help avoid damaging fiscal competition between countries.⁶⁶

63 J Chai and R Goyal, “Tax Concessions and Foreign Direct Investment in the ECCU,” in *The Caribbean: From Vulnerability to Sustained Growth*, ed. Ratna Sahay, David O. Robinson, and Paul Cashin (International Monetary Fund, 2006).

64 R Lanuza Díaz, “Incentivos Fiscales como Políticas de Desarrollo Productivo en el Sector Turístico de Costa Rica. Breve Análisis Comparativo con Nicaragua” (IDB, 2014).

65 Alberto Gago et al., “Specific and General Taxation of Tourism Activities. Evidence from Spain,” *Tourism Management* 30, no. 3 (2009): 381–92.

66 Sebastian James, “Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications,” FIAS, The World Bank Group, 2009, <http://papers.ssrn.com>.

VII. Policy Recommendations for the Dominican Tourism Sector

The policy recommendations that follow have a deliberate focus on practicality; while a revision of the incentive framework is certainly in order and has been recommended by a number of multilateral organizations, it would be politically intractable. Indeed, reigning in a large, powerful and foreign-dominated sector is a tall order, and I therefore propose changes at the margin.

a. Put Poverty Issues on the Tourism Agenda

Given that the tourism sector is typically dominated by multinational corporations, “governments have relatively few instruments to influence this sector, particularly in developing countries where fiscal and planning instruments for capturing non-commercial benefits are generally weak.”⁶⁷ This is certainly true of the Dominican Republic. To overcome these challenges, Ashley, Boyd, and Goodwin suggest a number of policy strategies to make tourism more pro-poor. First, they recommend “put[ting] poverty issues on the tourism agenda,” and acknowledging that PPT “requires proactive and strategic intervention.”⁶⁸ A discussion of the tourism-and-development nexus is missing in the Dominican Republic, which has long-relied on a “rising tide will lift all boats” argument: incentives provided to Dominican and foreign hoteliers will attract investment and spur infrastructural development, which will generate jobs and economic growth. While the sector’s continued growth makes a compelling argument for this perspective, it also ignores the sector’s other impacts: ecological, migratory, etc. Secondly, Ashley et al. recommend that policymakers “expand poor people’s economic participation by addressing the barriers they face,” and “incorporate wider concerns of the poor into decision-making.” To ensure long-term growth and stability in tourism poles, addressing the concerns of local residents, particularly in the provision of infrastructure and basic services, is an immediate concern.

proxyau.wrlc.org/sol3/papers.cfm?abstract_id=1540074.

67 Caroline Ashley, Charlotte Boyd and Harold Goodwin, “Pro-poor Tourism: Putting Poverty at the Heart of the Tourism Agenda,” *Natural Resource Perspectives* 51 (March 2000) <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2861.pdf>

68 Ibid.

b. Diversify Touristic Products

The diversification of the Dominican Republic's tourism offerings is already a priority for the National Competitiveness Council and the Cluster System.⁶⁹ They have advocated for improvements in highway signs and the accuracy of GPS programs, such that tourists can explore the country independently by car, and promoted unique destinations, such as the DR's burgeoning wine region in Ocoa Bay, and (in partnership with the IDB) pursued renovations and improvements to Santo Domingo's Colonial Zone. This diversification is necessary for a number of reasons. Firstly, for tourism's economic impacts to reach more Dominicans, the industry must expand beyond the all-inclusive model on the east coast—generating stronger linkages with relevant sectors (agriculture, handicrafts, tour operators, SMEs in the hospitality sector, etc.). Secondly, the Dominican Republic has expansive tourism capacity in national parks, maritime tourism, and beyond—and if these resources are sustainably managed, the country should remain the region's tourism leader for decades to come. This diversification can be spearheaded through the existing cluster system and the development of SMEs in burgeoning destinations, as also suggested in reports by Solimar International and the Pro Poor Tourism Partnership.⁷⁰

c. Conduct an Independent Value Chain Analysis on the Tourism Sector to Assess Economic Linkages and Improvements in Tourism Statistics

Curiously, there is no publicly available economic data on the tourism sector's domestic economic linkages. While the sector receives a generous package of incentives to ensure the attractiveness and stability of foreign direct investment, the benefits (and costs) of these incentives

69 Drawing on the work of Michael Porter, the Dominican cluster system was established with support from USAID, and is designed to improve the competitiveness of the tourism sector by providing a forum for various private sector actors to communicate and collaborate.

70 Solimar International, "Dominican Republic Sustainable Tourism Alliance: Supporting and Managing the Growth and Development of Sustainable Tourism," 2014, <http://www.solimarininternational.com/tourism-projects/dominican-republic>; Caroline Ashley, Harold Goodwin, and Douglas McNab, "Making Tourism Count for the Local Economy in the Dominican Republic: Ideas for Good Practice" (Pro Poor Tourism Partnership, September 2005), <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1945.pdf>.

have not been quantified. Estimates about the sector's purchases of agricultural goods are inadequate and/or outdated. As in any value chain analysis, there are likely to be concerns about releasing sensitive information and market intelligence. However, an independently conducted analysis—carried out perhaps with technical support from international partners—is necessary to have a complete picture of the sector's economic contributions, strengths and weaknesses. Steps towards improving tourism statistics, which are also badly needed, are being taken under the current IDB loan project for the refurbishment of Santo Domingo, which also established a National Tourism Information System. The new system will focus on “statistics, market intelligence, and the Santo Domingo tourism observatory, coordinated with the Central Bank and the National Statistics Office,” and should provide an important foundation for expanding data gathering and quantitative analysis to tourism poles across the country.⁷¹

d. Preserve Public Beach Access

Under Dominican law, beaches are public property. With the expansion of tourism poles, the spirit of this law has been undermined as private developers secured rights to build on the sand (or in some cases, have built without such permissions and have suffered few consequences). Throughout Bávaro-Punta Cana it is difficult to access the beach unless as a resort guest, and the handful of public access points are unsightly and poorly maintained. The issue of beach access is particularly pronounced in Cap Cana. When construction began in the early 2000s, local residents from the town on Juanillo were “relocated” five kilometers inland to make way for resort developments. As such, the residents—many who were fishermen—lost access to the beach. In the years since, beach access has also become limited for local residents of the condominium complexes in Cap Cana, as the company has placed a guard and built a jetty to prevent beachgoers from continuing along the beach in front of a stretch of mansions. The situation is likely to worsen as two additional hotels are built in Juanillo. Preservation of public beach access should become a priority within long-term planning for the country's coastal areas.

71 IDB, “Loan Proposal: Tourism Development Program - Colonial City of Santo Domingo (DR-L1035),” 2011, <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36440773>.

e. Improvements in Environmental Management

As described earlier, the country faces serious environmental challenges as a result of the tourism sector, and while the capacity of the Ministry of Environment is improving, further action is needed to regulate hoteliers and protect fragile ecosystems (which are also touristic products). Moreover, communicating improved environmental management policies to current and potential visitors has a positive impact on their likelihood to visit and/or return. A majority of tourists surveyed stated that they would be more likely to visit a Caribbean country that engaged in whale and dolphin conservation activities.⁷² Another tourist survey demonstrated that tourists prefer wild to captive dolphins and have a strong interest in sustainable marine tourism practices.⁷³ A 2002 study found that tourists consider clean water and beaches, in addition to quality of services and price, when determining where to vacation, and those surveyed expressed interest in and willingness to pay for sustainable development programs within Punta Cana, including an aquarium and water management program.⁷⁴

Action is also needed in the country's national parks. The Dominican Republic's conservation record is impressive, with approximately 21.5% of the country's territory in national parks or scientific reserves—the fourth highest percentage of any country in the world.⁷⁵ But striking a balance between conservation and the needs of local communities remains a challenge.⁷⁶ Resources for hiking, camping, and other outdoor

72 E.C.M. Parsons and Megan Draheim, "A Reason Not to Support Whaling – a Tourism Impact Case Study from the Dominican Republic," *Current Issues in Tourism* 12, no. 4 (June 15, 2009): 397–403, doi:10.1080/13683500902730460.

73 Megan Draheim et al., "Tourist Attitudes Towards Marine Mammal Tourism: An Example from the Dominican Republic," *Tourism in Marine Environments* 6, no. 4 (August 1, 2010): 175–83, doi:10.3727/154427310X12764412619046.

74 Leida Mercado and James P. Lassoie, "Assessing Tourists' Preferences for Recreational and Environmental Management Programs Central to the Sustainable Development of a Tourism Area in the Dominican Republic," *Environment, Development and Sustainability* 4, no. 3 (2002): 253–78.

75 George Holmes, "The Rich, the Powerful and the Endangered: Conservation Elites, Networks and the Dominican Republic," *Antipode* 42, no. 3 (2010): 624–46.

76 John Schelhas et al., "Linking Community and National Park Development: A Case from the Dominican Republic," *Natural Resources Forum* 26, no. 2 (May 1, 2002): 140–49, doi:10.1111/1477-8947.00014; Donald V. L. Macleod, "Parks or People? National Parks and the Case of Del Este, Dominican Republic," *Progress in Development Studies* 1, no. 3 (July 1, 2001): 221–35,

activities within the national parks remain limited, and this represents an important opportunity for diversifying the country's tourism flows and also providing the financial resources and motivation to continue these conservation efforts.

VIII. Conclusion

Some of the challenges described here are not unique to the Dominican Republic; managing a mass tourism industry in a developing, island economy is a task facing country governments throughout the Caribbean and beyond. It is also important to recognize the tremendous opportunities that tourism has brought to the Dominican Republic: above-average growth and relative economic stability, an influx of foreign direct investment and technical capacity, employment and opportunities for social mobility, and a global reputation as the island that “has it all.” But these opportunities have not been without social and environmental costs. These challenges must be given careful consideration if the Dominican Republic is to continue as a regional tourism leader—particularly with new challenges on the horizon, as tourists’ tastes shift away from all-inclusive offerings, Cuba potentially provides a new destination for American tourists for the first time in decades, and the environmental impacts of tourism threaten the country’s white sand beaches. Moreover, if the country hopes to welcome 10 million tourists by 2022—or even significantly increase its visitor arrivals from the current rate of 5 million per year—these challenges will become all the more important, as building and managing additional capacity requires careful planning and partnership. Such partnership must include not only the public and private sectors, but also local communities, civil society, and regional country governments.

IX. Appendix

Legal Framework for Tourism

Law	Year	Purpose
Law 541	1969	Constitutional Law for Tourism
Law 542	1969	Constitutional Law for the Promotion of the Hotel Industry and Development of Tourism
Law 153	1971	Promotions and incentives for tourism developments
Decree 2125	1972	Established Puerto Plata and Costa de Ambar as priority tourism pole
Decree 3133	1973	Established Costa Caribe as priority tourism zone
Law 719	1974	Construction permits within the zone declared as a tourism priority and public interest on the country's North Coast
Law 256	1975	Necessary mechanisms for zoning and controlled development in the Puerto Plata/ Costa de Ambar tourism pole
Decree 2729	1977	Established a tourism development plan in the municipalities of Constanza and Jarabacoa
Law 084	1979	(Modifying Law 541) converted the Dirección Nacional de Turismo to the Secretary of State for Tourism
Law 241	1984	Declared the province of Monte Cristi a tourist zone
Decree 3327	1985	Established Barahona as a priority tourism pole
Decree 1256-88-479	1986	Established Macao/Punta Cana as priority tourism pole
Decree 0322	1991	Designated the southeastern region of the country as a tourism pole
Decree 0016	1993	(Modifying Decree 156) Monte Cristi National Park

Decree 0091	1994	Declared the province of Samana a tourism pole
Decree 0177	1995	Declared the province of Peravia a tourism pole (coastal zone between the mouths of the Nizao and Ocoa Rivers); later expanded by Decree 0196 and 0197 in 1999
Decree 0199	1999	Declared Nagua and Cabrera in María Trinidad Sánchez province tourism poles
Decree 0406	2000	Approved new zoning for Puerto Plata/ Costa de Ambar; later modified to include residential tourism component under Decree 0390-2003
Resolution 009	2000	Construction and density regulations for Laguna Redonda National Park and Limón, Miches
Resolution 011	2000	Regulations for water treatment in tourism projects
Law 158	2001	Established the law to attract tourism development in underdeveloped and new poles in provinces and locations with great potential
Decree 0273	2001	Declared zone between Oveido Lagoon and Pedernales beach available for tourism development
Decree 0373	2001	Declared the province of Puerto Plata a cultural tourism pole
Decree 1125	2001	Established regulations for the application of Law 158-2001; later modified by Decree 0835-2008
Law 077	2002	Declared the province of Hato Mayor as an ecotourism province
Law 184	2002	Introduced modifications to Law 158, with the addition of new tourism poles
Resolution 002	2004	Regulation of jet ski use on certain beaches

Resolution 0107	2004	Set requirements for applying to CONFOTUR for the evaluation and processing of tourism projects for provisional classification
Law 151	2004	Declared the province of San José de Ocoa as an ecotourism province
Law 195	2004	Declared the province of Monseñor Nouel as an ecotourism province
Law 212	2004	Declared the province of Barahona as an ecotourism province
Law 266	2004	Established the southeast region as prioritized tourism demarcation, in the provinces of Barahona, Independencia and Pedernales
Law 318	2004	Modified Law 158
Law 163	2005	Declared the province of San Juan as an ecotourism province
Law 511	2005	Declared the province of Seibo as an ecotourism province
Resolution 003	2005	Reformulation of gross population density and maximum building height in zone from Najayo (San Cristóbal province) to Martín García (Azua de Compostela)
Resolution 015	2005	Safety regulations for Jeep Safari excursions in Charcos del Río Damajagua
Resolution 063	2005	Provides assigned (and exclusive) service areas for Sindicato Unido de Transporte Turístico de la Provincia La Altagracia (SIUTRATURAL) and la Asociación de Taxistas Turísticos de Berón, Punta Cana y Zonas Aledañas (Berón Taxi) in operation of tourist taxis
Resolution 068	2005	Prohibited use of motor vehicles along beaches where there are hotels or residences
Resolution 99	2005	Gave control and management of paradores turísticos to the Corporación de Fomento de la Industria Hotelera y Desarrollo del Turismo (CORPHOTELS)

Resolution 154	2005	Established urban parameters for Uvero Alto to Punta Cana Airport, conforming to the Urban Plan for this zone
Resolution 200	2005	Regulated the operation of aquatic theme parks
Resolution 211	2005	Permitted use of jet skis in front of Bahía Principe Clubs and Resorts in Playa Magante
Law 156	2006	Declared the province of Elías Piña as an ecotourism province
Resolution 001	2006	Reformulation of gross population density and maximum building height in touristic centers of Jarabacoa and Constanza, La Vega province
Decree 0221	2006	Established construction perimeters for tourism projects along malecón (waterfront) in Puerto Plata
Decree 0559	2006	Established requirement for “certificate of land use” for all developments located within declared tourism zones
Decree 0336	2006	Created a coastal tourism park in Puerto Plata
Resolution 028	2006	Prohibited the use of jet skis, motor boats, horses, motorcycles, and motor vehicles on all beaches during Holy Week 2006
Resolution 001	2007	Modified urban parameters in zones of Boca Chica, Juan Dolio and Guayacanes
Resolution 002	2007	Modified urban parameters in Samaná
Decree 0041	2007	Created tourism park on Cabarete coast
Decree 0042	2007	Created tourism parks in Juan Dolio and Guayacanes
Law 040	2008	Declared the province of Juan Sánchez Ramírez as an ecotourism province
Resolution 1064	2009	Fixed tariffs paid to the Secretary of State for Tourism for Planning and Evaluation applications in different tourism poles

Resolution 2125	2009	Fixed the total amount for the application analysis, according to an established scale
Decree 0178	2009	Created a committee for the Implementation of a System of Unified Management for Tourism Investment
Decree 0847	2009	Approved the tourism zoning plan for the municipal district of Cabarete
Resolution 061	2011	Applied Law 158-01 and its modifications to National District and Malecón
Resolution 001	2012	Substituted Resolution No. 027 del 2011, that established regulations for the installation of telecommunication antennas in tourism zones
Resolution 002	2012	Approved the manual of norms and procedures for the processing of tourism projects
Resolution 003	2012	Prohibited motor vehicle access on pedestrian walkways or Bonita Beach in Las Terrenas
Resolution 004	2012	Established a Tourism Sector Zoning Plan in Costa de Miches, El Seibo, and Hato Mayor
Resolution 005	2012	Established a Tourism Sector Zoning Plan in Pedernales
Resolution 006	2012	Established a Tourism Sector Zoning Plan in Samana, Las Terrenas
Resolution 007	2012	Established a Tourism Sector Zoning Plan in Punta Cana, Bavaro and Macao
Resolution 009	2012	Established a Tourism Sector Zoning Plan in Cabarete
Law 195	2013	Modified Law 158
Resolution 001	2014	Reformulated construction norms for Jarabacoa
Resolution 002		Modified Resolution 03-2005 as it applies to the territory between Punta Najayo and Rio Nizao
Resolution 003	2014	Modified Resolution 005-2012

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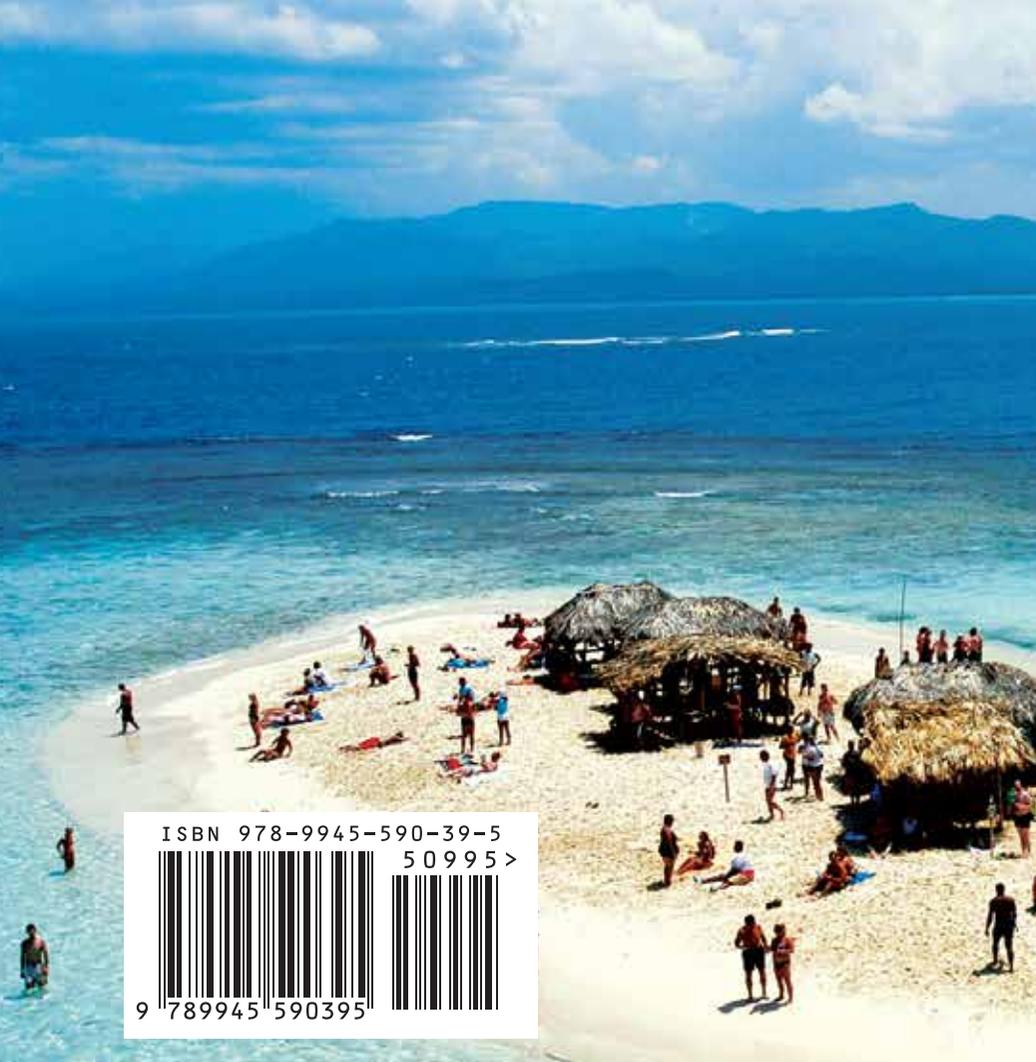
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