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Report No: PAD4659

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$100 MILLION

TO THE

DOMINICAN REPUBLIC

FOR THE

SUPPORT TO THE NATIONAL HOUSING PROGRAM PROJECT

May 5, 2022

Urban, Resilience and Land Global Practice
Latin America and Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 25, 2022)

Currency Unit =	Dominican Pesos (RD$)
RD$55.05 =	US$1
US$0.02 =	RD$1

FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ACOPROVI	Dominican Association of Housing Developers (*Asociación Dominicana de Constructores y Promotores de Viviendas*)
AML-CFT	Anti-Money Laundering and Counter-Terrorist Financing Law
ASA	Advisory Services and Analytics
CAP	Citizen Attention Points (*Centros de Atención Presencial*)
CPF	Country Partnership Framework
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DGII	General Directorate of Internal Taxes (*Dirección General de Impuestos Internos*)
DR	Dominican Republic
E&S	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
FHH	Female headed households
FI	Financial institution
FMA	Financial Management Assessment
FONVIVIENDA	National Housing Fund (*Fondo Nacional de Vivienda*)
GDP	Gross Domestic Product
GoDR	Government of the Dominican Republic
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
ICV	Index of Quality of Life (*Índice de Calidad de Vida*)
IFC	International Finance Corporation
IFR	Interim unaudited financial report
INVI	National Housing Institute (*Instituto Nacional de Vivienda*)
IRR	Internal rate of return
ITBIS	Tax on the transfer of industrialized goods and services (*Impuesto a la Transferencia de Bienes y Servicios Industrializados*)
LMP	Labor Management Procedures
MEPyD	Ministry of Economy, Planning and Development (*Ministerio de Economía, Planificación y Desarrollo*)
MFD	Maximizing Finance for Development
MinAmbiente	Ministry of the Environment and Natural Resources (*Ministerio de Medio Ambiente y Recursos Naturales*)
MINPRE	Ministry of Presidency (*Ministerio de Presidencia*)
MIVED	Ministry of Housing and Buildings (*Ministerio de Vivienda y Edificaciones*)
MW	Minimum wage
NDC	Nationally Determined Contribution
NPLs	Mortgages nonperforming loans
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
PNVFF	National Happy Family Housing Program (*Plan Nacional de Vivienda Familia Feliz*)

POM	Project Operational Manual
PPP	Purchasing Power Parity
RD$	Dominican Pesos
SCD	Systematic Country Diagnostic
SEP	Stakeholder Engagement Plan
SIUBEN	Unique Beneficiary System (*Sistema Único de Beneficiarios)*
STA	Single treasury account
STEP	Systematic Tracking of Exchanges in Procurement
TIDOM	Securitization vehicle (*Titularizadora Dominicana*)
VIP	Prioritized Housing (*Vivienda de Interés Prioritario*)
VIS	Social Housing (*Vivienda de Interés Social*)
VISUB	Subsidized Housing (*Vivienda Subsidiada*)

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Dominican Republic	Support to the National Housing Program Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P176581	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
31-May-2022	30-Jun-2026

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The objective of the Project is to increase access to affordable and resilient housing for eligible households in the Dominican Republic.

Components

Component Name	Cost (US$, millions)

Upfront Housing Subsidies (Bono Inicial Familiar)	99.60
Institutional strengthening of the housing sector	0.20
Project management	0.20

Organizations

Borrower:	Dominican Republic
Implementing Agency:	Ministry of the Presidency

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	600.00
Total Financing	600.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

Private Sector Investors/Shareholders

Equity	Amount	Debt	Amount
		IFI Debt	100.00
		IBRD	100.00
		Commercial Debt	500.00
		Unguaranteed	500.00
Total	**0.00**		**600.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025	2026	2027
Annual	0.00	30.69	26.16	26.16	12.99	4.00

Cumulative	0.00	30.69	56.85	83.01	96.00	100.00

INSTITUTIONAL DATA

Practice Area (Lead)
Urban, Resilience and Land

Contributing Practice Areas
Finance, Competitiveness and Innovation

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy
Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Section I.A.3 of Schedule 2 to the Loan Agreement. Without limitation to the provisions of Section 5.09 of the General Conditions and the Disbursement and Financial Information Letter, the Borrower, through MINPRE shall not later than six (6) months after the Effective Date, hire an independent financial auditor with experience and qualifications acceptable to the Bank, for purposes of carrying out the Project audits in accordance with terms of reference set forth in the Operational Manual, and consistently applied auditing financial standards, all acceptable to the Bank.

Section I.C of Schedule 2 to the Loan Agreement. In carrying out Part 1 of the Project, the Borrower, through MINPRE, shall ensure that, unless otherwise agreed to by the Bank in writing and thereafter incorporated into the Operational Manual, each Upfront Housing Subsidy is assigned and financed in accordance with standards, criteria and procedures acceptable to the Bank, as detailed in the Operational Manual and the ESCP, which shall include determining, to the satisfaction of the Bank, that: (a) It has been assigned to an Eligible Household for the purchase of an Eligible Housing Unit; and (b) the Eligible Household has signed a mortgage for the Eligible Housing Unit with a Participating Financial Intermediary and has the corresponding property title for said unit.

Section I.D of Schedule 2 to the Loan Agreement. C. Prior to the financing of an Upfront Housing Subsidy out of the proceeds of the Loan under Part 1 of the Project for an Eligible Housing Unit developed by a Housing Developer/Seller, the Borrower, through MINPRE, shall issue a notice to each Housing Developer/Seller and Housing Developer/Seller Fiduciary Agent (or include appropriate amendments to an existing agreement, as applicable), under terms and conditions acceptable to the Bank, substantially similar to those included in the corresponding model form of the Operational Manual, including the obligation of each Housing Developer/Seller and Housing Developer/Seller Fiduciary Agent to comply with the Anti-Corruption Guidelines.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article V, Section 5.01 (a) of the Loan Agreement. The Project Operational Manual has been adopted by MINPRE, in a manner acceptable to the Bank.
Effectiveness	IBRD/IDA	Article V, Section 5.01 (b) of the Loan Agreement. The Amendment to the FONVIVIENDA Trust Agreement has been signed by the Borrower, through MINPRE, and FONVIVIENDA's Fiduciary Agent, in a manner acceptable to the Bank.
Effectiveness	IBRD/IDA	Article V, Section 5.01 (c) of the Loan Agreement. That the PIU has been established and staffed as provided in Sections I.A l(a) of Schedule 2 to this Agreement, and in a manner satisfactory to the Bank.
Disbursement		Section III. B.1 of Schedule 2 to the Loan Agreement. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed $

		20,000,000 may be made for payments made prior to this date but on or after June 8, 2021 (but in no case more than one year before the Signature Date), for Eligible Expenditures.

I. STRATEGIC CONTEXT

A. Country Context

1. **Prior to 2020, the Dominican Republic (DR) recorded sound economic growth with sustainable macroeconomic dynamics.** The country's gross domestic product (GDP) grew at an average rate of 5.3 percent per year between 2000 and 2019, one of the fastest growth rates in Latin America and the Caribbean (LAC) region, which yielded broad-based gains in employment and poverty reduction.[1] Economic growth became less volatile even as the country coped with a domestic banking crisis in 2003, the global financial crisis of 2008-09, and various natural disasters. The resilience of the Dominican economy is due in part to the structural and stabilization policies implemented in the 1990s and 2000s, which enhanced the economy's ability to adapt to changing conditions.[2] The combination of high growth rates and low levels of volatility in the DR is exceptional in the LAC region.

2. **Economic growth has been accompanied by significant progress in poverty reduction, though inequalities persist.** Poverty levels using upper-middle income poverty lines (US$5.50 per person per day, in purchasing power parities (PPP) 2011) have been declining steadily, from 15.9 percent in 2017 to 12.4 percent in 2019.[3] Increasing labor income has been the main driver behind poverty reduction however, it has not necessarily been pro-poor. The average household income of the top 60 percent of the income distribution grew the same as the average household at the bottom 40 percent (12.7 percent compared to 12.6 percent). Income inequality as measured by the Gini coefficient remained almost invariant at around 0.42 up to 2019.[4]

3. **The DR's economic growth rebounded after a major impact from the COVID-19 pandemic.** The GDP growth rebounded to 12.3 percent in 2021, following a 6.7 percent decline in 2020, and is expected to moderate to a more sustainable growth rate of 5 percent in the medium term. In response to the pandemic, a fiscal stimulus, combined with a monetary expansion, boosted domestic demand. The external sector also contributed to the economic recovery, with remittances increasing by 30 percent (y/y) and merchandise exports reaching 96.5 percent of their 2019 levels (year- on-year, y/y) in the second half of 2020. Social transfers helped support household incomes during the pandemic, and inequality decreased slightly to 0.40 in 2020. Despite this, according to national estimates, monetary poverty[5] increased from 21 percent in 2019 to 23.4 percent in 2020, which represents over a quarter million people falling into poverty. The impact was higher in the urban areas and in the eastern region of the country that is highly dependent on tourism, which remains volatile. The impact of the COVID-19 pandemic has been disproportionate on women, who were more likely in 2020 to lose their formal jobs (7.5 percent) than men (4.9 percent) and were more likely to stay out of the workforce

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[1] World Bank (2022). Dominican Republic Marco Poverty Outlook.
https://thedocs.worldbank.org/en/doc/e408a7e21ba62d843bdd90dc37e61b57-0500032021/related/mpo-dom.pdf

[2] The structural reforms of the 1990s opened the Dominican economy to trade and foreign capital flows. Further measures in the 2000s, such as the adoption of an inflation-targeting regime by the central bank, strengthened the country's macroeconomic policy framework and financial stability.

[3] World Bank (2022). Dominican Republic Marco Poverty Outlook.
https://thedocs.worldbank.org/en/doc/e408a7e21ba62d843bdd90dc37e61b57-0500032021/related/mpo-dom.pdf

[4] World Bank (2021). Dominican Republic Poverty & Equity Brief. https://databank.worldbank.org/data/download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2021/Global_POVEQ_DOM.pdf

[5] "Monetary poverty" is defined by the Government of the Dominican Republic as: "when a household does not have sufficient resources to purchase a basic set of goods and services." The methodology includes the household per capita income, as well as the ability to access a basic food basket, clothing, footwear, housing costs, housing maintenance, health costs, education, and transportation, among others.

because of an increase in nonremunerated care work during the pandemic. Between 2019 and 2020, the percentage of women below the monetary poverty line increased from 22 percent to 24.6 percent.[6]

4. **The DR is endowed with abundant natural resources on which it relies for tourism and agricultural production, but its geography also makes the country highly vulnerable to natural hazards and climate-related events.** The DR ranks as the world's eighth most vulnerable country to climate change due to its high exposure to weather-related disasters like tropical storms, hurricanes, cyclones, floods, and landslides, as well as slow climate change processes including sea-level rise and desertification.[7] The northeastern region is exposed to floods and mudslides from severe storms, while arid regions of the northwest are experiencing increasing temperatures that pose risks of drought, which affect agricultural yields and reduce water supplies. Furthermore, the DR is at the center of a hurricane belt. Intense storms pose a threat to private and public infrastructure, including housing, and often disrupt businesses and the provision of basic services. The World Bank's Country Disaster Risk Profile for the DR (2018) estimates the Annual Average Losses (AAL) to the country's building stock at US$642 million (0.89 percent of the 2016 GDP)—of which the majority (US$552 million or 0.77 percent of GDP) correspond to losses in urban areas, particularly in National District and Santo Domingo. Additionally, any given year, there is a 10 percent probability of having building stock losses that exceed US$1,837 million (2.55 percent of GDP) due to a hurricane. Climate-related events, including hurricanes have a regressive distributional effect, affecting mostly those who are poorer and live in more vulnerable conditions with housing being typically the most impacted private asset.

B. Sectoral and Institutional Context

5. **The DR is highly urbanized.** In 2020, 9.1 million people (82 percent of the total population) resided in urban areas[8] and the country continues to urbanize at a fast pace, challenging the Government's capacity to respond and leading to territorial inequality.[9] By 2050, 12.2 million people (92 percent of the projected population) will be living in urban areas, mainly in small and medium cities across the country. Large metropolitan areas (Santo Domingo and Santiago) will continue to grow, though most of the new urbanization will be absorbed in cities below 300,000 inhabitants, which are expected to grow 6 percent annually on average.

6. **Limited availability of updated planning instruments has resulted in urban disorder, informality, and increased exposure to climate-induced natural hazards.** Most urban development is being carried out without any land-use planning guidelines due to the lack of effective and binding national and municipal territorial planning instruments.[10] Only 5 percent of municipalities have local land use plans to inform policies and investments that can sustainably guide growth.[11] The lack of planning guidelines combined with the rapid urbanization, has led to an unplanned urban growth, including the expansion of informal settlements. Approximately a third of the national population lives in housing units

[6] Gobierno de República Dominicana, Comité Técnico Interinstitucional de Pobreza. (March 2021). Boletín de Estadísticas Oficiales de Pobreza Monetaria.
[7] Coastal Risk Screening Tool (Climate Central), and the World Bank's Climate Change Knowledge Portal.
[8] Oficina Nacional de Estadística (ONE). *"Estimaciones y proyecciones de la población urbana por año calendario, según sexo y grupos quinquenales de edad, 2000-2030"*. Urban population is defined by the Dominican government as the people who live in the heads of the municipalities or municipal districts; the rest of the population that does not reside in these areas is considered rural population.
[9] For the last two decades, the DR has had a higher urbanization rate than the LAC regional average, with the country following a similar urbanization trend as other Central American countries. Urban growth reached 1.9 percent growth in 2019 (compared to the 1 percent for LAC). In the Caribbean, only Haiti surpasses the Dominican Republic's urban growth rates, with 2.8 percent in 2019.
[10] The Government has acknowledged the need to strengthen territorial planning, thus Congress is currently reviewing a territorial law project: Law of Territorial Planning, Land Use and Human Settlements.
[11] World Bank (2022) "Paving the way for prosperous cities and territories: Urbanization and Territorial Review of the Dominican Republic."

that are considered structurally vulnerable to natural hazards and climate-related events.[12] In highly urban areas, the percentage of informal and vulnerable housing is even higher. For example, in the Greater Santo Domingo and Puerto Plata, approximately 43 percent and 70 percent of the population live in informal settlements, respectively.[13] Furthermore, there is a high correlation between the household's poverty level and the vulnerability of their house to climate-related events.[14]

7. **More than half of all dwellings in the DR contribute to either a quantitative or qualitative housing deficit.** Based on the 2010 Census, the housing deficit is estimated at 1.4 million units (51 percent of all housing units). The quantitative deficit, comprised of housing units that need to be built to replace those that are in poor condition and those that need to be built to meet the needs of secondary households or households in extreme overcrowded conditions, represents 26 percent of the total deficit. The qualitative deficit, comprised of units that need improvements or expansions due to poor quality materials or lack of access to basic services like water and sanitation, represents the remaining 74 percent of the total deficit. These households are particularly at high risk to climate change impacts. Urban areas account for 69 percent of the total housing deficit, although housing deficit prevalence is higher in rural areas (62 percent) than in urban areas (48 percent). The total deficit increases by approximately 50,000 additional units per year due to the gap between household formation and formal production of housing.[15]

8. **The potential climate risk to urban housing is high to very high, with a high confidence rate.[16]** Inappropriately located housing of poor quality is often most vulnerable to extreme events, including flooding, wind, storms, and heat. Climate change adaptation options include enforcement of land use and building regulations, and urban and housing upgrading. An effective policy intervention to adaptation is to provide incentives to increase the supply of formal, affordable climate resilient housing to limit the growth of highly exposed informal settlements. City studies show the potential to adapt housing and promote mitigation, adaptation, and development goals simultaneously.[17] Rapidly growing cities, or those rebuilding after a disaster, especially have opportunities to increase resilience. Without adaptation, risks of economic losses from extreme events are substantial in cities with high-value infrastructure and housing assets, with broader economic effects possible. Ensuing adequate provision of formal, affordable housing will also contribute to climate mitigation through more efficient land use, less urban sprawl, well located development near transit and transport infrastructure, among other benefits.

9. **More than half of all dwellings in the DR contribute to either a quantitative or qualitative housing deficit.** Based on the 2010 Census, the housing deficit is estimated at 1.4 million units (51 percent of all housing units). The quantitative deficit, comprised of housing units that need to be built to replace those that are in poor condition and those that need to be built to meet the needs of secondary households or households in extreme overcrowded conditions, represents 26 percent of the total deficit. The qualitative deficit, comprised of units that need improvements or expansions due to poor quality materials or lack of access to basic services like water and sanitation, represents the remaining 74 percent of the total deficit. These households are particularly at high risk to climate change impacts. Urban areas account for 69 percent of the total housing deficit, although housing deficit prevalence is higher in rural areas (62 percent) than in urban

[12] World Bank (2018). Country Disaster Risk Profile for the Dominican Republic.
[13] ONE (2016). Estudio Metodología para la identificación de tugurios en el Distrito Nacional Censo 2010.
https://www1.undp.org/content/undp/es/home/ourwork/ourstories/republica-dominicana--preparados-para-actuar-ante-desastres.html
[14] Observatorio de Bienestar Social en República Dominicana (2017). Vivienda y Bienestar Social en República Dominicana.
[15] https://habitatdominicana.org/problema-vivienda-inadecuada/
[16] Intergovernmental Panel on Climate Change (IPCC), 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.
[17] *Idem.*

areas (48 percent). The total deficit increases by approximately 50,000 additional units per year due to the gap between household formation and formal production of housing.[18]

10. **Affordability is a key constraint for accessing formal housing, especially for households earning less than three minimum wages (MW) and female headed households (FHH).** Historically, the housing market has trended towards producing more expensive units, resulting in a significant percentage of the population turning to the informal housing sector or to rental housing to fulfill their needs. In 2012, 58 percent of the national housing supply was priced above RD$8,600,000, well beyond the purchasing power of most households. Though there has been a recent increase in the production of low-cost housing, most Dominican households cannot afford formal housing on the market. The cost of the less expensive new formal housing unit sold on the market in 2020 was approximately RD$1,236,900. With the mortgage terms of the Dominican market, a household income of at least RD$31,830 (equivalent to 3 MW) would be needed to purchase this home, which is still out of reach for 62 percent of Dominican households. Furthermore, access to formal housing is especially constrained for FHH due to gaps in access to employment and wages. As a result, 28 percent of FHH experience overcrowding compared to 16 percent of male headed households.[19]

11. **Potential demand for new housing is concentrated on the lowest priced units.** A 2017 study shows that there is potential demand for 351,000 units in the seven largest urban areas, with demand defined as those households willing and able to purchase a home.[20] Out of this demand, about 70 percent is for units with a sales price less than RD$2 million and 90 percent falls within the low-cost housing segment, whose cost is up to RD$3.8 million.[21]

12. **While the mortgage market in the DR has grown in recent years, it remains relatively small and does not serve the needs of the most low-and middle-income households.** The country's mortgage portfolio has increased consistently over the last 15 years, where the debt-to-GDP ratio went from 2.9 percent in 2006 to 5 percent in December 2020 (doubling from 51,000 mortgages registered in 2006 to 108,000 in 2021). Between 2007 and 2020, the mortgage portfolio quadrupled and exhibited an average annual growth rate of 11.7 percent. However, mortgage debt as a percentage of GDP remains below the regional average (8.9 percent), partially explained by a limited supply of long-term finance, the lack of market standards for lending towards low- and informal-income earners, and lenders' risk aversion. The average mortgage interest rate hovered around 11 percent during the past five years, with a maximum 20-year mortgage term. Most mortgages (63 percent) are held by banks, of which the public bank (*Banco de Reservas*) and the largest commercial bank (*Banco Popular*) hold a combined 44 percent market share. The remaining mortgages are with savings and loans associations (36 percent) and other institutions (1 percent). The mortgage market in the DR primarily serves the needs of mid to high-income households. The average loan amount in the mortgage portfolio in 2020 was RD$2.8 million. Due to their geographic coverage and target market segment, financial cooperatives have gained a role in providing mortgages notably in rural areas. However, their size and financials are difficult to gauge given the lack of a solid regulatory and supervisory framework.

13. **In 2011, the DR approved a law[22] to support the Development of the Mortgage Market and Trust Fund, which has played an important role in the development of the mortgage market in the last decade.** Additional initiatives included the development of a secondary mortgage market through the Securitization Vehicle (*Titularizadora Dominicana,* TIDOM) to support long term finance for lenders, together with Central Bank facilities (*liberaciónes de encaje*) to promote liquidity for mortgages. The Law 189-11 also created a trust fund structure to promote the financing

[18] https://habitatdominicana.org/problema-vivienda-inadecuada/
[19] Plan Nacional de Igualdad de Género (2019). Based on data from the 2010 Census.
[20] Dominican Association of Housing Developers (*Asociación Dominicana de Constructores y Promotores de Viviendas*, ACOPROVI) (2017). Demanda Efectiva de Vivienda en Siete Ciudades de la República Dominicana.
[21] World Bank (2022) "Paving the way for prosperous cities and territories: Urbanization and Territorial Review of the Dominican Republic."
[22] Law 189-11 approved by the National Congress in July 22, 2011.

for affordable housing led by the private sector. Through this scheme, the Government of the Dominican Republic (GoDR) offers first-time homebuyers and developers a series of incentives and subsidies for the development and purchase of affordable housing below a certain selling price. For example, on the supply side it offers a system for expedited permit processing, and on the demand side it provides first-time homebuyers an upfront subsidy equivalent to the tax on the transfer of industrialized goods and services (known as the *Bono ITBIS - Impuesto a la Transferencia de Bienes y Servicios Industrializado*) that represents approximately 7 percent of the total housing value and is paid directly to the developer as part of the down payment. Between 2013 and 2021, the GoDR provided 21,445 ITBIS subsidies, totaling US$55 million, which has contributed to the construction of thousands of new affordable housing units. Among these new housing units, is the construction of Ciudad Juan Bosch, a development that will eventually include 25,000 affordable houses in East Santo Domingo.

14. **The GoDR is taking steps to address the key issues in the housing sector, including the lack of a comprehensive national housing policy, the limited coordination of housing programs and institutions and the lack of public investment in the sector.** Historically, public investment in the sector has been low, but it is increasing. Public investment in housing and community services in 2021 was the highest of the past five years and national programs have been launched to address the qualitative and quantitative housing deficits.[23] Additionally, in June 2021, Congress passed a law to create the Ministry of Housing and Buildings (*Ministerio de la Vivienda y Edificaciones*, MIVED). MIVED centralized previously dispersed roles and responsibilities in the sector and is expected to generate a unified sectoral strategy to guarantee the constitutional right to housing. On August 11, 2021, the President published a Decree naming the Minister and Vice Ministers of MIVED, as well as confirming that MIVED will absorb the functions previously carried out by the now-defunct National Housing Institute (*Instituto Nacional de Vivienda*, INVI) and other entities. The World Bank has engaged with the newly created Ministry, especially by supporting their efforts to strengthen building regulations.

15. **In the absence of a dedicated housing ministry, the Ministry of the Presidency (MINPRE) played a significant role in the housing sector over the past decade, promoting land titling programs, urban upgrading, and public-private partnerships (PPPs) in housing construction and financing.** MINPRE has been responsible for the implementation of Law 189-11 through the Presidential Commission for the Development of the Mortgage Market and Trust Fund (*Comisión Presidencial para el Desarrollo del Mercado Hipotecario y el Fideicomiso,* CPDMHF). Additionally, through the State Land Titling Commission (*Comisión Permanente de Titulación de Terrenos del Estado,* CPTTE), MINPRE has focused on legalizing housing projects that the GoDR developed in the past and ensuring that new housing projects have land titles.

16. **In January 2021, the GoDR launched the first national housing plan to increase housing affordability, known as the National Happy Family Housing Program (*Plan Nacional de Vivienda Familia Feliz*, PNVFF).** The PNVFF is managed by MINPRE through the National Housing Fund (*Fondo Nacional de la Vivienda*, FONVIVIENDA), created by Decree 191-21 in March 2021.[24] The program seeks to induce a housing supply response from the private sector and increase effective demand and housing affordability for low- and moderate-income households though a combination of subsidies. Specifically, the PNVFF supports Dominican families in the purchase of their first home through two types of subsidies: an upfront subsidy (*Bono Inicial Familiar*), which is a flat subsidy intended to decrease the amount of the down payment for the beneficiary household, and a mortgage payment buydown subsidy (*Bono Tasa*), which is a monthly monetary contribution to reduce households' mortgage payments for a period of seven years. The PNVFF beneficiaries are also eligible for a third (pre-existing) subsidy, the ITBIS subsidy, financed by the General Directorate of Internal Taxes (*Dirección General de Impuestos Internos*, DGII). These subsidies give access to three different types of housing

[23] Ministry of Economy, Planning and Development (*Ministerio de Economía, Planificación y Desarrollo,* MEPyD) (2022). Informe de rendición de cuentas de Inversión Pública del 2021.

[24] FONVIVIENDA, a dependent entity of MINPRE, will manage and execute the delivery of the *Bono Inicial* and *Bono Tasa* subsidies linked to PNVFF.

depending on the household income and ability to pay.[25] To date, 95 units have been completed and handed over to the beneficiary households and 1,822 are expected to be finalized and handed over by early 2023. The GoDR estimates the cost of the PNVFF over its first four years of implementation to be approximately US$254.5 million. Of this, the GoDR expects to finance about US$175.2 million for the *Bono Inicial Familiar* and US$79.3 million for the *Bono Tasa.* For more details on the program design of the PNVFF, see Annex 2.

17. **The GoDR has requested World Bank support for implementing the PNVFF by expanding access to affordable housing for eligible households.** Since 2020, the World Bank has provided technical support to the GoDR in the design of the PNVFF, incorporating global best practices to expand supply and increase effective demand for affordable housing. As a continuation of this ongoing collaboration, the proposed Project would finance a part of the upfront subsidies (*Bono Inicial Familiar*) of the PNVFF and support the GoDR to strengthen institutional capacity across the housing sector in the DR. This would be part of a broader program of World Bank support that includes, *inter alia*, grant funded technical assistance to the new MIVED with a focus on the qualitative housing deficit, as well as sector support to strengthen housing resilience through the Second Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P178122) currently under preparation.

C. Relevance to Higher Level Objectives

18. **The Project contributes to the World Bank corporate Twin Goals of reducing extreme poverty and promoting shared prosperity in a sustainable manner and is fully aligned with the World Bank Group's Country Partnership Framework (CPF) for the Dominican Republic (FY22-26),[26] discussed by the Board of Executive Directors on March 29, 2022.** The Project will contribute to reducing the qualitative housing deficit in the DR, and to promoting social inclusion and improved living conditions for eligible lower-income households. It supports two of the CPF objectives: Objective 1.1 "Improved fiscal space and public spending efficiency", under the High-Level Outcome 1 "Improved access to quality public service delivery", by leveraging private sector resources for the delivery of low- and middle-income housing; and Objective 2.3 "Increased mobilization of finance for underserved groups and infrastructure", under the High-Level Outcome 2 "Increased number of high-quality jobs", by providing upfront subsidies to underserved households that enable them to access mortgages from commercial financial institutions. Furthermore, the Project reflects the priority area "Improving resilience to disasters and climate-related risks" of the 2018 Systematic Country Diagnostic (SCD) by promoting access to resilient territorial and urban planning and housing design and construction to improve household welfare.

19. **The Project is also aligned with the World Bank Group's Climate Change Action Plan 2021-2025**. It contributes to Priority Area II: Prioritizing Key Systems Transitions, and the commitment to support sustainable cities to build resilience through green and resource-efficient buildings and improved land use planning and regulations. The Project also supports the World Bank Group Green, Resilient, and Inclusive Development (GRID) approach on building resilient and well-connected urban systems. Lastly, the Project is aligned with World Bank's Gender Strategy, Strategic Objective 3: Removing barriers to women's ownership and control of assets, by prioritizing FHH as potential beneficiaries.

20. **In addition, the Project is aligned with the GoDR's Pluriannual National Plan for the Public Sector 2021-2024.** This Project contributes to the priority policy "decent and adequate housing, a fundamental human right" (*Vivienda digna y adecuada, derecho fundamental del ser humano),* which seeks to decrease the qualitative and quantitative housing deficit across the DR through the production of new housing units and the strengthening of urban planning and

[25] See Table 2,1 in Annex 2. Detailed Project Description for details.
[26] Report No. 167896-DO.

land use management. Finally, the Project supports the GoDR's 2019 National Plan for Gender Equality and Gender Equity (*Plan Nacional de Igualdad y Equidad de Género,* PLANEG), specifically the first objective under theme 3: Guarantee women's access to housing, basic services and infrastructure to allow them to increase their economic autonomy.

II. PROJECT DESCRIPTION

21. **The proposed Bank Project will finance the upfront subsidies of the PNVFF.** The PNVFF supports eligible households' access to housing through two subsidies, an upfront subsidy (*Bono Inicial Familiar)* and a mortgage payment buydown subsidy (*Bono Tasa*),[27] of which with proposed project would only finance the upfront subsidy. The focus of the World Bank financing on this piece of the overall GoDR's PNVFF and the limited funding for capacity building and project management is what defines the proposed Project and the Project Development Objective. The Project would include three components: Component 1, which represents the bulk of the Project, would finance upfront subsidies for eligible beneficiaries under the PNVFF; Component 2 would finance technical assistance and capacity building activities to improve the enabling environment for affordable housing to strengthen the implementation and sustainability of the PNVFF; and Component 3 would finance activities to support project management. The World Bank has also mobilized trust fund resources for Advisory Services and Analytics (ASAs) and will continue to do so during implementation to support the enabling environment for affordable housing in the DR.

A. Project Development Objective

PDO Statement

22. **The objective of the Project is to increase access to affordable and resilient housing for eligible households in the Dominican Republic.**

PDO Level Indicators

I. Eligible households with access to formal housing (of which female-headed households) (number)
II. People provided with improved urban living conditions (of which, female) (number)[28]
III. Mortgage financing that the PNVFF leverages (amount (USD))

23. **Affordable housing is defined as housing that complies with Law 189-11, its amendments, and complementary regulations, and has a sale price of up to RD$4,500,000 (around US$81,700) in 2022**. Resilient housing is defined as units that are resilient to natural and climate-related hazards as they adhere to local building codes, environmental guidelines, and technical construction standards. Eligible households are defined as those buying their first home, with a household income up to 5 MW, and that comply with the additional requirements established by the PNVFF.

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[27] The PNVFF interest rate subsidy is a monthly flat amount equal to RD$3,500 (around US$61) for the lowest income segment, and RD$4,000 (around US$70) for the other two income segments. This subsidy will not be financed by the proposed Project.
[28] This indicator is defined as: People from households benefiting from the *Bono Inicial Familiar* previously categorized in moderate poverty (ICV2) or medium socioeconomic stratum (ICV3) by the Quality of Life Index (Indice de Calidad de Vida, ICV); and medium and/or high in the Climate Shock Vulnerability Index (IVACC).

B. Project Components[29]

24. **Component 1: Upfront Housing Subsidies (*Bono Inicial Familiar*)** (US$99.35 million). This Component will support FONVIVIENDA – through MINPRE – in providing upfront housing subsidies to eligible households (earning up to 5 MW), for the purchase of eligible housing units[30] under the PNVFF. Eligible households would have access to one of three types of housing units with different price ranges, based on their income levels: Type 1 or Subsidized Housing (*Vivienda Subsidiada,* VISUB); Type 2 or Prioritized Housing (*Vivienda de Interés Prioritario*, VIP); and Type 3 or Social Housing (*Vivienda de Interés Social*, VIS). The upfront subsidy given to eligible beneficiaries will initially be between RD$240,000 (around US$4,211) and RD$260,000 (around US$4,561), with the lower income households receiving the higher subsidy to ensure progressivity. During the life of the Project, MINPRE through FONVIVIENDA may adjust the value of these subsidies to reflect changes in inflation and/or construction costs.

25. **The eligibility criteria for the financing of the upfront housing subsidy by the Project is the following:** (i) the eligible household has selected and agreed to purchase a housing unit under the PNVFF from the housing developer/seller; (ii) the eligible household has signed a mortgage with a participating financial intermediary (FI) supervised by the Superintendence of Banks and or a financial intermediary mutually agreed between the World Bank and the Borrower; (iii) the eligible household has received an offer from FONVIVIENDA, which ensures that they comply with the PNVFF eligibility criteria and that they have provided their part of the down payment (savings); and (iv) the finished housing unit complies with the PNVFF criteria and has been delivered to the eligible household with a property title. The main aspects of these criteria are reflected in the Loan Agreement, including the definitions in its Appendix, and further elaborated in the Project Operational Manual.

26. **Component 2: Institutional strengthening of the housing sector** (US$200,000). This component would finance technical assistance and capacity building activities to strengthen the institutional capacity of key actors in the housing sector. Activities supported under this component could include conducting studies and technical assistance on, *inter alia*, instruments to support the deepening of the mortgage market to include low-income and informal income households (such as lending guidelines for mortgages to low- and informal-income households, mortgage insurance, guarantee funds); and calibrating annually the design of the subsidies of the PNVFF.

27. **Component 3: Project management** (US$200,000). This component would finance support for management, implementation, monitoring, and evaluation of the Project. This would include implementation support of the Project Implementation Unit (PIU) for the following activities, *inter alia*: (i) project auditing, monitoring, and evaluation, (including beneficiary surveys); (ii) fiduciary management; (iii) implementation and monitoring of environmental and social requirements in accordance with the Environmental and Social Commitment Plan (ESCP).

C. Project Beneficiaries

28. **The proposed Project will support the PNVFF make formal housing accessible at a lower price for households previously excluded from the market (below decile 7 in the income distribution)**. Formal housing supply has traditionally favored the production of higher cost housing, leaving an important share of households without access to formal housing. When analyzing the income distribution (2019) in the DR, it is inferred that 68 percent of the potential

[29] There is a front-end fee of US$250,000, thus the component costs add up to US$99.75 million instead of the loan amount of US$100 million.
[30] Eligible housing unit means an affordable and resilient finished housing unit that complies with the PNVFF's and the Project's eligibility criteria as specified in the Project Operational Manual.

PNVFF demand[31] are families considered, in monetary terms, either poor or vulnerable[32], with this share increasing to 79 percent for the first six deciles, and decreasing to 34 percent for deciles seven, eight and nine[33] – eligible households in deciles seven, eight, and nine represent only 10 percent of potential total demand for the PNVFF. Indirect project beneficiaries include people benefited from the increase in construction jobs and housing developers benefiting from the incentives provided by the PNVFF.

29. **The Project would contribute to closing an overall housing affordability gap of access to and ownership of housing in the DR.** During the first four years of implementation, the PNVFF will support 44,000 households in the acquisition of their first home. World Bank financing will facilitate meeting this target by increasing the total number of beneficiary households by approximately 20,000. To that end, the PNVFF aims to benefit approximately 140,800 low and moderate-income individuals of which World Bank financing is responsible for increasing by 83 percent the total number of beneficiaries (i.e., approximately 24,000 households without World Bank financing versus 44,000 with World Bank financing considering an average household size of 3.2 persons). The PNVFF is expected to provide 20 percent of the total subsidies to FHH, representing 8,800 FHH (of which the World Bank loan will support approximately 4,000). See Annex 2 for more information on beneficiary eligibility and selection.

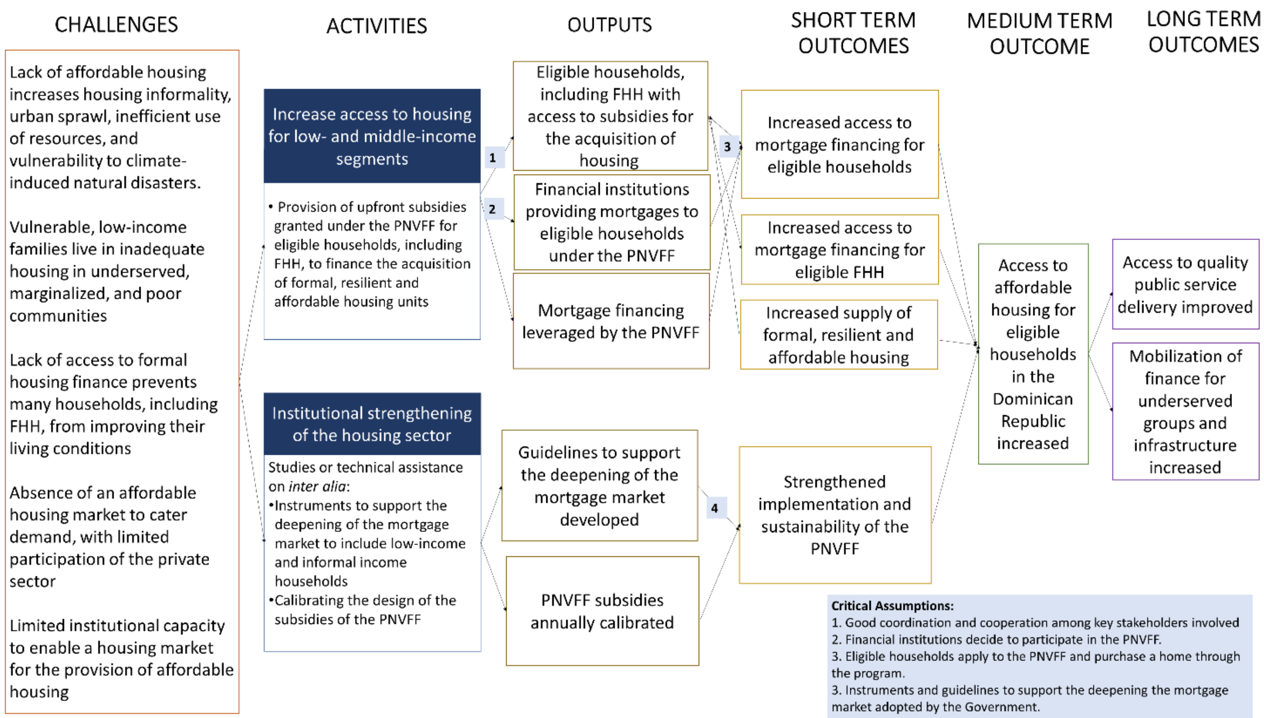
30. **Through Components 2 and 3, the proposed Project will support MINPRE and other relevant institutions in the sector in expanding its initiatives to address the housing needs and improved access to finance of the poor.** Activities supported under the proposed Project would ensure the continuous improvement of the PNVFF program, supporting MINPRE on developing sustainable mechanisms to access resilient housing solutions by the poor. By bringing international best practices, the proposed Project will provide technical assistance and capacity building support towards the establishment of risk sharing instruments and market guidelines to expand access to mortgages to low- and informal-income households.

D. Results Chain

31. **Figure 1 describes the Theory of Change (ToC) of the proposed Project.** It articulates and links the context-specific activities and expected outputs and outcomes to be tracked and measured through intermediate- and PDO-level indicators.

[31] Households not currently owning a home and earning less than 4.75 minimum wages.
[32] Families either poor (those with an average per capita income of US$5.5) or vulnerable (those with an average per capita income of US$13).
[33] Deciles four and lower, would have access to housing type 1; deciles five, six, and seven, would have access to housing type 2; and deciles eight and nine would have access to housing type 3.

Figure 1: Theory of Change



E. Rationale for Bank Involvement and Role of Partners

32. **The World Bank's support to this Project draws on its long-standing global experience in the design and implementation of housing finance to improve access to affordable housing through a range of advisory, policy and investment instruments.** This includes recent and ongoing engagement in Argentina, Colombia, Egypt, Mexico, Morocco, and Pakistan, among others. Key characteristics of successful World Bank engagements in housing finance include ensuring well-targeted use of public resources, leveraging private sector engagement, and convening global expertise. The proposed Project also benefits from a wide range of analytical studies recently completed by the World Bank on topics including, *inter alia*: energy-efficient and disaster-resilient housing; demand-side and supply-side constraints on housing markets; and enabling policy and institutional environments for affordable housing.

33. **The World Bank is well-positioned to support this Project due to its recent engagement and technical assistance activities in the DR.** The World Bank is supporting the GoDR through the ongoing ASA Integrated Social Protection and Promotion Project (P147213) and the Enhancing Resilient Territorial Development in the Dominican Republic Project (P172715). Supported activities have included: (i) housing improvements for extremely poor households, including substitution of dirt floors with reinforced cement floor and painting of walls; (ii) institutional strengthening of Progressing with Solidarity (*Progresando con Solidaridad*, PROSOLI's) (now SUPERATE's)[34] operational and territorial coordination and information systems; (iii) strengthening of the Unique System of Beneficiaries (*Sistema Único de Beneficiarios*,

[34] SUPERATE is the responsible entity for the execution of social protection policies.

SIUBEN)[35] targeting instruments; (iv) technical assistance in the form of an Urbanization and Territorial Review (P172715), which includes a chapter on housing in the DR; and (v) technical assistance on the implementation of Spatial Data Infrastructure for territorial planning and disaster risk management. In addition, the World Bank has been supporting the Superintendence of Banks to strengthen the framework for financial consumer protection through the Strengthening Consumer Protection and Financial Innovation in the Dominican Republic ASA (P176491).

34. **The International Finance Corporation (IFC) has been providing financing, capacity building, and technical assistance to financial institutions in the country**. In the past, IFC has facilitated long-term financing to select financial institutions, allowing them to offer longer mortgages maturities and thus incentivize the offering of more affordable housing finance.[36] The IFC plans to expand its collaboration with banks and savings and loans associations in the DR to promote financial inclusion, with a focus on low-income households and women. Furthermore, the IFC will continue advisory to support local capital markets development, particularly to establish a taxonomy for green financing. Lastly, opportunities to certify housing units under the proposed Project as Excellence in Design for Greater Efficiencies (EDGE) compliant will be pursued in collaboration with the IFC, as part of their Resilience Building Program for the Caribbean (RBPC).

F. Lessons Learned and Reflected in the Project Design

35. **The proposed Project benefits from the lessons from the World Bank's global recent experience in implementing housing projects, as well as recent analytical work (including the 2021 Urbanization and Territorial Review -** (P172715**) in the Dominican Republic, academic literature, and international best practices:**

36. **Lesson 1: Supporting households to acquire affordable housing has a positive impact on urban economies, and welfare.** The social and health benefits of homeownership and access to formal housing are well-documented. The cascading impacts of access to affordable, safe, resilient, and secure housing can: (i) improve overall living conditions; (ii) improve access to basic services and health outcomes; (iii) lead to wealth creation through homeownership and incentives for investments in home improvements; and (iv) stimulate feelings of self-worth and self-confidence among beneficiaries. By contrast, housing shortages, affordability issues, and limited mortgage lending may drive households—especially low-income households—to relocate to peri-urban areas or even informal settlements, exacerbating sprawl and affecting cities' ability to take advantage of agglomeration economies. Targeting subsidies to low-income households in an efficient and transparent manner therefore represents an efficient use of public sector resources.

37. **Lesson 2: Demand-side subsidies linked to well-defined housing programs can increase access to affordable housing.** In countries where there is a gap between housing demand and supply, especially for low-income households, demand-side subsidies can bridge the gap and efficiently target beneficiary households. The Republic of Chile was one of the first emerging market economies to use demand-side subsidies towards the down payment (as offered in the *Bono Inicial Familiar* of the PNVFF), and many countries in Latin America, including Mexico, Brazil, Colombia, Peru, and Costa Rica, have since introduced similar subsidies. International experience has shown that segmentation of households according to housing requirements, income, and employment (as is the case in the PNVFF) is important to the correct targeting of these subsidies.

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[35] SIUBEN, a dependent entity of MINPRE created in 2004 by the decree No. 1073-04, is the main unique registry of beneficiaries in the DR utilized to target social programs.

[36] IFC has previously engaged with Asociación La Nacional (2012) in a credit line of US$ 5 million for broadening the access to affordable housing in the country. For more details, see: *https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=21850*

38. **Lesson 3: Well-functioning financial markets are key to the success of housing subsidies.** The PNVFF is expected to foster demand for housing finance, but its success will depend upon the financial intermediaries' (FIs) appetite and ability to offer long-term mortgage loans for lower-income households that meet the PNVFF eligibility criteria. The World Bank´s experience in other countries, like Colombia, Egypt, Pakistan, and Morocco, show that in the medium term, additional capital market solutions will be needed to enable the sound and sustainable growth of housing finance in the DR, particularly for lower-income households. Besides, lenders would need to improve their capacity to underwrite loans to borrowers with an informal income and therefore their ability to reach the lower segments of the population.

39. **Lesson 4: Demand-side subsidies (like those offered in the PNVFF) need to be complemented by measures to foster the supply of affordable housing as well as serviced urban land.** Experience from World Bank projects in the LAC region, such as Mexico and Colombia, suggests that policies and programs that increase the demand for housing finance need to be complemented with policies that prevent urban sprawl, segregated development that excludes lower income households, expensive service provision, and poor connectivity between residential areas and economic activities. The GoDR has been working on strengthening the supply-side aspects of the housing value chain, including developing a territorial development plan, and implementing mechanisms to expedite the permit approval processes for low-income housing. Additionally, through trust fund resources, the Project will support activities to strengthen the broader capacity of the housing sector in the country, including supporting MIVED efforts to strengthen the building code.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

40. **The Project will be implemented by MINPRE.** The PIU will be responsible for overall coordination and technical oversight of the Project's three components and will ensure compliance with: (i) fiduciary management; (ii) reporting requirements and monitoring activities; (iii) the implementation of the World Bank's Environmental and Social Framework (ESF); and (iv) all relevant World Bank policies and procedures. This is the first World Bank-financed project that MINPRE will implement, therefore, it may face challenges complying with technical, environmental, and social requirements. During project preparation, specifically from October 2021 to February 2022, an assessment was carried out to determine the actions needed to strengthen the Borrower's capacity to comply with the objectives of the World Bank's environmental and social standards. To this end, the World Bank will provide the required support and capacity building during project implementation.

41. **MINPRE has a proven track record of designing and implementing housing programs in the DR over the last decade, though the institutional landscape of the sector is currently in transition.** MINPRE has solid in-house technical expertise on urban development and housing, as well as strong political backing. MINPRE will align its efforts to all policies to be developed by the MIVED and their portfolio of housing programs will be complementary. Through Component 2, the Project will support capacity building and institutional strengthening to ensure the sustainability of the PNVFF.

42. **For the implementation of Component 1, the PNVFF relies on the newly created FONVIVIENDA, which is based on a trust fund model that has been successfully used in the DR for decentralized, scaled delivery of public investments, including housing.** Several housing programs, both in the DR and the LAC region during the last decade, have been developed under similar trust fund schemes. FONVIVIENDA, which is a dependent entity of MINPRE, has hired an independent Trustee (*Fiduciaria Reservas*) and created an autonomous trust for the management of funds to meet the objectives of FONVIVIENDA and the PNVFF. FONVIVIENDA has a Director and a multidisciplinary Board of Directors

with representatives from various institutions, including MINPRE, the Ministry of Finance (*Ministerio de Hacienda*) and the Ministry of Economy, Planning and Development (*Ministerio de Economía, Planificación y Desarrollo,* MEPyD*)*. Furthermore, under FONVIVIENDA's Director, the PNVFF Management Unit for the implementation of the PNVFF has been created. The Management Unit has five technical divisions: (i) Social Division, (ii) Projects Division, (iii) Planning Division, (iv) Administrative and Financial Division, and (v) Legal Division and Project Supervision Division. The PIU will coordinate with the Management Unit for the daily implementation of the Project.

43. **MINPRE has the strong convening and coordinating power necessary for implementing the Project.** The Project requires the participation and coordination of several GoDR entities – including SUPERATE, SIUBEN, and municipal governments, among others – as well as private sector actors like housing developers and public and commercial FIs. In addition, the implementation of the Project requires strong coordination with the Superintendence of Banks and the Central Bank to manage the relationship with FIs and the implementation of mortgage market development activities. More broadly, MINPRE will work with well-established institutions for guaranteeing both supply of affordable housing and an adequate selection of beneficiaries for PNVFF. In terms of vetting and incorporating housing developments into the PNVFF, the Projects Division within the Management Unit, will coordinate and approve eligible housing projects, while the Project Supervision Division will supervise the progress of the housing developments. For the beneficiary selection process, SUPERATE is responsible for the evaluation of the families, using data from by SIUBEN, the DGII, and the Social Security.

B. Results Monitoring and Evaluation Arrangements

44. **The Results Framework describes the PDO-level and intermediate indicators that have been selected based on review of good practices across other World Bank projects, data availability, and the inclusion of gender, climate change, and citizen engagement corporate priorities.** The PIU will lead the effort to collect, consolidate, analyze, and report on project performance data as well as to provide periodic information on intermediate project-wide results and progress towards higher-level outcomes. Progress reports will cover: (i) financial progress achieved against agreed indicators; (ii) issues and problem areas, including remedial actions; and (iii) work programs and cost estimates for the following year, including the implementation and impact of various components and environmental and social standards (ESS). The Project will provide technical support under Component 3 to the PIU to conduct the baseline for monitoring and evaluation during the first three months of project implementation. Follow-up surveys will be carried out during implementation and at the end of the Project, and results will be incorporated into project activities to continuously improve processes.

C. Sustainability

45. **There is a high level of political commitment and buy-in from the GoDR**. The Project is directly aligned with the Pluriannual National Plan for the Public Sector 2021-2024. The GoDR has the necessary legal framework, policies, and institutions to ensure proper project implementation. All project investments, including subsidy allocations, over the full life of the proposed Project are reflected in the country's medium-term fiscal framework and as such the investment program, including subsidy allocations, are considered fiscally sustainable. Institutional sustainability will be enhanced through intense capacity-building efforts in Component 2 to support the GoDR's capacities to plan and execute the PNVFF and other housing sector programs.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

46. **The Project has benefitted from recent technical assistance on housing, urban development, and spatial and land planning in partnership with the World Bank.** The design of the Project builds on results from the 2021 Urbanization and Territorial Review, a detailed analysis of the mortgage market, and several technical meetings and working groups during project preparation on topics including interest rate subsidies, urban real estate development and project execution, and housing guarantee funds, among others. Multiple consultations were conducted with key partners and private sector stakeholders, including the Ministry of Public Works (*Ministerio de Obras Públicas y Comunicaciones*, MOPC), the Ministry of the Environment, INVI, the Dominican Association of Housing Developers (*Asociación Dominicana de Constructores y Promotores de Viviendas,* ACOPROVI), the Superintendence of Banks, the Central Bank, and several FIs, including *Banco de Reservas*, The National Savings and Loan Association (*Asociación La Nacional de Ahorros y Préstamos)*, Cibao Savings and Loan Association (*Asociación Cibao de Ahorros y Préstamos),* and Popular Savings and Loan Association *(Asociación Popular de Ahorros y Préstamos).*

47. **The GoDR publicly launched the PNVFF in early 2021, thereby initiating a pipeline of both eligible housing developments and beneficiary households.** As of March 2022, 95 housing units have been finalized and delivered to the eligible beneficiaries; 434 housing units are under construction; and 13,621 units are about to start construction. 1,822 units are expected to be completed and handed over to beneficiaries by early 2023. In terms of beneficiaries, over 321,345 applications have been received and 5,700 households have been pre-selected. Given these pipelines, the Project could begin disbursing funds in the name of eligible beneficiary families matched with finished housing units upon project effectiveness (see Annex 1. Implementation Arrangements and Support Plan for more details).

II. Economic Analysis

48. **An economic analysis was conducted, focusing on Component 1 of the proposed Project, which utilizes 99.35 percent of project funds**. The analysis used a cost-benefit approach to assess the Project´s impacts on households by comparing a situation “with” and “without” the PNVFF program. The benefits were measured using: (i) the valuation of the housing unit, (ii) the imputed rent for the housing unit, and (iii) the value of the housing unit at the end of the period. The costs were measured using: (a) the value of the upfront subsidy; (b) the amortization fee of the mortgage; (c) the mortgage payment subsidy; (d) the initial amount given by the household; (e) the replacement cost of the asset; (f) the ITBIS subsidy; and (g) the property tax.

49. **The results indicated the PNVFF program, supported by the proposed Project, has a net present value (NPV) of US$1 billion, an internal rate of return (IRR) of 21.7 percent, and a cost-benefit ratio of 1.58**. See Table 1. Values vary by housing type, yielding positive impacts for all of them. In addition, benefits at the individual level are in all cases positive.

Table 1. Summary of the results of the economic analysis (in US$)

Housing type	Costs NPV	Benefits NPV	Net NPV	Cost-benefit ratio	IRR (percent)
Per beneficiary					
Type 1	$20,538	$33,923	$13,385	1.65	24.2
Type 2	$30,979	$49,580	$18,601	1.60	22.4
Type 3	$44,880	$70,455	$25,575	1.57	21.5
Total PNVFF	$96,397	$153,958	$57,561	1.60	22.3
Program Total					
Type 1	$71,881,371	$118,730,410	$46,849,039	1.65	24.2
Type 2	$325,278,985	$520,587,180	$195,308,195	1.60	22.4
Type 3	$1,346,406,728	$2,113,662,236	$767,255,508	1.57	21.5
Total PNVFF	$1,743,567,084	$2,752,979,825	$1,009,412,742	1.58	21.7

Source: World Bank Staff elaboration

50. **A sensitivity analysis was performed by considering lower housing value increases and lower (imputed) rent.** The analysis showed an NPV of US$26.8 million, an IRR of 12.3 percent, and a cost-benefit ratio of 1.02 (see Table 2 for more details).

Table 2. Summary of the results of the sensitivity analysis (in US$)

Housing type	Costs NPV	Benefits NPV	Net NPV	Cost-benefit ratio	IRR (percent)
Per beneficiary					
Type 1	$19,946	$21,224	$1,278	1.06	13.3
Type 2	$30,114	$31,019	$905	1.03	12.6
Type 3	$43,651	$44,080	$429	1.01	12.2
Total PNVFF	$93,711	$96,323	$2,612	1.03	12.5
Program Total					
Type 1	$69,810,090	$74,282,771	$4,472,681	1.06	13.3
Type 2	$316,197,216	$325,701,383	$9,504,166	1.03	12.6
Type 3	$1,309,533,381	$1,322,396,591	$12,863,210	1.01	12.2
Total PNVFF	$1,695,540,688	$1,722,380,745	$26,840,058	1.02	12.3

Source: World Bank Staff elaboration

51. **Improving access to affordable housing also has other multidimensional impacts.** Positive impacts on the quality of life of the beneficiaries is associated with lowering costs that families are exposed to with informal and/or poor-quality housing, such as expenditures on health care due to lack of water and sanitation, expenditures linked to addressing flooding when living in high-risk areas, poor access to economic opportunities due to geographical segregation of housing. Moreover, access to housing in well-located urban areas brings benefits to beneficiaries such as savings due to reduced transport costs, allowing better access to urban amenities. Access to formal housing is also associated with self-confidence and civic engagement when families know they are officially part of the community. Additionally, formal housing can increase tax collection through the property tax system in the DR.

III. Corporate Commitments

52. **Gender:** Women face additional barriers to affordable housing in the DR despite gender sensitive laws. Poverty rates are higher for women than men across all age groups, education levels, occupations, marital status, and areas of

residence (urban/rural). Women in the DR face lower formal labor force participation, higher unemployment, and lower wages compared to men.[37] At the national level, the employment gap for 2018 was 28.7 percent and the wage gap for 2020 was 22 percent.[38] These gaps in employment and earnings have been exacerbated by the COVID-19 pandemic as women have been more likely than men to face job losses due to the economic downturn.[39] Women also face barriers to financial inclusion: only around 56 percent of adults in the DR have a bank account, and men are 4 percentage points more likely than women to have an account.[40] The Project will aim to address a gender gap in the housing sector as follows:

a. **Specific gender gap:** As a result of the broader gender gaps in the DR, women have fewer resources available for purchasing a home and more limited access to housing finance through traditional mortgage lending. In 2018, around 38 percent of households in the DR were FHH, 84 percent of whom were not cohabitating with a partner.[41] However, women between the ages of 15-49 make up only 9.2 percent of sole homeowners, indicating an important gap in homeownership for FHH.[42]

b. **Specific actions and indicator:** The Project contributes to Strategic Objective 3: Removing barriers to women's ownership and control of assets of the World Bank Group Gender Strategy, as it aims to reduce the gap in access to housing measured by the share of sole homeowners by gender. The PNVFF gives priority in selection criteria to FHH (which represent around 38 percent of all households), households with pregnant women, and households with female children. In Component 1, the Project will finance the *Bono Inicial Familiar* for eligible FHH, thereby increasing their access to housing finance and formal homeownership, with a goal of allocating at least 20 percent of subsidies to FHH. An indicator has been included in the Results Framework that measures the eligible households with access to formal housing, desegregated by the number of FHH to track progress towards closing this gender gap.

53. **Climate Change Co-benefits:** The PNVFF will support the acquisition of new, formal, resilient, affordable, and well-located housing for vulnerable households. These households typically live in substandard housing units that are located in areas that are highly exposed to climate related events, thus the Project will intervene in provinces with levels of high to very high vulnerability to climate change and which also present high levels of housing deficits, including Santo Domingo, San Pedro de Macorís, and Monte Plata.[43] Given the high vulnerability of Dominican Republic to climate change, it is expected that the proposed Project will positively impact vulnerability conditions in these areas contributing to climate change adaptation goals. The Project will potentially provide a showcase for safe location of infrastructure and houses through the inclusion of selection criteria for eligible locations. While the guidelines or regulations for the construction of green and climate-smart housing are under development, the new administration is committed to advancing in these areas both through the PNVFF and other initiatives. For example, the 2020 Nationally Determined Contribution (NDC) for the DR highlights the importance of resilient cities and human settlements in adaptation to climate change. The NDC commits to improving urban planning and land use management, as well as incorporating climate resilience into building regulations.[44]

[37] World Bank Group (June 2018). Dominican Republic Systematic Country Diagnostic.
[38] ONE (2020). Evolución de la brecha salarial de género en República Dominicana 2014-2020: A partir de datos de la ENCFT.
[39] World Bank (2021). The Gendered Impacts of COVID-19 on Labor Markets in Latin America and the Caribbean.
[40] World Bank Group. (2017). "The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution."
[41] SCD 2018
[42] Organization for Economic Cooperation and Development (OECD). (2019) Gender, Institutions and Development Database (GID-DB) 2019. https://stats.oecd.org/Index.aspx?DataSetCode=GIDDB2019#
[43] Government of the Dominican Republic (2016). Plan Nacional de Adaptación para el Cambio Climático en la Republica Dominicana 2015-2030.
[44] Government of the Dominican Republic. (December 2020). Nationally Determined Contribution 2020.

54. **Climate change adaptation is targeted through the PNVFF eligibility criteria.** It prioritizes: (i) households living in high-risk areas that cannot be mitigated, and (ii) households living in informal settlements that are particularly vulnerable to climate change events, including hurricanes, storms, and flooding, due to the location and quality of their homes. Given that the PNVFF targets households that are poor or vulnerable, who live in substandard housing and lack basic structural elements and basic services to mitigate against climate risk, the share of beneficiaries that are highly vulnerable to climate change is significant. It is projected that approximately 47 percent of the potential universe of project beneficiaries currently live at risk to climate change. The World Bank financing of the PNVFF, therefore, will result in approximately an additional 8,900 families who are currently living in situations vulnerable to climate change able to secure affordable, climate resilient housing. This translates into an estimated 47 percent of the US$100 million World Bank loan directly benefiting climate risk households who would otherwise be unable to secure adequate housing. All housing units must meet strict development standards to be eligible for purchase under the PNVFF. As a result, 100 percent of housing will meet the current best practices for climate resilient housing development in the DR.

55. **The Project will also incentivize the market to produce housing that is climate mitigating.** The PNVFF prioritizes housing projects that include technologies that contribute to resource efficiency and emission reductions, and the use of local and sustainable materials. This includes, *inter alia*, the use solar water heating systems, passive cooling designs of both building and urbanized sites, water saving technologies, among other climate smart technologies. A recent study in Colombia, which is the model for the design of the PNVFF has demonstrated that of the approximately 90,000 housing units that have met EDGE certification in Colombia since 2018, seventy percent of these are classified as social housing (*Colombia Camera de Construcción*). This demonstrates the potential to develop affordable and climate mitigating housing. To that end, the World Bank will support a broader understanding of sustainable design and EDGE certification under the Project and anticipates that with such support, up to 30 percent of housing developed as a result of this program could meet such certification standards. This includes World Bank technical assistance through the Project and related ASAs.

56. **Two indicators have been included in the Results Framework to measure the Project's climate adaptation goals.** The first indicator measures the number of people provided with improved urban living conditions. This indicator serves as a proxy for households currently living in at risk conditions who are eligible to benefit from the Project and will secure housing that is affordable and resilient to climate risk. The second indicator measures the percentage of affordable housing units under the Project that comply with all standards required by the existing national and local land use and building regulations, including disaster-resilient standards.

57. **Citizen Engagement:** The Project would seek to ensure effective citizen engagement under Component 3 through implementation of the Stakeholder Engagement Plan (SEP) and adopting an integrated Grievance Redress Mechanism (GRM). An indicator has been included in the Results Framework to measure beneficiary satisfaction with the acquired housing units. This indicator measures the percentage of beneficiaries that are highly satisfied or satisfied with the purchased units and considers those who have participated in the communication and stakeholder engagement processes. Satisfaction surveys will be carried out annually after the third year of project implementation. Their results will be considered and reflected in project implementation, and the stakeholder engagement processes will be adjusted/improved accordingly. The PNVFF has developed a comprehensive communication strategy to ensure proper sensibilization, dissemination, and targeting of the program and engage beneficiaries in a sustained dialogue around the proposed Project and its associated benefits. Key elements of the communication strategy include: (i) the PNVFF website that contains detailed information about the program and the application form; (ii) a telephone assistance line for potential beneficiary households to ask questions and raise concerns; (iii) 76 in-person citizen attention points across the territory (*Centros de Atención Presencial,* CAP*),* which have been instrumental on helping potential beneficiaries fill out application forms and will guide beneficiaries throughout the housing subsidy implementation process; and (iv)

active engagement on traditional media channels as well as in social media, including Twitter, Instagram, and Facebook. From January 2021, when the PNVFF was launched, to December of that same year, the phone line attended over 25,000 calls and the CAP received over 2,800 visits from citizens, with queries related to the PNVFF.

58. **Maximizing Finance for Development (MFD) and Private Capital Mobilization (PCM):** Global experience shows that the public sector alone cannot address an important and growing housing demand, especially as countries undergo rapid urbanization. The focus must be then on creating an environment and a market in which the private sector is incentivized to gradually go down market. By incorporating an MFD approach, the proposed Project is designed to crowd-in private sector financing for affordable housing finance. In detail, the IBRD financing of US$99.35 million allocated for Component 1 is expected to leverage an additional estimated US$500 million[45] in commercial finance from participating lenders in the PNVFF. Private capital will be mobilized by providing subsidies to low- and informal-income households which will make mortgages technically and commercially feasible per the requirements of the commercial lenders. Several financial intermediaries, including those with a strong presence in the lower market segments, have expressed strong interest in participating in the program. Under Component 2, the Project will also support key institutional and policy measures to improve mortgage lending enabling environment and public sector capacity to attract private developers' investments in the supply of affordable housing.

B. Fiduciary

(i) Financial Management

59. **Financial Management (FM):** The World Bank preformed during project preparation, specifically from September 2021 to April 2022, a Financial Management Assessment (FMA) to assess the capacity of MINPRE to undertake the FM project related activities. MINPRE, through FONVIVIENDA´s PNVFF Management Unit, is responsible for the implementation of the PNVFF, including the administration and financial management of the resources through a trust fund structure. However, MINPRE, through a PIU, is responsible for the Project's reporting and financial management. The FMA concluded that MINPRE's proposed FM arrangements, after the implementation of the time-bound action plan (see Annex 1), are acceptable to the World Bank. The FM arrangements included in the action plan are designed to adequately support project implementation, properly record all transactions and balances, implement adequate internal controls, support the preparation of regular and reliable project financial statements, and safeguard the Project's assets. The proposed Project FM risk is Substantial.

(ii) Procurement

60. **Procurement:** Procurement will be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing (IPF) Borrowers dated November 2020 and World Bank's Anticorruption Guidelines, dated October 15, 2006 (revised January 2011 and July 1, 2016). The World Bank performed during project preparation, specifically from September 2021 to April 2022, a Procurement Assessment to evaluate the capacity of MINPRE to implement procurement activities under the Project. Capacity within MINPRE was deemed to be adequate for project implementation. Under Component 1, no procurable activities were identified, as loan funds would finance part of the upfront subsidies (*Bono Inicial Familiar*) granted under the PNVFF for eligible households. Component 2 will finance

[45] This estimate is based on the following assumptions: (i) US$99.35 of WB financing allocation to component 1; (ii) number of units funded by WB project of 19,798 units; and (iii) average estimate of mortgage financing amount of US$ 25,200.

technical assistance to strengthen the institutional capacity for the implementation of the PNVFF. Component 3 will finance support for the management and monitoring and evaluation of the Project. The activities financed will include, *inter alia*: (i) project monitoring and evaluation; (ii) progress and fiduciary management; (iii) implementation and monitoring of the ESF; and (iv) managing the GRM. The proposed Project procurement risk is Moderate.

61. **Detailed procurement arrangements are described in Annex 1.** A Procurement Plan for the first 18 months of the Program has been prepared by the executing agency and provides the basis for the procurement methods. The activities and corresponding amounts of this Procurement Plan for Components 2 and 3 are US$200,000 each. This plan will be available on the World Bank's external website and in the Systematic Tracking of Exchanges in Procurement (STEP) or any other system agreed with the Bank. The Procurement Plan will be updated in agreement with the World Bank annually or as required to reflect actual implementation needs and improvements in institutional capacity. The Bank will carry out post procurement reviews on an annual basis with an initial sampling rate commensurate with the risk rating of the project. This rate will be adjusted periodically during project implementation based on the agencies' performance. The Bank will also carry out procurement support missions on a semiannual basis. MINPRE shall upload all procurement and contract information in the STEP system, which will be used to provide the World Bank with a consolidated list of all contracts for goods, works, and consultancy services awarded under the project. A sample of post-review contracts will be selected from STEP.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

62. **Five Environmental and Social Standards (ESSs) are considered relevant to the proposed operations at this stage.** These are **ESS1** Assessment and Management of Environmental and Social Risks and Impacts; **ESS10** Stakeholder Engagement and Information Disclosure; **ESS2** Labor and Working Conditions; **ESS3** Resource Efficiency and Pollution Prevention and Management; and **ESS4** Community Health and Safety.

63. **The Environmental and Social (E&S) Risks Classification (ESRC) for this Project is Moderate.** The Project will: (i) support increasing access to housing through financing upfront subsidies for eligible households to purchase eligible housing units; (ii) FONVIVIENDA will disburse these subsidies on behalf of the beneficiaries once they have a mortgage and a fully finished house; and (iii) finance technical assistance activities to strengthen the institutional capacity of related housing and territorial planning government actors. The Project will not involve any direct support or supervision of construction of houses. The Moderate E&S risk rating considers the lack of experience of the implementing agency in the application of the ESS of the ESF of the World Bank, as well as the complexity of the institutional arrangements.

64. **The environmental risk rating for the Project is considered Moderate.** The Project will not finance any civil works. Project activities are not expected to cause adverse impacts on the environment. Housing developers must meet the eligibility criteria for the PNVFF and comply with all legal requirements for permits and licenses in terms of land zoning and use, construction processes and materials, and environmental considerations. The PNVFF's criteria includes: (i)

housing in urbanized sectors, on urban or semi-urban land; (ii) areas with access to public services; (iii) areas with access to roads or basic infrastructure; (iv) efficient land use and tenure security; (iv) use of locations that are not negatively impacting the environment or exposing people to natural hazards; and (v) prioritization of housing developments that incorporate renewable energy and climate-smart aspects in the design and construction. Furthermore, the eligibility criteria applicable for the Project will exclude housing in: (i) high-risk areas in which the use of land for urbanization is restricted by actual or expected climate impacts or other natural hazards; (ii) protected environmental areas and/or areas of cultural importance.

65. **The social risk classification of the Project is Moderate.** The proposed Project is expected to generate positive impacts in terms of providing housing support to vulnerable beneficiaries that are typically excluded from the formal housing market, prioritize the needs of low-income women and FHH, and persons with disabilities. However, the Project poses moderate social risks. Despite the social inclusion focus of the Project, there is a moderate risk of possible exclusion of vulnerable populations -individuals or groups - whose interests are traditionally underrepresented such as women, elders, youth, persons with disabilities, migrants, and sexual and gender minorities and elite capture of benefits, if targeted strategies to ensure their engagement, are not effectively implemented. Other risks may relate to access issues to communication and information to eligible beneficiaries about benefits to be provided under the Project.

66. **The Project's instruments to assess and manage environmental and social risks that have been prepared and consulted during project preparation are**: (i) the Environmental and Social Management Framework (ESMF); (ii) the ESCP; (iii) the Labor Management Procedure (LMP) with its Grievance Mechanism for Workers (GMW), and as part of the ESMF; and (iv) the draft Stakeholder Engagement Plan (SEP) with its Grievance Mechanism (GM). The ESCP and SEP has been disclosed by the Borrower[46] on March 28, 2022, and on the World Bank's website on April 25, 2022 and March 29, 2022, respectively.[47] The ESMF and LMP will be further consulted, updated, and disclosed within 60, and 30 calendar days respectively of project effectiveness. The SEP will include additional stakeholders -if any, and better define grievance mechanism channels. The ESCP includes all the necessary measures and actions to ensure compliance with the ESF and the Project's E&S instruments, well as all related implementation details, including monitoring and reporting activities. The Project Operational Manual (POM) to be prepared for the Project will also include detailed information related to the E&S instruments prepared for the Project, and clear instructions on how to apply these during project implementation.

67. **The ESMF is proportionate to the Project's risks and impacts**. It includes: (i) a description and assessment of the potential types of E&S risks and impacts which could result from potentially qualifying housing developments, as a justification for the selection criteria and other measures to be applied to the subsidy program; (ii) applicable national legal framework, international agreements, and standards, applicable ESSs, and World Bank Group Environmental, Health and Safety (EHS) Guidelines; (iii) E&S Screening procedures and criteria to be applied for the selection of housing units and beneficiaries; (iv) a description of the Project's organizational structure and related capacity assessment with a focus on the role that each participating entity has in E&S risk management; (v) Non-discrimination provisions and measures to respond to potential risks of gender-based violence (GBV) and sexual exploitation and abuse (SEA)/sexual harassment (SH); (vi) measures to respond to risks from the exclusion of information of the most vulnerable population that usually are left out of the consultation processes (the poorest, youth at risks); (vii) measures to address risks from exclusion of benefits; (viii) reporting and monitoring system for E&S risk management; (ix) outreach, sensitization and educational activities to project developers, mortgage lenders, and potential mortgage subsidy recipients, as applicable, to ensure sound understanding of the screening criteria; and (x) an estimated budget for the ESMF implementation. The

[46] Instruments disclosed by the Government can be found here: https://familiafeliz.gob.do/implementacion/
[47] Instruments disclosed by the World Bank can be found here
https://operationsportal.worldbank.org/secure/P176581/home?tab=documents#PB

ESMF will be further consulted, updated, and redisclosed within 60 calendar days of Project Effectiveness to include additional stakeholders -if any, and better define grievance mechanism channels.

68. **To enhance its social inclusion approach, in the selection of beneficiaries, the Project will use a scoring system**. The selection process prioritizes FHH, families with persons with disabilities, families that live in areas where climate high-risk cannot be mitigated and will support the housing needs of families that, in the absence of the Project, will not be able to access to mortgage finance. As part of the implementation of the SEP, the Project will adopt a participatory and inclusive approach to enhance social inclusiveness and forge partnerships across the public sector, the private sector, and civil society. This approach will be adopted in the implementation of all the Project's major components. Guidance from the Bank Directive for "Addressing Risks and Impacts on Disadvantaged or Vulnerable Individuals or Groups" was considered during project preparation and development of the E&S instruments.

V. GRIEVANCE REDRESS SERVICES

69. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

70. **The overall risk for this Project is assessed as Substantial.** Risks rated Substantial are detailed below.

71. **Institutional Capacity:** Institutional capacity risk is rated as **Substantial**. The institutional environment for the housing sector has been traditionally weak and disjointed due to the lack of a housing ministry. Stepping into the void, MINPRE has played a significant role in the housing sector over the past decade, and there is a solid legal basis for the PPP and trust fund schemes that are proposed in the PNVFF. Notwithstanding the solid technical competence of MINPRE, its strong convening power, and the team assembled to design and implement the PNVFF, the creation of the MIVED might create friction within the institutional framework due to overlapping mandates. To mitigate this risk, the World Bank is providing direct support to the MIVED on key strategic priorities including strengthening the DR's building regulations and ensuring strong collaboration between the two Ministries. In addition, the Project requires strong coordination between the different stakeholders, including various government entities, the private sector (e.g., FIs and private developers), and local governments, which heighten the complexity of successful implementation of the Project. This, combined with a lack of previous experience of MINPRE in implementing World Bank-financed projects, raises the institutional capacity risk. As mitigation measures, strict operational protocols within the trust fund scheme will be used in the Project to ensure compliance of all stakeholders with the subsidy design protocols and the requirements of the

PNVFF. Additionally, the PIU will receive training by World Bank specialists on FM and Environmental and Social aspects, with strong technical assistance provided throughout Project implementation.

72. **Technical Design:** The technical design is rated as **Substantial**. The Project reflects lessons from analytical work, international good practices, and previous World Bank-financed housing operations, including recent engagements in Mexico, Colombia, and Argentina, where supporting housing demand subsidies has improved living conditions of low-income families. The focus on creating an enabling environment and a market in which the private sector is incentivized to gradually go down market to affordable housing segments is consistent with global good practice and in line with the World Bank's own recommendations for the housing sector. The transparent process for the housing project and beneficiary selection and the solid design and targeting of the subsidies represent a positive innovation in the DR. However, the proposed schemes are not yet tested, and the downside risk remains, particularly in the ability of the PNVFF to adequately entice the participation of FIs (which have limited mortgage portfolios and limited experience with low-income borrowers) and private developers (which have not traditionally focused on affordable housing markets). Fin addition, inflationary pressures on construction prices and potential increases in interest rates could potentially undermine uptake on the PNVFF. This risk will be partly mitigated through embedded mechanisms to adjust the PNVFF program according to market conditions. Additionally, the MINPRE has done extensive consultations with FIs and private developers to engage them with the program, which is reflected in the pipeline of ongoing housing developments.

73. **Fiduciary**: The fiduciary risk is assessed as **Substantial** based on the likelihood of the FM risk to materialize and its potential impact on the PDO. The risk considers the complexity of project implementation arrangements for FM, MINPRE´s limited experience implementing World Bank-financed projects, and the complicated flow of funds and information, involving numerous actors. FONVIVIENDA will be responsible for managing funds under Component 1 following financial management arrangements in compliance with World Bank policies and procedures. The upfront subsidy to eligible beneficiaries is equivalent to 99.35 percent of the loan funds and the payments will be channeled through a trust fund structure. Thus, coordination and adequate flow of information among the involved entities, including *Fiduciaria Reservas*, FONVIVIENDA and MINPRE, requires good internal controls and extensive monitoring. To mitigate the fiduciary risk, the World Bank has conducted an extensive due diligence on the stakeholders involved in the flow of funds which confirmed that the country's overall FM arrangements are strong and that the budget operates under a comprehensive legal framework. Furthermore, an FM time-bound action plan was developed by the Government, which once fully implemented, will be used to reassess fiduciary risk. All details related to FM and submission of financial information will be included in the Project´s POM.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Dominican Republic
Support to the National Housing Program Project

Project Development Objectives(s)

The objective of the Project is to increase access to affordable and resilient housing for eligible households in the Dominican Republic.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Increase access to affordable and resilient housing for eligible households						
Eligible households with access to formal housing (Number)		0.00	4,077.00	9,721.00	14,951.00	19,798.00
Female headed households (FHH) with access to formal housing (Number)		0.00	815.00	1,944.00	2,991.00	3,959.00
People provided with improved urban living conditions (CRI, Number)		0.00	3,914.00	9,332.00	14,352.00	19,002.00
People provided with improved urban living conditions - Female (RMS requirement) (CRI, Number)		0.00	1,957.00	4,666.00	7,176.00	9,501.00

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Mortgage financing that the PNVFF leverages (Amount(USD))		0.00	120,000,000.00	250,000,000.00	350,000,000.00	500,000,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
Upfront Housing Subsidies						
Affordable housing units under the Project that comply with all requisite standards, including disaster-resilient standards (Percentage)		0.00	100.00	100.00	100.00	100.00
Financial institutions providing mortgage financing to eligible households (Number)		0.00	3.00	3.00	4.00	5.00
Institutional Strengthening of the Housing Sector						
Study on instruments to support the deepening of the mortgage market completed (Yes/No)		No	No	Yes	Yes	Yes
Technical assistance for calibrating the design of the subsidies of the PNVFF provided (Yes/No)		No	No	Yes	Yes	Yes
Project Management						
Grievances recorded in the GRM system addressed within 15 working days and communicated		0.00	80.00	80.00	80.00	80.00

Indicator Name	PBC	Baseline	Intermediate Targets			End Target
			1	2	3	
back to the concerned stakeholders (Percentage)						
Households satisfied or very satisfied with the new housing solutions (Percentage)		0.00	0.00	0.00	85.00	85.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Eligible households with access to formal housing	The indicator will measure the number of eligible households (cumulative) that receive an upfront subsidy for the acquisition of a new housing unit.	Biannual	Implementation Progress Reports	PIU will update the indicator with data provided by FONVIVIENDA, after the completion of the acquisition transactions.	PIU
Female headed households (FHH) with access to formal housing	The indicator will measure the number of eligible households (cumulative) with a female as head of household that receive an upfront subsidy for the acquisition of a new housing	Biannual	Implementation Progress Reports	PIU will update the indicator with data provided by FONVIVIENDA and the Ministry of Women, after the completion of the acquisition	PIU

	unit.			transactions.	
People provided with improved urban living conditions		Biannual	Implementation Progress Reports	The indicator is defined as: People from households benefiting from the *Bono Inicial Familiar* previously categorized in moderate poverty (ICV2) or medium socioeconomic stratum (ICV3) by the Quality of Life Index (Indice de Calidad de Vida, ICV); and medium and/or high in the Climate Shock Vulnerability Index (IVACC). PIU will updated the indicator with data provided by FONVIVIENDA and the PNVFF Management Unit.	PIU
People provided with improved urban living conditions - Female (RMS requirement)		Biannual	Implementation Progress Reports	The indicator is defined as: Women from households benefiting from the *Bono Inicial Familiar* previously categorized in	PIU

				moderate poverty (ICV2) or medium socioeconomic stratum (ICV3) by the Quality of Life Index (Indice de Calidad de Vida, ICV); and medium and/or high in the Climate Shock Vulnerability Index (IVACC). PIU will update the indicator with data provided by FONVIVIENDA and the Ministry of Women, after the completion of the acquisition transactions.	
Mortgage financing that the PNVFF leverages	The indicator will measure the value of the mortgage loans (cumulative) associated with the housing acquisition transactions facilitated by the Project.	Biannual	Implementation Progress Reports	PIU will update the indicator with data provided by FONVIVIENDA and the Superintendence of Banks.	PIU

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Affordable housing units under the Project that comply with all requisite standards, including disaster-resilient standards	The indicator will measure the percentage of affordable housing units allocated under the program that comply with all requisite standards, including resilience, construction, environmental and land use, standards	Biannual	Implementation Progress Reports	PIU will update the indicator with data provided by the PNVFF Management Unit and developers, after the completion of the acquisition transactions.	PIU
Financial institutions providing mortgage financing to eligible households	The indicator will measure the number of financial institutions that provide mortgages as part of the PNVFF to low and middle income households.	Biannual	Implementation Progress Reports	PIU will update the indicator with data provided by FONVIVIENDA and the Superintendence of Banks.	PIU
Study on instruments to support the deepening of the mortgage market completed	This indicator will measure the development of study on instruments to support the deepening of the mortgage market to include low-income and informal households (such as mortgage insurance, and guarantee funds)	Annual	Progress Implementation Reports	PIU will updated the indicator with data provided by FONVIVIENDA.	PIU
Technical assistance for calibrating the design of the subsidies of the PNVFF	This indicator measures the technical assistance	Annual	Implementation on Progress	PIU will update the indicator based on	PIU

provided	provided annually for the calibration of the design of the subsidies of the PNVFF		Reports	Implementation of Component 2	
Grievances recorded in the GRM system addressed within 15 working days and communicated back to the concerned stakeholders	This indicator will measure the percentage of grievances recorded in the GRM system addressed within 15 working days and communicated back to the concerned stakeholders including government entities, beneficiaries, housing developers, etc.	Biannual	Progress reports on project implementation	The PIU will make a review and report on the data of reception of complaints and their resolutions managed through the GRM.	PIU
Households satisfied or very satisfied with the new housing solutions	The indicator will measure the percentage of households that receive an upfront subsidy for the acquisition of a new housing unit and that are highly satisfied or satisfied with such. The information received from the beneficiaries will be reviewed and adjustments will be incorporated into the requirements for housing project and developers, if necessary.	Annually after the third year of implementation	Implementation Progress Reports	Beneficiary satisfaction survey conducted after third year of implementation.	PIU

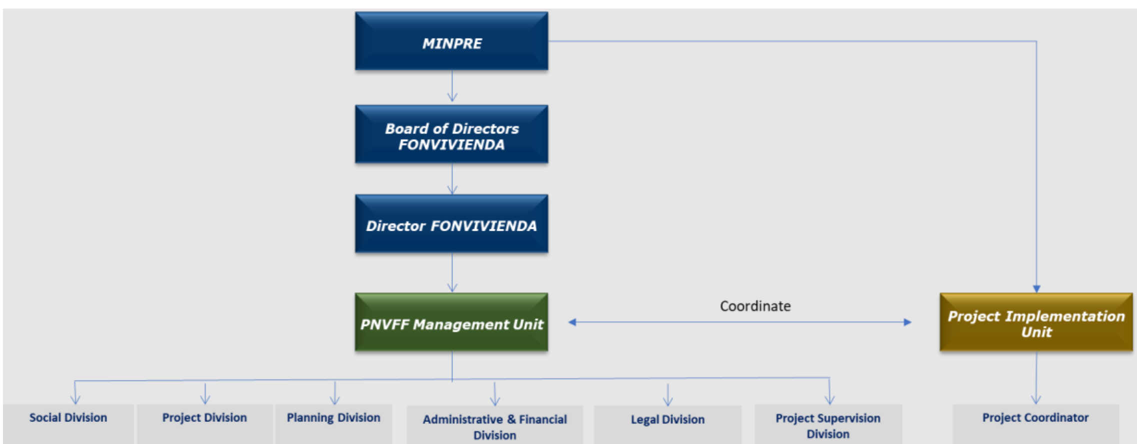
ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Dominican Republic
Support to the National Housing Program Project

Project institutional and implementation arrangements

1. **The entity responsible for the implementation of the Project will be the MINPRE, though a Project Implementation Unit (PIU).** The newly established PIU will be responsible for all the coordination and technical supervision of the Project and will ensure compliance with fiduciary, administrative, reporting, monitoring activities and implementation of the ESF. The PIU will coordinate with the PNVFF Management Unit for the implementation of the Project, as the Management Unit will be coordinating the implementation of the entire PNVFF though its five technical divisions. Figure 1.1 shows the organizational chart.

Figure 1.1. Organizational chart



2. **A POM will be developed to provide an ordered set of instructions on the organization, procedures, and resources dedicated to the efficient and effective achievement of the proposed Project's objectives**. Additionally, FONVIVIENDA's Operating Manual provides all the conditions, requirements and guidelines for the management of the PNVFF.

3. **The PIU will prepare biannual progress reports corresponding to the formats outlined in the POM**, covering: (i) physical and financial progress achieved against agreed indicators (presented in section VII); (ii) issues and problem areas, including remedial actions; and (iii) work programs and cost estimates for the coming year, including revised estimates for the current period.

Implementation of Component 1

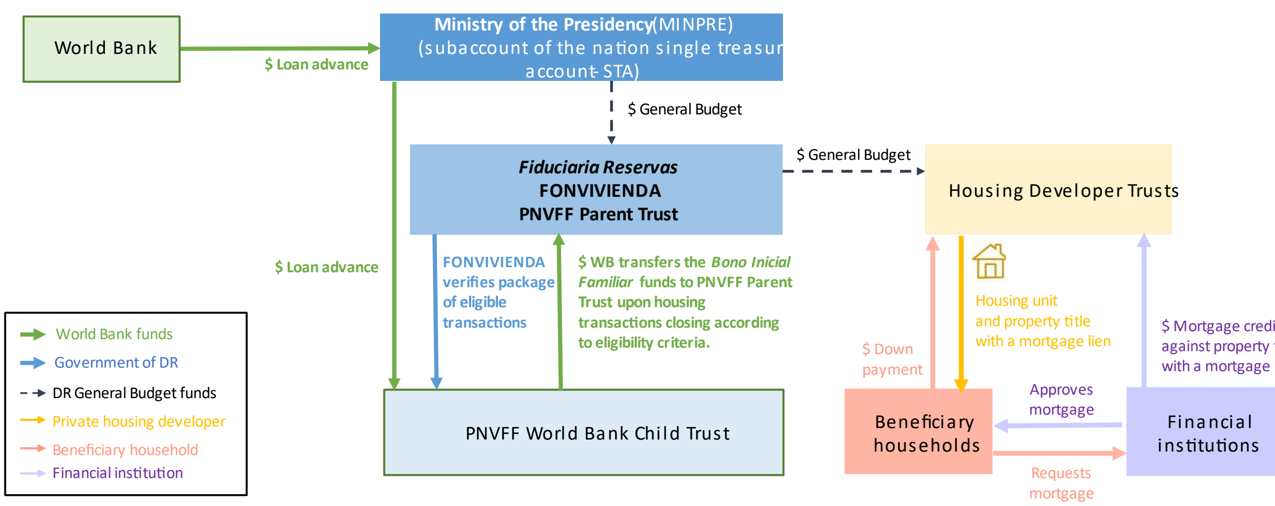
4. **Implementation of Component 1 will rely on a trust fund model.** Within the framework of this model, FONVIVIENDA, which is a dependent entity of MINPRE, enters as trustor (*fideicomitente)* in a contract with a Trustee (*Fiduciaria Reservas)* so that the trust assets, in this case the PNVFF subsidy resources, will be executed within the framework of the PNVFF. The Trust will be subject to the conditions and requirements indicated in Law No. 189-11 and

Decree 191-21. For the implementation of Component 1, the current FONVIVIENDA Trust Agreement with *Fiduciaria Reservas* needs to be amended. The GoDR is expecting to sign this amendment by effectiveness of the proposed Project. Accordingly, the execution of the amendment will be an effectiveness condition to the Loan Agreement.

5. **There are two disbursement modalities available for the flow of World Bank funds for Component 1**: (i) *Disbursement as an advance* of the IPF Loan against six-month subsidy projections based on the number of housing units that will be delivered to beneficiaries, upon meeting the eligibility criteria, and that have completed the second inspection (60 percent of the works completed)[48], with verified documentation (*desembolso en base a proyecciones*); and (ii) *disbursement against a verified package* of closed housing transactions (*desembolso en base a reconocimiento*). The modality of *disbursement as an advance* is included to ensure that funds are readily available to finance upfront subsidies once disbursement criteria are achieved.[49]

6. **In the modality of disbursement as an advance, the funds will flow to a specific account within the MINPRE in a subaccount of the national single treasury account (STA) – see Figure 1.2.** This advance will have to be approved by the World Bank, based on a six-month projection for the *Bono Inicial Familiar* (based on the number of housing units that will be delivered to beneficiaries, upon meeting the eligibility criteria and that have completed the second inspection, which is equivalent to 60 percent of the works completed). MINPRE will immediately then disburse the funds to the PNVFF World Bank Child Trust established by FONVIVIENDA and administered by the trustee *Fiduciaria Reservas*. This will ensure that the World Bank loan is exclusively utilized for its intended purpose to finance the *Bono Inicial Familiar* upon meeting the established criteria. Funds will be transferred from the PNVFF World Bank Child Trust account to the Parent Trust upon housing transactions closing according to criteria in paragraph 8 of this Annex.

Figure 1.2. Flow of World Bank funds - disbursement as an advance

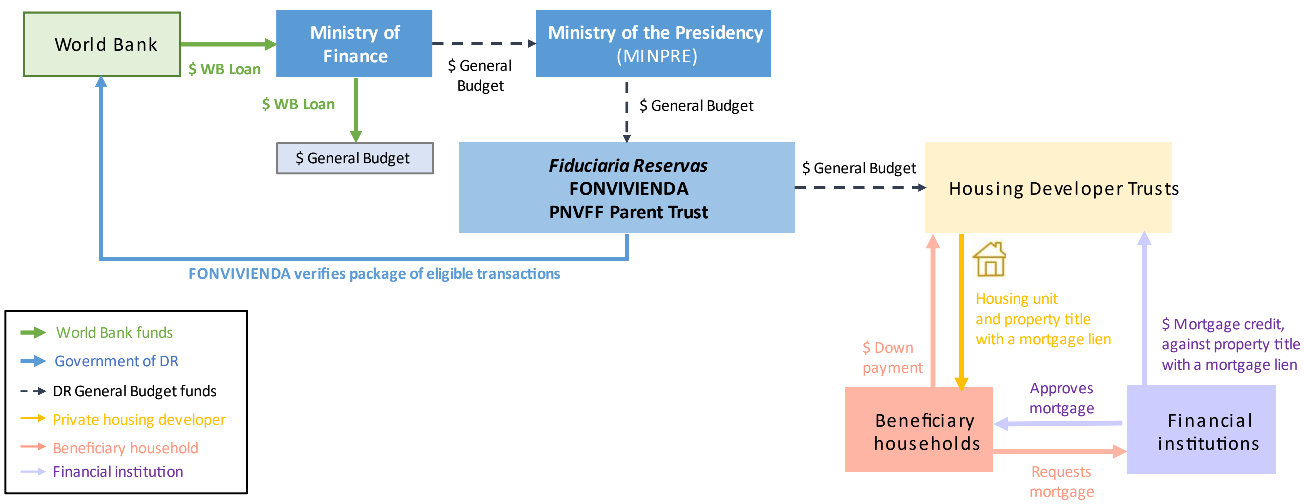


7. **Alternatively, the second modality available is disbursement against a verified package of closed housing transactions (*desembolso en base a reconocimiento de gastos*) – see Figure 1.3.** In this case, once FONVIVIENDA reports a verified package of closed housing transactions that meet the criteria in the paragraph below and the closed package has been paid, the World Bank will reimburse the funds to the STA of the Ministry of Finance. These funds can then be

[48] The criteria of "60 percent of the works completed" is a proxy to estimate the value of the advance. It does not mean the advance will go towards construction.
[49] The advance modality does not imply disbursement of funds before achievements of disbursement criteria.

utilized freely as part of the approved General Budget. MINPRE will be responsible for replenishing the PNVFF Parent Trust with resources from the General Budget.

Figure 1.3. Flow of World Bank funds - disbursement against a verified package of closed housing transactions



8. **A transaction is considered complete when the following criteria are met:**

i. the beneficiary household has selected and agreed to purchase a housing unit under PNVFF from the housing developer/seller;

ii. the beneficiary household has been approved for a mortgage from a participating financial intermediary (FI) supervised by the Superintendence of Banks and or a financial intermediary mutually agreed between the World Bank and the Borrower;

iii. the beneficiary household has received an offer from FONVIVIENDA, which ensures that they comply with the eligibility criteria and that they have provided their part of the down payment (savings); and

iv. the finished housing unit complies with the PNVFF criteria and has been delivered to the beneficiary household with a property title.

Implementation of Components 2 and 3

9. **Components 2 and 3 will be directly implemented by the PIU.** Components 2 consists of consultancies and studies to strengthen the housing sector and the implementation and sustainability of the PNVFF. Component 3 will finance support for management, implementation, monitoring, and evaluation of the Project.

10. **World Bank funds for Components 2 and 3 will be disbursed through the *STA* under the Ministry of Finance, in the same subaccount created to receive the advance of Component 1.** MINPRE, through the PIU, will manage the funds for their intended purpose to support consultants, technical assistance, capacity building, and project management.

Financial Management

11. **This will be the first World Bank-financed project implemented by MINPRE.** The FMA concluded that MINPRE’s proposed FM arrangements after the implementation of the time-bound action plan presented below, are acceptable to the World Bank. At this stage, the FM arrangements included in the action plan are designed to adequately support

project implementation, properly record all transactions and balances, implement adequate internal controls, support the preparation of regular and reliable project financial statements, and safeguard the Project's assets.

12. **MINPRE'S FM tasks defined in time-bound action plan are**: (i) appoint staff to the Project with relevant accounting and financial experience and PIU structure is agreed assigning professionals as required to complete tasks related to financial management functions of budgeting, accounting, treasury, disbursements, and internal audit; (ii) prepare the POM, including the FM section; (iii) finalize FONVIVIENDA's Operating Manual*;* (iv) develop chart of accounts, contents and format of interim unaudited financial reports (IFRs), in accordance with project needs, generated by SIAFE/UEPEX and agreed and approved by the World Bank and incorporated in the POM; (v) ensure the FM procedures agreed with *Fiduciaria Reservas* for the management of loan proceeds meets World Bank standards (amendment to the FONVIVIENDA Trust Agreement is signed); (vi) specialist of FONVIVIENDA Management Unit´s Financial Division, the PIU FM team, and FM assigned to the Trustee (*Fiduciaria Reservas)* participate in World Bank dedicated training for the Project; and (vii) contract external auditors. MINPRE and key project stakeholders will follow FM procedures as set in the POM, and all relevant agreements.

Table 1.1: Time-Bound Action Plan

Description of Action/Condition	By When
i. MINPRE appoints staff to the Project with relevant accounting and financial experience and PIU structure is agreed assigning professionals as required to complete tasks related to financial management functions of budgeting, accounting, treasury, disbursements, and internal audit	By effectiveness
ii. MINPRE prepares the project operational manual (POM), including the FM section	By effectiveness
iii. MINPRE finalizes FONVIVIENDA's Operating Manual.	By effectiveness
iv. MINPRE develops chart of accounts and contents and format of IFRs, in accordance with project needs, generated by SIAFE/UEPEX and agreed and approved by the Bank and incorporated in the POM	By effectiveness
v. FONVIVIENDA and *Fiduciaria Reservas* sign the amendment to the FONVIVIENDA Trust Agreement	By effectiveness
vi. Specialist of FONVIVIENDA MU´s Financial Division, the PIU FM team, and FM assigned to the Trustee (Fiduciaria Reservas) participate in Bank dedicated training for the Project	Within 3 months of effectiveness
vii. MINPRE contracts external auditors	Within 6 months of effectiveness

13. **Disbursements:** Disbursements of project funds for MINPRE will be processed in accordance with World Bank procedures as will be stipulated in the Disbursement and Financial Information Letter (DFIL), and the Disbursement Guidelines for Investment Project Financing, dated February 2017. One Designated Account (DA) in the Central Bank will be opened under a variable ceiling for the upfront subsidies under Component 1 and for expenditures under Components 2 and 3, as explained above:

(i) Advances to the DA will flow to the STA assigned to the MINPRE and controlled by the Ministry of Finance. Payments of eligible expenditures will be managed through the SIAFE/UEPEX system, transferring from the DAs the equivalent amount in local currency for each payment to the Project sub accounts.

(ii) The supporting documentation for withdrawal applications will be Statements of Expenditure (SOEs) in the format attached to the DFIL, except for direct payments, to be documented by spending records, contract references, a copy of payment clauses, procurement orders, invoices, and receipts, as applicable. The SOEs will be submitted to the World Bank through its online Client Connection System. The PIU will ensure that all the expenditures reported in the SOEs are properly recorded, documented, and reconciled with project records. The Project will have a four-month grace period to document expenditures incurred prior to the closing date. The frequency of submitting eligible expenditures to be paid from the DAs will be once every three months, with the flexibility of processing them more often, when needed. Flow of funds and related procedures will be documented in the POM.

(iii) All reimbursements will be subject to an ex-ante review by the officer assigned by the Comptroller General of the Republic (CGR) to MINPRE. Project support documentation will be readily available to the World Bank and external auditors.

(iv) To enable a World Bank representative to examine such records for at least one year following receipt by the World Bank of the final audited financial statement or two years after the closing date, whichever is later, MINPRE will retain all documents and records and ensure the Trustee (*Fiduciaria Reservas)* complies with this requirement. Documents include contracts, orders, invoices, bills, receipts, and other documents evidencing eligible expenditures. MINPRE will ensure that document retention beyond the period required by the legal agreement complies with the regulations of the GoDR.

14. **Budgeting:** MINPRE is responsible for carrying out the actions necessary for programming, executing, and evaluating the budget, this includes coordination during preparation of annual operating plans and their respective budget with SUPERATE. Budget will meet GoDR structure and World Bank Project components/subcomponents/activities classification and monitored through SIAFE/UEPEX. MINPRE will also assume the planning of disbursements, and control of fund transfers and budgetary modifications according to the Annual Operational Plan and Acquisition Plan during the year. The budget for 2023 should be confirmed by end of FY2022.

15. **Internal control:** MINPRE has a comprehensive´s manual of administrative and accounting procedures. In addition, under the recently created FONVIVIENDA, it has developed a PNVFF´s operating manual which includes schemes procedures of the Parent and Child Trusts accounts, and procedures for the identification and selection of the beneficiaries, regulation that is in the process of being finalized. The latest external audit issued by the DR Supreme Audit Institution (SAI) as of 2019 issued unqualified opinion on MINPRE´s financial statements.

16. **POM:** The POM will be prepared, with the financial section detailed procedures, including but not limited to: project accounting; recording; reporting including chart of accounts; project planning and monitoring; flow of funds; payments process and internal reviews/approvals; management of the DAs; section for the flow of funds, financial management and reporting by the trust funds managed by the Trustee (*Fiduciaria Reservas);* disbursements/justification of expenditures with the Bank; financial monitoring of the contracts, as applicable; agreed IFRs; internal control reviews and external audit; MINPRE structure and roles and responsibilities of the FONVIVIENDA´s Management Unit FM staff and the participating entities (SUPERATE and SIUBEN).

17. **Accounting:** National Accounting Standards will be used for the Project. Accounting records will be booked through entries made in the government system SIAFE/UEPEX; Project chart of accounts will be tailored to allow recording and reporting within SIAFE/UEPEX according to project needs and documented in the POM. The GoDR accounting is on accrual basis, thus and if possible, UEPEX reports will follow this policy, otherwise cash basis reporting is acceptable to the Bank. Similarly, accounting and reporting procedures will be agreed with *Fiduciaria Reservas*. Furthermore, the PIU should keep subsidiary records on the financial monitoring of the funds managed through the Trust

Funds – advances to the Child Trust account, and payments to eligible beneficiaries transferred to the parent trust and subsequently to the housing developers - and include the respective summary schedules and notes to the IFRs.

18. **Reporting:** IFRs will be submitted semiannually, integrating key information: project execution by component, footnotes, including summary schedules and notes on the financial monitoring of contracts and funds managed through the Trust Funds, like wise and as part of the due diligence review, content and formats of the reports will be agreed with *Fiduciaria Reservas*. IFRs will be submitted via online to the World Bank within the 45 days after the reporting period. Annual financial statements will be prepared and will be consistent with IFR information.

19. **External audit:** A private audit firm will be contracted to conduct the Project's annual financial statements audits as per terms of reference approved by the World Bank; audit that will include the project funds managed through the trust funds with *Fiduciaria Reservas*. Auditors are to conduct an audit report on an interim review of the first six months of the fiscal year being audited, including a compliance review of the project funds managed by *Fiduciaria Reservas*. Annual audit reports will be submitted up to four months after the audited period, and reports will be transparently tagged as publicly disclosable in World Bank records, and posted at their institutional portals, to comply with Bank policy and Dominican Republic Law 200-04 on Free Access to Public Information.

20. **FM action plan and supervision strategy:** The FM supervision plan will include virtual/partial on-site supervision, extensive in scope, covering key FM areas, review of the semi-annual IFRs, annual financial audit reports, and performing periodic spot checks of SOEs and any other area of concern. Field visits will also be carried out, to be complemented by periodic video and audio conferences. The intervals and scope of FM support missions would be revised based on the supervision results as indicated in the FM Implementation Support Report ratings. The World Bank will timely provide them all with clear guidance, useful inputs, effective support, and issue recommendations to expeditiously address FM matters in a proactive manner and whenever required.

Procurement

21. **Procurement will be carried out in accordance with the "The World Bank Procurement Regulations for IPF Borrowers" dated July 1, 2016 and revised in November 2020.** A PPSD for the initial 18 months of project implementation has been prepared and reviewed by the Bank on April 21, 2022 and identified the procurement strategy and arrangements that are proportionate to the risk and value of all contracts to be executed during the implementation of the project. Those arrangements are reflected in the Procurement Plan.

22. **Implementing agency.** Procurement will be centralized within the PIU. Procurement will not be complex, and the scope of contracts will be certain and easily quantifiable. Procurement arrangements do not include complex arrangements requiring specialized skills, such as, for example, dialogue-based arrangements that present probity risk.

23. **Capacity assessment.** The World Bank performed a Procurement Assessment to evaluate the capacity of MINPRE to implement procurement activities under the Project. Capacity within MINPRE was deemed to be adequate for project implementation. Under Component 1, no procurable activities were identified, as loan proceeds would finance part of the upfront subsidies (*Bono Inicial Familiar*) granted under the PNVFF for eligible households. Component 2 will finance technical assistance and capacity building activities to strengthen institutional capacity of key government actors in the Dominican Republic. Component 3 would finance support for management, implementation, monitoring, and evaluation of the Project. This would include operating expenses of the PIU for the following activities, inter alia: (i) Project monitoring and evaluation; (ii) progress and fiduciary management; (iii) strategic communications; (iv) implementation and monitoring of the environmental and social framework; and (v) managing the Grievance Redress Mechanism, among others. The procurement risk is **Moderate.**

24. **Risk mitigation plan.** The following table summarizes the mitigation actions proposed for the procurement-

related risks identified in Table 1.2.

Table 1.2. Procurement Improvement Action Plan

Risk Description	Description of Mitigation	Risk Owner
Procurement Specialist is not familiar with WB's procurement rules and procedures	Hiring or appointment of a Procurement Specialist with relevant experience in Bank's Procurement Regulations	MINPRE
Weak procurement capacity of evaluators and technical teams	Training to be provided evaluators and to technical specialists working in the project	MINPRE/WB
PIU does not have previous experience with World Bank funded project and is not familiar with the Bank's Procurement Regulations for Borrowers	Training to be provided and preparation of an Operational Manual with a detailed procurement section	PIU/WB

25. **Procurement documents.** Standard procurement documents (SPDs) will apply to all international procurement. When approaching the national market, the Borrower may use procurement documents acceptable to the Bank. The Procurement Plan in STEP will determine which contracts are subject to national and international market approach.

26. **Procurement Plan.** PIU must prepare a Procurement Plan in STEP for the first 18 months of project implementation, providing the basis for the procurement processes. This plan will be agreed upon by the MINPRE and the Bank team before negotiations. The Procurement Plan will be updated in agreement with the World Bank on a biannual basis or as required to reflect actual project implementation needs and improvements in institutional capacity.

27. **Summary of the Procurement Plan**. Based on the PPSD, the Procurement Plan will be prepared to set out the selection and procurement methods to be followed by the Borrower during project implementation in the procurement of goods, non-consulting and consulting services financed by the proposed operation.

28. **Procurement and Prior Review Thresholds:** The Procurement Plan shall set forth contracts, which shall be subject to the World Bank's Prior Review based on the amount, complexity and/or activity risks. All other contracts shall be subject to Post Review by the World Bank.

Environmental and Social Framework

29. **The environmental and social risk management will be the responsibility of the PIU under MINPRE.** MINPRE has a small E&S team with experience working with international standards but no experience on the ESF. The Implementation support strategy will include training and hands-on assistance and guidance from the World Bank staff, as required. In addition, particular attention will be paid during project implementation to: (i) monitor implementation to ensure that benefits to and participation of the most vulnerable populations are being achieved; and (ii) monitor the implementation of citizen engagement mechanisms.

Strategy and approach for implementation support

30. **The strategy for implementation support has been developed based on the Project's design and its risk profile, as well as mitigation measures required during implementation, as identified through the Systematic Operations Risk Rating Tool.** The strategy remains a flexible tool that may be amended during project implementation in response to the Borrower's changing needs. The implementation support strategy envisages taking advantage of existing knowledge, partnerships, and experiences, and supporting further strengthening during the Project. The World Bank will work closely with the PIU to provide support where there is high value added to improving the integral project and individual investments. Support to the execution of the Project will focus on: (i) supporting the program design and implementation

and helping the PIU to optimize its operation and technical soundness; (ii) assisting the PIU in the design and implementation of robust monitoring and evaluation systems; (iii) facilitating coordination with FIs to facilitate capital market solutions that enable sound and sustainable supply of housing finance.

31. **The level of technical support needed for implementation is considered substantial on the technical aspects, moderate on the fiduciary aspects, and moderate on the environmental and social aspects:**

(i) **Technical.** A team of World Bank specialists in housing will: (i) engage and guide the technical and institutional dialogue, based on known national and international best practices; (ii) advise on the design of activities envisaged within components, including processes for the preparation of Terms of Reference, budget, and bidding documents; (iii) participate in field visits to advance the dialogue with the GoDR and review progress; and (iv) engage with the GoDR to enable knowledge transfer and guidance. This team will be supported by a housing finance specialist to work closely with the PIU and coordinate the World Bank from the field.

(ii) **Fiduciary.** The FM supervision plan will include virtual/partial on-site supervision, extensive in scope, covering key FM areas, review of the semi-annual IFRs, annual financial audit reports, and performing periodic spot checks of SOEs and any other area of concern. Field visits will also be carried out, to be complemented by periodic video and audio conferences. The intervals and scope of FM support missions would be revised based on the supervision results as indicated in the FM Implementation Support Report ratings. The World Bank will timely provide them all with clear guidance, useful inputs, effective support, and issue recommendations to expeditiously address FM matters in a proactive manner and whenever required.

(iii) **Procurement.** Implementation support will include: (i) providing training to members of the PIU and MINPRE's staff involved in procurement on the World Bank's Procurement Regulations; (ii) procurement prior review according to the Project risk rating evaluated in each Implementation Status and Results Report (ISR); (iii) annual supervision missions in the field to carry out the post-review of procurement activities; (iv) irrespective of the review modality, providing guidance and close support to the PIU on procurement procedures; and (v) monitoring of progress against the Procurement Plan.

(iv) **Environmental and Social Framework.** During implementation, the World Bank will: (i) monitor compliance with the ESMF, the SEP, the ESCP, and the agreed environmental and social plans and frameworks as triggered by the Project; and (ii) address concerns from the client or other stakeholders on ESF policies. Regular training to counterparts on ESF policies and continuous support will be provided by the World Bank when identified or required by the client.

32. **Implementation support plan.** Table 2.3 reflects the preliminary estimates of skill requirements, timing, and resource requirements over the life of the Project. Keeping in mind the need to maintain flexibility over project activities from year to year, the implementation support plan will be reviewed periodically to ensure that it continues to meet the implementation support needs of the Project. The following table indicates the World Bank's implementation support plan and the required skill mix and team composition.

Table 1.3. Implementation Support Plan

Skills needed	***No. of staff weeks (annual)***	***Number of missions***	***Comments***
Task team leaders	*16*	*Semiannual mission, field visits as required*	*Staff, Washington-based* *Staff, country office based*
Support technical team (Housing Finance specialists, extended-term consultants and/or short-term	*8*	*Semiannual mission, field visits as required*	*Staff, country office based* *Extended-term consultants/short-term consultants, Washington-based*

Skills needed	*No. of staff weeks (annual)*	*Number of missions*	*Comments*
consultants)			*and country office based*
Procurement Specialist	*4*	*Semiannual mission*	*Staff, country office based*
FM Specialist	*3-4*	*Semiannual mission*	*Staff, country office based*
Social Specialist	*6*	*Semiannual mission, field visits as required*	*Staff, Washington-based*
Environmental Specialist	*6*	*Semiannual mission, field visits as required*	*Staff, country office-based*

ANNEX 2: Detailed Project Description

COUNTRY: Dominican Republic
Support to the National Housing Program

1. **This Annex provides a detailed description of the overall government Program supported by Component 1 of the proposed Project.** This component accounts for 99.35 percent of the World Bank Project funds and will finance the upfront subsidy of the PNVFF described below. Components 2 and 3 of the proposed Project are described in the main text of this document.

PNVFF Subsidies

2. **There are two subsidies offered under the PNVFF: (i) the upfront subsidy *Bono Inicial Familiar*; and (ii) the interest rate subsidy *Bono Tasa* – the only type of subsidy to be financed by the proposed World Bank Project is the upfront subsidy. The** PNVFF beneficiaries also receive a third (pre-existing) subsidy which is called *Bono ITBIS* and explained in detail below. The PNVFF beneficiaries have access to one of three types of housing depending on their income level (see Table 2.1).

3. **The *Bono Inicial Familiar* is a flat upfront subsidy provided in the name of the beneficiary household that varies based on the type of housing they can access with their income, as per Table 2.1.** This upfront subsidy is intended to decrease the amount of the down payment for the beneficiary household, thereby making the housing option more affordable in the immediate term. This subsidy is a flat amount equal to RD$260,000 (around US$4,561) for households buying a Type 1 housing (households with an income of up to two minimum wages); to RD$250,000 (around US$4,386) for households buying a Type 2 housing (households with an income of up to 3 minimum wages; and to RD$240,000 (around US$4,211) for households buying a Type 3 housing (households with an income of up to 5 minimum wages).

4. **The *Bono Tasa* is a flat rate subsidy that covers a share of the monthly mortgage payments of beneficiary households.** Once a housing unit is built, delivered, and titled in the name of the beneficiary household, the process for *Bono Tasa* will begin and will last for up to seven years for each eligible mortgage. The interest rate subsidy is equal to RD$3,500 (around US$61) for households purchasing Type 1 housing and to RD$4,000 (around US$70) for households purchasing Type 2 and 3 (see Table 2.1).

5. **In addition to the PNVFF subsidies, the *Bono ITBIS* is an upfront subsidy equivalent to 7 percent of the total housing value.** Beneficiary households receive a first-time homebuyer grant equivalent to the tax on the transfer of industrialized goods and services (ITBIS subsidy). It can be used to complete the down payment or applied against the loan principal if the homebuyer has already paid the down payment. This subsidy, which is financed by the DGII under the Ministry of Finance, existed prior to PNVFF and has since been included therein.

Table 2.1. Type of housing available through the PNVFF and target households.

Type of housing	Housing unit price	Household income segment	PNVFF Upfront subsidy (Bono Inicial Familiar)	PNVFF Flat rate subsidy (Bono Tasa)
Type 1 (VISUB)	30 percent of VBC (RD$1-1.35 million)	Up to 2 MW (US$375 or RD$21,378)	RD$260,000 (around US$4,561)	RD$3,500 (around US$61)
Type 2 (VIP)	31 – 45 percent of VBC (RD$1.395 - 2 million)	Up to 3 MW (US$678 or RD$38,700)	RD$250,000 (around US$4,386)	RD$4,000 (around US$70)
Type 3 (VIS)	46 – 65 percent of VBC (RD$2.07 - 2.9 million)	Up to 5 MW (US$1,130 or RD$64,500)	RD$240,000 (around US$4,211)	

Note: MW = Minimum wage equal to RD$ 12.900 (January 2022) or US$226. Low-cost dwellings (*Vivienda de Bajo Costo* or VBC, in Spanish) is one that complies with Law 189-11, its amendments and complementary regulations, and has a sale price of up to RD$4,500,000 in 2022. Source: MINPRE and FONVIVIENDA.

6. **Through Component 1, the proposed Project will finance a portion of the PNVFF upfront subsidies (*Bono Inicial Familiar*) that would increase the ability of eligible households to purchase affordable housing in well-located, serviced urban areas.** As mentioned, the *Bono Inicial Familiar* is a flat amount and would vary between RD$260,000 and RD$240,000, depending on the type of housing to be acquired by the beneficiary household**Error! Reference source not found.**. An estimated 44,000 households will receive housing subsidies from PNVFF during the first four years of implementation, estimated to be disaggregated by income segment as per Table 2.2; roughly 20 percent of the subsidies will be allocated directly to FHH.

Table 2.2. PNVFF upfront subsidy by household income segment supported by the proposed Project

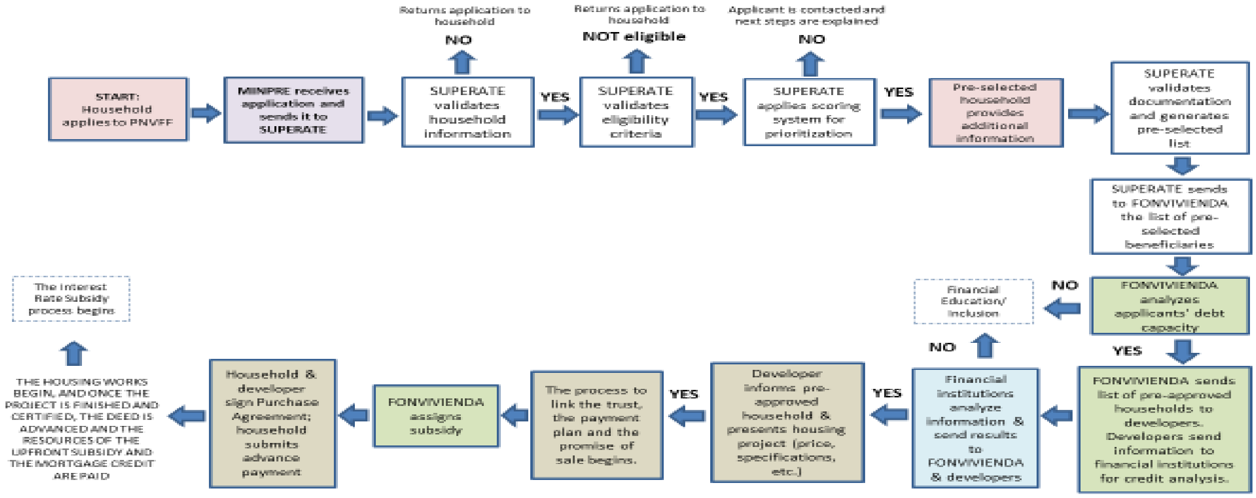
Type of housing	Estimated number of households receiving PNVFF subsidies	Estimated share of households supported by the proposed Project
Type 1 (VISUB)	3,500	45 percent
Type 2 (VIP)	10,500	
Type 3 (VIS)	30,000	
Total number of households receiving PNVFF subsidies	44,000	

Source: MINPRE and FONVIVIENDA.

Selection and incorporation of PNVFF beneficiaries

7. **The selection process of the PNVFF beneficiaries relies upon pre-existing social protection institutions and systems** – see Figure 2.1. The process begins with an online application through the official MINPRE website (*www.familiafeliz.gob.do*). The application is open to the public, though only eligible households will pass through the initial filters. SUPERATE, the national entity responsible for leading social programs in the country, receives and reviews applications, validating the information with SIUBEN, the DGII, with the Social Security Treasury, and with other relevant institutions. As part of the pre-selection process, SUPERATE completes a pre-evaluation of the credit profile of the beneficiary household. If applicants are in the informal sector, SUPERATE has a dedicated unit to call and/or visit these households to verify their information. SUPERATE can notify applicants through the online portal if there are any discrepancies or issues.

Figure 2.1. Incorporation of PNVFF beneficiaries



8. **Eligible beneficiary families are those buying their first home and with a household income lower than 5 minimum wages, in addition to complying with several requirements**. Applicants should: (i) have a formal (or informal) income lower than 5 minimum wages, which will be verified through the DGII or on-site evaluations; (ii) not own any other property certified by the DGII/Real Estate Jurisdiction; (iii) be Dominican, older than 18 years old with an official Identification and voting card; (iv) present their children's birth certificates (if the case applies); and (v) not have benefitted from the PNVFF before. Dominican families can reside either in the country or abroad – see Table 2.3.

Table 2.3. Eligibility Criteria for Households

Variable	Description	Means of verification
Identity	Being Dominican with identity and electoral cards.	Identity and electoral cards. SUPERATE verifies.
Income	Income below 5 minimum wages per month.	Self-declaration and ex-ante validation by SUPÉRATE.
Previous subsidies	They have not received any housing subsidy before.	MINPRE and FONVIVIENDA verify.
Legal requirements	Not having a home.	SIUBEN and SUPERATE verify.

Source: MINPRE and FONVIVIENDA

9. **Eligible beneficiaries are then prioritized through a scoring system considering vulnerability conditions.** The PNVFF prioritization criteria is specified in the FONVIVIENDA's operating manual. It is based on a point system that prioritizes vulnerable households, including those: (i) located in informal settlements, (ii) in situations of displacement due to natural events, public calamities or emergencies; and/or living in areas of unmitigable high risk; (iii) with special conditions such as disabilities, the elderly, FHH, households with female children, pregnant or abused women; (iv) linked to social programs to overcome extreme poverty; (v) members belonging to sectors or unions included in social improvement programs (e.g., military, journalists, nurses, teachers, etc.). Selected beneficiaries will be matched geographically with PNVFF-approved housing projects close to their current location.[50]

10. **The pre-selected beneficiaries would have access to one of three types of housing based on the household's income level, its initial contribution (savings), and the mortgage granted by the financial institution**. The eligibility criteria for the financing of the upfront housing subsidy financed with World Bank funds is the following: (i) the eligible

[50] If applicants select a location that does not currently have approved housing projects, SUPERATE will alert FONVIVIENDA to the potential for demand.

household has selected and agreed to purchase a housing unit under the PNVFF from the housing developer/seller; (ii) the eligible household has signed a mortgage with a participating financial intermediary (FI) supervised by the Superintendence of Banks and or a financial intermediary mutually agreed between the World Bank and the Borrower; (iii) the eligible household has received an offer from FONVIVIENDA, which ensures that they comply with the PNVFF eligibility criteria and that they have provided their part of the down payment (savings); and (iv) the finished housing unit complies with the PNVFF criteria and has been delivered to the eligible household with a property title. The main aspects of these criteria are reflected in the Loan Agreement, including the definitions in its Appendix, and further elaborated in the Project Operational Manual.

11. **Once beneficiary households meet eligibility and prioritization criteria, they will be pre-approved for PNVFF, upon which they will receive more information about the program.** They will be required to prove access to a mortgage credit from a participating financial institution of their choice before FONVIVIENDA will assign that household the approved amount for both the *Bono Inicial Familiar* and the *Bono Tasa*. Once approved, households will select a housing unit of their choice from participating developers, sign a pre-sale contract, and submit their portion of the down payment to the housing developer trust. The CPPTE will be responsible for the titling process once the housing units are delivered to beneficiary families. Once the unit is delivered and titled in the name of the beneficiary household, the financial institution will submit the mortgage payment in their name to the housing developer trust. Households will continue making monthly mortgage payments to their FI according to the terms of their contract.

12. **SUPERATE will monitor beneficiary families on a monthly basis to confirm that they are meeting their mortgage payments, and there will be a team in the field to support the beneficiaries.** SUPERATE will also have a complaint management system and a mechanism to allow applicants to cancel their housing request if no longer required.

Incorporation of housing units into PNVFF

13. Housing developers must comply with all legal requirements for permits and licenses in terms of land zoning and use, construction processes and materials, and environmental and social considerations. To facilitate the process of complying with all legal requirements, MIVED is establishing a one-stop-shop (*ventanilla unica*), with representatives from all ministries and organizations involved in the assignment of licenses and permits for the construction of a house. In addition, FONVIVIENDA has a specific help desk to support developers in this process and work closely with MIVED for the prioritization of PNVFF projects. Several consultation workshops were held with housing developers in the DR, where they expressed the importance of these measures to facilitate housing production. They also mentioned their strong interest to participate in the PNVFF and confirmed their capacity to meet increasing housing demand.

14. **The PNVFF has established eligibility criteria for the development of resilient and sustainable housing developments, in the context of limited territorial planning instruments**. Through these criteria, the program fills the regulatory gap to ensure: (i) more efficient land use; (ii) access to basic services; (iii) tenure security; (iv) use of locations that are not negatively impacting the environment or exposing people to natural hazards; and (v) use of higher densities. Furthermore, the PNVFF will prioritize housing developments that incorporate renewable energy and climate-smart aspects in the design and construction. These criteria are articulated in the program documents, Criteria for Selection Promotors for PNVFF.

15. **Once selected, the housing developer will establish a trust to administer their own resources in addition to down payments from beneficiary households, mortgage payments from the financial institution, and the subsidies (*Bono Inicial Familiar, Bono ITBIS*, and *Bono Tasa*).** FONVIVIENDA is the principal entity responsible for the approval of eligible housing development proposals for PNVFF. The General Budget Child Trust (and not the World Bank Child Trust) under the PNVFF Parent Trust can make partial payments of the *Bono Inicial Familiar* for advances in construction. Developers may also choose to finance construction with their own resources. FONVIVIENDA assumes the risk that a

developer receives advances and does not deliver in form or on time. Only those finished units that meet all requirements will be incorporated into PNVFF. The full payment of the *Bono Inicial Familiar* will be disbursed once FONVIVIENDA supervises finished housing units and emits a certificate of delivery and occupancy in the name of a beneficiary household.

16. **The process of housing production and incorporation into the PNVFF is not part of the proposed World Bank-financed Project.** This process takes place prior to World Bank flow of funds, and the World Bank will not fund advances in construction. The World Bank will only transfer funds from the PNVFF World Bank Child Trust to the Parent Trust for the full amount of the *Bono Inicial Familiar*, in accordance with the disbursement modalities described in Annex 1.

PNVFF Institutional Design

17. The PNVFF requires multi-stakeholder coordination across a variety of national and local public institutions. Table 2.4 summarizes their roles and responsibilities in PNVFF. In addition, PNVFF requires coordination with private sector actors, particularly among housing developers, who will be responsible for the production of PNVFF-eligible housing units on PNVFF-approved public or private land, and FIs, who will be responsible for providing mortgage credits to PNVFF-eligible beneficiary households.

Table 2.4. Selected Housing Developments Eligibility Criteria

Institution	Level of government	Role and responsibility in PNVFF
Management of PNVFF		
Ministry of Finance	National	The Ministry of Finance is responsible for funding PNVFF through the National Budget, as approved by Congress.
MINPRE	National	MINPRE is responsible for managing the PNVFF through FONVIVIENDA, which is a dependent entity.
FONVIVIENDA	National, dependent entity of MINPRE	FONVIVIENDA is responsible for the management of resources of the PNVFF Parent Trust Fund (*Patrimonio Autónomo*) and presides over its Fiduciary Committee. It has a dedicated team within MINPRE.
Incorporation of housing units into PNVFF		
Municipal governments	Municipal	Municipal governments are responsible for issuing the certification of land use and the project approval for housing units that will be incorporated into the PNVFF. Municipal governments are responsible for identifying areas that are protected or environmentally sensitive, which will require the approval of the Ministry of the Environment, as well as areas that are vulnerable to risks (such as climate-related disasters) and therefore are off-limits for development. If areas are culturally-sensitive, municipal governments will review with the Ministry of Culture, and if they are in tourist zones, they will review with the Ministry of Tourism, as required.
Ministry of the Environment and Natural Resources (MinAmbiente)	National	MinAmbiente is responsible for issuing the environmental approval (*aprobación ambiental*) for all housing units in order to get the construction license from MIVED. FONVIVIENDA will review the required MinAmbiente paperwork before approving incorporation of housing units into the PNVFF.
Ministry of Housing and Buildings (MIVED)	National	MIVED is responsible for issuing the construction license (*licencia de construcción*) for all housing units to be incorporated into the PNVFF. MINPRE has agreed with MIVED to expedite the processing of PNVFF-related licenses. MIVED is also responsible for inspecting the construction process of PNVFF-related housing units. FONVIVIENDA will review the required MIVED paperwork before approving incorporation of housing units into the PNVFF.

Institution	Level of government	Role and responsibility in PNVFF
Selection and incorporation of PNVFF beneficiaries		
SUPERATE	National	SUPERATE is responsible for receiving applications and prioritizing and selecting PNVFF beneficiary households according to pre-established criteria. SUPERATE is also responsible for following up with approved beneficiary households to ensure they are meeting their mortgage payment obligations.
Unique Beneficiary System (SIUBEN)	National	SIUBEN is responsible for cross-referencing PNVFF beneficiary applicants against the national beneficiary registry system.
Dominican General Directorate of Internal Taxes (DGII)	National, dependent entity of the Ministry of Finance	DGII is responsible for verifying whether PNVFF beneficiary applicants have other homes registered in their names, upon which they would be disqualified for the program. DGII is also the entity responsible for financing the *Bono ITBIS* to housing developers.
Social Security Treasury (TSS)	National, dependent entity of the Ministry of Labor	The Social Security Treasury is responsible for providing MINPRE with timely data to verify household income during the PNVFF application process.

ANNEX 3: Mortgage Market in the Dominican Republic[51]

COUNTRY: Dominican Republic
Support to the National Housing Program

Overview of the Mortgage Market

1. **The Dominican Republic mortgage market has grown significantly in recent years, slightly higher than the growth of the overall credit market.** From 2006 to March 2021, the outstanding mortgage portfolio grew from RD$30 billion to RD$228 billion, at an average annual rate of 14.3 percent. In contrast, loans to non-financial corporations and consumer loans increased at an average rate of 12.6 and 13.7 percent over the same period. These developments implied an increase in the relative share of mortgage loans in the overall credit market, which represented 14.5 percent of the intermediaries' credit portfolio as of 2006 and expanded to 17.7 percent by March of 2021. This share compares above the median of LAC countries, indicating that Dominican financial intermediaries assign a higher percentage of their credit portfolio to mortgages relative to banks from other countries in the region.

2. **However, despite the substantial increase of mortgage lending in recent years, the mortgage market remains small and concentrated.** The expansion of the system-wide mortgage portfolio has been at a higher pace than the nominal GDP. This translated in an increase from 2.9 percent to 5 percent of the system-wide ratio of mortgage loans to GDP from 2006 to 2020. Nonetheless, this ratio is below the median of a sample of 11 LAC countries. In addition, six institutions held more than 80 percent of the mortgage market. Banks overpassed Savings and Loan Associations (*Asociaciones de Ahorros y Préstamos*, associations, henceforth) as the leading providers of mortgage loans in the DR. While half of the mortgage loans credit outstanding was granted by associations in 2006, their market share dropped to one-third as of March 2021, with banks now lending around two-thirds of the financial intermediaries' mortgage loans. Still, mortgage lending remains the main business of associations. In addition, financial cooperatives have gained a role in providing mortgages notably in rural areas given their capillarity and target market segment. However, their size and financials are difficult to gauge given the lack of a solid regulatory and supervisory framework.

3. **Mortgage nonperforming loans (NPLs) have been historically low and fully provisioned, with associations exhibiting more volatile NPLs than banks.** The average NPLs ratio (nonperforming loans to total loans) for mortgage loans from 2014 to March 2021 was 1.5 percent. This ratio is below the average for the entire credit portfolio over the same period and similar to non-financial corporates (NFCs), at around 2 percent. The economic effects COVID-19 pandemic did not significantly affect the portfolio performance. Mortgage NPLs peaked in June-2020 but returned to pre-pandemic levels by the end of the same year. Compared to banks, the NPLs of associations exhibit higher volatility over the period under analysis. Moreover, mortgage loans are fully provisioned, showing a system-wide coverage ratio above 200 percent.

4. **Interest rates are mostly variable, but lenders are increasingly offering partially fixed interest rates (teasers), usually limited to two years.** As of 2016, lenders offered less than 20 percent of mortgage loans with teaser interest rates, a proportion that increased to one-third by the first half of 2021. Exceptionally, lenders have offered fixed interest rates for more than two years backed by expansionary monetary policies such as *liberaciones de encaje*.[52] Interest rate

[51] Prepared by a team comprising Fadwa Bennani, Simon Walley, Faruk Miguel Liriano and Olivier Vidal.
[52] The Central Bank of the Dominican Republic (*Banco Central de la República Dominicana*, BCRD), on several occasions, has provided liquidity to the commercial banks' by reducing legal reserve requirements as a temporary measure for incentivizing mortgage lending. This mechanism allowed banks to offer lower interest rates on mortgage loans for longer periods.

changes can be applied at the lender's discretion and are not attached to a transparent indexation mechanism which can create some issues in terms of consumer protection. Furthermore, interest rates have remained relatively stable over the last eight years. During this more recent period, the average interest rate offered by associations was 11.9 percent, which is one percentage point higher than the rate offered by banks.[53] The term to maturity of mortgage loans is typically between 10 to 20 years and most mortgages are usually paid off before their term.

Mortgage Funding Structure

5. **The lack of long-term funding constrains the growth of housing finance.** Dominican lenders do not have many options to procure medium- and long-term liabilities, such as mortgage-covered bonds or corporate unsecured debt. Therefore, the banks' fund sources are mainly short-term, as deposits dominate the liability side of banks' balance sheets. Deposits account for 62 percent of the banking sector's total liabilities. More than half of the deposits are saving deposits, and one-quarter are demand deposits. For most banks, the weighted average tenor of their deposits is two years, reaching up to five years in the case of term deposits. Conversely, associations are mainly funded through securities, which account for 47.3 percent of their total liabilities. While some lenders have experience issuing bonds, it is a costly funding source as banks compete with high return rates offered by government bonds.

6. **The recently created securitization vehicle (*Titularizadora Dominicana*, TIDOM) is a promising initiative to develop long-term finance in the country.** Introduced in 2019, TIDOM set the foundations for allowing financial institutions to sell their mortgage portfolios to institutional investors and therefore allow lenders to offer longer maturity loans at better conditions. Nonetheless, borrower support measures introduced during the COVID-19 pandemic stagnated the development of this securitization vehicle. In detail, the 2020 *liberaciones de encaje* distorted the market conditions, making the securitized mortgages unattractive for the pension funds as the return offered by the government securities were substantially more attractive. Worth noting is the more recently enacted law aligns the capital market to good practices and therefore brings more efficiency to the market.[54]

7. **The current prudential regulation (Basel I with few Basel II additions) allows for asset-liabilities mismatches but requiring additional capital to institutions in such situations**. In the context of banks' large capital cushions and the financial sector's structural excess of liquidity, asset-liabilities mismatches don't seem to be a binding restriction for some institutions. An update of the regulatory framework in concordance with the current Basel standards would impose restrictions for asset-liabilities mismatches, potentially straining the lenders' provision of long-term financing. Increased availability of long-term funding sources would allow lenders to provide better terms to borrowers, particularly for mortgages.

Provision of Affordable Housing Finance

8. **Despite an increased offer of low-cost housing finance in the country, backed by the Law for the Development Trust and Mortgage Market of 2011, lower segments are still underserved.[55]** The share of mortgage loans originations between RD$ 1 – 2 million increased steadily between 2015 and 2019. Specifically, lenders underwrote six percent more of mortgage loans in this segment in 2019 compared to 2015 (36 percent vs. 42 percent). Considering the market average loan-to-value ratio (LTV), which according to major lenders is around 80 percent, housing prices of these houses are between RD$1.2 and 2.4 million, which is similar to the cutoff for meeting the tax incentives for applying the *Bono ITBIS*

[53] Arguably, higher interest rates offered by associations translate to higher funding costs and a relatively riskier profile of their clients
[54] A complementary initiative for the development of the capital market in the DR is the more recently enacted (August 2021) law for promoting the placement and trading of securities in the stock market: *Ley de fomento a la colocación y comercialización de valores de oferta pública en el Mercado de Valores de la República Dominicana* (Ley núm. 163-21).
[55] Trusts (fideicomisos) were developed under this law enabling resources mobilization to construct houses by developers.

under the 2011 law. Thus, the improved access to these segments can be reasonably linked to the law. On the flip side, mortgage loans below RD$ 1 million exhibit a slight contraction.

9. **Measuring the re-payment capacity of unbanked clients is challenging, and underwriting criteria for low-income borrowers differ significantly across institutions.**[56] Unbanked clients can be grouped in two: (i) those who have initiated a home purchase through a real estate trust, and (ii) those who do not. In the case of the first group, lenders assess the borrower's creditworthiness based on their contributions to the trust. For clients without previous trusts engagement, some lenders have savings or financial literacy programs. After graduation from the programs, clients could successfully apply for a home loan. Other institutions with a higher-end market segment target do not offer these types of programs. Moreover, according to the interviews with the top lenders of the market, there isn't a market standard for underwriting mortgage loans for low-income households.

10. **The 2017 Anti-Money Laundering and Counter-Terrorist Financing Law (AML-CFT) may have strained the demand side, particularly from the informal sector and irregular income households.** In 2017, the country modernized its AML-CFT law and the procedures for supervising financial institutions' credit provision. On the one hand, borrowers need to show proof of their income or payment history under these regulatory enhancements. On the other hand, more than half of the activity in the DR is informal, meaning a hardship for proving income prospects and sources. The combination of these two factors may have played a detrimental role in providing credit for the lower segments of the population.

11. **The country receives a substantial inflow of remittances, making up for a considerable share of households' income, particularly for those who earn less**. Remittances account for more than 20 percent of the poorest households' income, representing a significant source for enhancing overall household welfare, which can increase expenditure for housing consumption or savings rates. If banks were able to securitize future remittance flows, they would be better positioned to fund affordable housing and infrastructure projects. Remittances also stabilize borrower's capacity to repay and therefore reduce the incidence of non-performing loans.[57]

Opportunities and recommendations

12. **Strengthening lender capacity to underwrite loans to borrowers with an informal income will improve their ability to reach the lower segments of the population.** Underwriting borrowers with an informal income are one of the biggest challenges for lenders in housing finance globally. As a result, lenders have targeted households who can provide official documentation of their income sources. The Superintendence of Banks (SB) and the BCRD could benefit from support to establish market standards for lending towards low- and informal-income earners, and potentially explore regulatory incentives for lenders serving this segment.

13. **Strengthening the supervisory and regulatory framework of cooperatives will help with their role in the deepening of the mortgage market.** There are over 1300 cooperatives registered in the DR, however the true size and financials of the sector are difficult to gauge given the lack of a solid supervisory framework. Some cooperatives in the country run the same business as banks (including mortgage lending) but without the need to comply with the same regulatory requirements as financial intermediaries supervised by Superintendence of Banks (e.g., minimum capital, offering market-based rates). However, many housing construction projects in rural areas are financed through financial cooperatives, given their capillarity and target market segment.

[56] Some institutions have experience lending to informal-income clients without payment history, usually micro-entrepreneurs. For these types of clients, lenders do on-site visit to infer their payment capacity, for instance, through evidencing client turnover.
[57] Credit Quality in Developing Economies: Remittances to the Rescue? World Bank, 2015.

14. **The issue of limited supply of long-term capital needs to be further investigated in collaboration with the capital market stakeholders and TIDOM.** Easing access to long-term capital could contribute to expanding the mortgage market. Banks and associations find it difficult to diversify their liabilities sufficiently to finance longer-term transactions. Addressing this constraint will help decrease monthly payments which are essential to providing loans to a larger and less affluent population. The recently created securitization vehicle has the potential to allow financial institutions to sell their mortgage portfolios to institutional investors, and therefore more willing to offer longer maturity loans. These efforts should be encouraged and strengthened.

15. **The predominance of floating interest rate mortgages in the market, combined with practices of changes of interest rates at lender discretion, suggests the need for improvement in the financial consumer protection framework to mitigate potential risks particularly for low-income borrowers.** Currently most of the mortgages issued have a floating interest rate. While this doesn't necessarily represent a constraint *per se* to the housing finance sector, it represents a risk, particularly for low-income borrowers which needs to be managed. When interest rate eventually goes up, can create a payment shock for the customer, increasing default rate and evictions and pushing people more into poverty. In addition, interest rate changes by lenders seems to be discretionary, not attached to a transparent indexation mechanism. Therefore, there is space for implementing consumer protection regulations and oversight to prevent potential abuse of the system.

16. **Leveraging remittances flow to increase access to affordable housing finance.** Considering the contribution of remittances to the national economy and the fact that financial institutions are already looking at ways to leverage remittances to increase access to housing finance in the country, it will be useful to implement some technical assistance to: (i) improve assessment mechanisms of the remittances contribution to borrower income in order to improve the borrower risk profile and(ii) securitize remittance flows—to leverage more external financing to fund affordable housing projects.

17. **Develop the green housing finance offering to increase the affordability and sustainability of the housing sector.** There isn't a green mortgage market in the DR, initiatives that represent important opportunities for the affordable housing sector. Under a green mortgage, a bank or mortgage lender offers a house buyer preferential term if they can demonstrate that the property for which they are borrowing meets certain environmental standards. As an incentive for the borrower to either buy a green building or to renovate an existing one to make it greener, the bank would offer them either a lower interest rate or an increased loan amount. For the banks, there are multiple benefits, including that they represent a lower risk investment.