Market Assessment of Non-State Education in the Dominican Republic

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Executive Summary

This document presents the results of a market assessment of non-state education sector in the Dominican Republic. The purpose of this assessment is to understand the landscape of Dominican non-state education sector and identify opportunities and challenges for pursuing an education finance initiative in the country, and potential areas of focus. This assessment is part of a regional assessment conducted in six Latin-American countries under the USAID-funded CATALYZE EduFinance LAC program implemented by Palladium International.

Grupo Línea Base conducted this assessment based on USAID's Five Point Framework adapted for education finance. The framework covers following five dimensions: 1) Enabling environment of the financial and education market; 2) Demand side or education institutions; 3) Supply-side or finance providers; 4) Financial infrastructure and 5) Intermediaries and facilitators. To analyze the five dimensions, the research team used a mixed methodological approach. This approach included interviews with more than 30 key stakeholders, a brief phone survey of 200+ non-state schools, and an extensive review of Academic research, laws, regulations, and official publications relevant to the assessment.

The Dominican Republic is one of the best performing economies in Latin America and the Caribbean for the past twenty five years. The country enjoys a stable political climate and has seen a significant reduction in poverty and unemployment levels. Social spending has increased significantly, particularly in the education area – with the doubling of the sector's public budget in 2013- and social transfers have boosted economic welfare. However, doing business in the country is still a challenge mainly due to weak institutional capacity, a deficient electricity supply, and high taxes, which prevent SMEs from formalization. Most non-state schools are run as SMEs and face similar challenges.

Non-state schools can be classified into three categories: private, semi-official, and co-managed schools. Even though the latter two are private entities, they receive government support, such as subsidies to cover part of their payroll. Also, their students are often beneficiaries of the public-school meal program. Education statistics available on public (MINERD) website does not disaggregate data between 'public' and 'semi-official' schools and all these schools are grouped under 'public schools'. Co-managed schools are very new and few in number (< 2% of total enrollment). There are 3,636 private schools in the Dominican Republic, which account for 32% of all K-12 schools and 24% of total enrollment. Latest MINERD statistics for SY 2018-19 show that private enrollment is highest (55%) in the initial (pre-primary) level, followed by elementary (23%) and secondary (18%). Most private schools are considered 'low-cost' as per MINERD classification, and nearly 70% are located in the nations' three largest urban areas.

However, since 2013, 15% of private schools (700+) have either closed or converted into a public school. This decrease is mainly attributed to the significant reforms in the public education system, making public schools more attractive for low-income families and for teachers. After the school closures due to COVID-19 more private schools are expected to close.

Private non-state schools require the authorization of the Ministry of Education (MINERD) to operate. In this process of validation by the Government, a private school can present as 'accredited' or 'recognized', and the rest are categorized as 'not recognized' or 'not authorized'. As of 2020, 56.3% of schools operated in the latter category, i.e. without any formal recognition from the MINERD. The main constraints to obtaining formal recognition are 1) Teachers without a bachelor's degree, 2) Inadequate infrastructure and lack of recreational space, and 3) Lack of adequate furniture and equipment. However, 71.6% of all students enrolled in the private sector attended a school that is recognized (SIGERD, 2019).

The high levels of non-recognition restricts private schools' access to finance. Financial institutions find it cumbersome to determine the school's creditworthiness and consider them high risk - government regulations inhibit schools from aggressive fee collection tactics like expelling students' mid-academic year for fee non-payment. Also, these schools often lack assets that could serve as collaterals. Therefore, many schools resort to borrowing from small microcredit institutions, cooperatives, or small banks, which tend to charge larger interest rates.

The Dominican financial system offers a wide variety of financing and payment mechanisms. The banking system is composed of 49 institutions and cooperatives and MFIs. Seven financial institutions offer most of the SME loans, out of which three are MFIs. In addition to these Banks, non-profits and cooperatives lend to SMEs function as MFIs and at least two MFIs (CoopAspire and FONDESA) have specific products for non-state schools. Data from tax authorities suggests that there is a trend toward the formalization of private schools. This might be related to schools having to provide tax refund vouchers to parents and other tuition payers, which can only be issued if a school is registered.

MFIs in DR have the experience to lend to schools, but most loans to schools are short-term (< 1 year) and for smaller amounts (< $1,000). MFIs that lend to schools and school associations have a strong relationship with schools at all fee levels, including the marginalized neighborhoods. All schools and stakeholders consulted were aware of the financing options available in Fondesa, ADOPEM, and CoopAspire.

Traditional banks are the main lenders to education sector in the country in terms of total balances, their loan sizes are larger, and as such, the purpose of the loans is different. However, schools report stringent requirements to access loans. MINERD's infrastructure requirements are one of the main constraints for a school to get recognized[1]. In the past years, new regulations and policies have been passed to promote credit access to micro, small and medium-sized enterprises. For example, the Dominican government has revised the Asset Assessment Regulation, the Microcredit Regulation, passed the Movable Collaterals Law, and expanded the scope of action of the Ministry of Industry, Commerce, and MSMEs. The new collateral law will be essential to increase private schools' financial inclusion. In addition, there has been an increased diversification of means of payments and financial transactions. The country enjoys traditional payment channels and a variety of digital options, such as wire transference, mobile payment options, and point of sale.

In summary, this market assessment suggests there is a need for financing in the private school sector, especially Low-cost and mid-cost schools. There is a broad and robust platform of financial institutions that are familiar with microcredit. Alliances with these institutions and improved credit conditions brought in through blended finance mechanisms could boost investment in private education. New financing opportunities combined with education to school leaders on financial management can greatly increase their access to cheaper and more suitable credit.

[1] Officials cited lack of laboratories, high proportion of teachers without bachelors' degree and inappropriate restrooms.

1. Introduction

This section presents the key questions used in the market analysis for non-state education in the Dominican Republic. The assessment is based on the Five-point Framework developed by USAID. This tool was adapted for education sector and used to perform similar assessments under the Catalyze EduFinance Project. The key questions covered by the assessment are shown in Table 1 below:

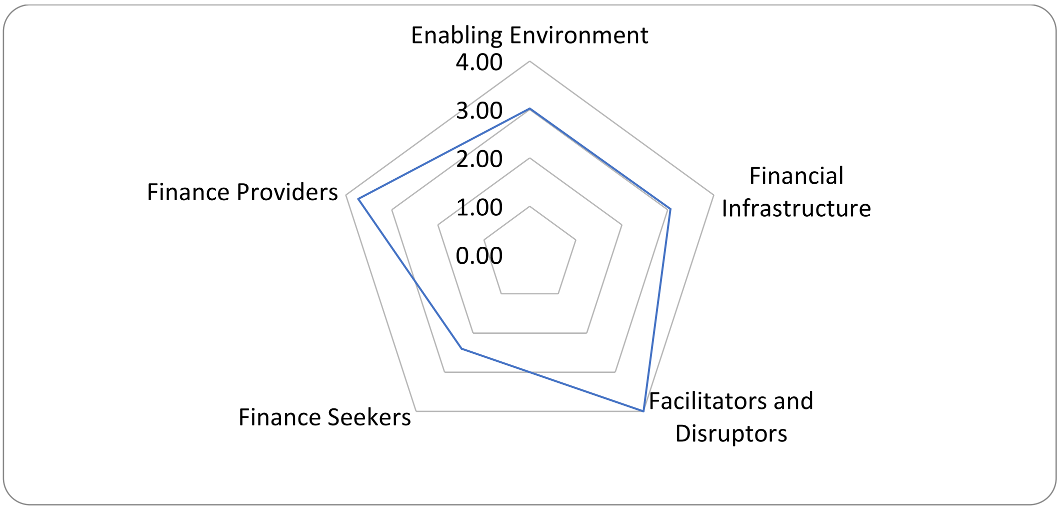
Table 1. USAID Five-point framework and key questions

	Key Questions suggested by CATALYZE
Enabling conditions	What is the policy framework for non-state education? What is the position of the Government vis-a-vis non-state education providers? What has been the impact of covid-19 on the schools in DR? How long did the schools remain closed? Are the schools open?
Requiring financing	What is the market size of non-state schools, especially low fee schools? Are there different types of non-state schools (private, church-owned, community schools)? Fee range for a low fee, low-medium, high fee school? Are the schools able to set their own fees? Are the schools able to set their own fees? Why do parents, especially low-income families, choose to send their children to a private school over a public school?
Providing financing	Are financial institutions already lending to schools? Any known Banks or MFIs extending loans to non-state schools? Who are the leading banks and MFIs and other non-bank lenders in the country – by Assets? What percentage of banks are SME portfolios in the Education sector? Which bank(s) is/are doing significant lending to non-state low fee schools? How do loans to education sector perform compared to other sectors?
Financial Infrastructure	What is the status of the credit bureau/national ID/asset registry systems? Are hedging solutions available for foreign lenders?
Intermediaries/Facilitators	What private school associations/ groups already exist? Is there an association of low-cost schools? What has been the role of Associations in fostering non-state education? What is the status of mobile payment systems/digital finance/fintech?

Source: USAID Five point-framework

The assessment tool includes a brief diagnostic of the country based on the five points. Chart 1 below summarizes results from the diagnostic tool.

Chart 1. Five-point framework summary for the Dominican Republic



To conduct this assessment, the research team gathered information from three different sources: a) A telephone survey to a sample of private schools, b) In-depth surveys of key stakeholders[2] in the financial sector and the non-state education sector, and c) A review of the official documentation, published studies, and available data. The findings contained in the following sections are the result of this data collection and analysis effort.

[2] Annex I present list of all interviewed stakeholders

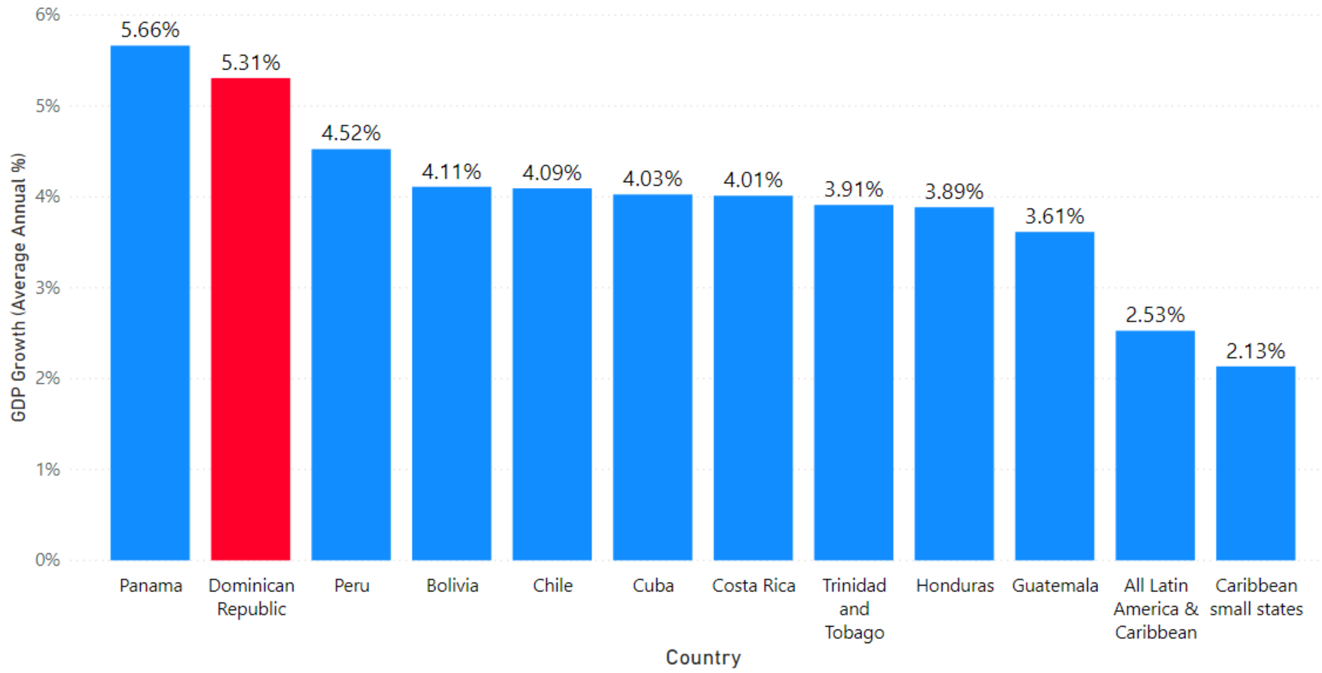
2. Enabling Conditions

2.1 Economic and Political Overview

2.1.1 Macro indicators

The Dominican Republic is one of the fastest-growing economies in the last 25 years in Latin America and the Caribbean, averaging 6.1% growth in the past five years[3] (pre-Covid-19). The primary industries driving the Dominican economy's growth are tourism, mining, telecommunications, finance, and construction. Additionally, foreign direct investments and remittances from Dominicans abroad play a crucial role in assuring exchange rate stability and increased growth in the industries mentioned above (especially tourism). These, along with the Inflation Targeting Policy pursued by the Central Bank, has helped maintain inflation at around 4% since 2015. This fast economic growth, along with an expansion of public social spending, has led to significant reductions in the poverty rate, going as low as 12.8%[4] in 2019, and an increase in the middle-class size, representing about 42% of all households. However, this progress might be partially lost due to the COVID-19 crisis, as the country has experienced large economic losses. The Dominican Central Bank estimates that real GDP growth will be -4.39% in 2020, with significant tourism industry contractions[5].

Chart 2. Average GDP Growth (%) from 1995-2019 in LAC countries



Source: World Bank GDP Indicators

Consistent with the sustained growth experienced in the past decades, unemployment rates are relatively stable. Nonetheless, there are significant disparities between unemployment for young adults and the rest of the labor force, and most jobs are of low quality due to high levels of informality. For instance, overall-unemployment has

3 World Bank GDP indicators

4 According to the definition used by the World Bank of $5.50 per person per day (in 2011 PPP). National statistics by the Ministry of Economy, Planning and Development of the Dominican Republic state that monetary poverty is around 21%, but their definition of poverty is "households which are not able to afford a basic bundle of essential goods as defined by the Central Bank of the Dominican Republic".

5 Encuesta de Expectativas Macroeconómicas, Banco Central de la República Dominicana

averaged 6.5[6,7]% in the past ten years, while the average youth unemployment rate has been above 14%[8]. Additionally, over 54%[9] of the country's total employed population works in the informal sector, resulting in most employed individuals not receiving health insurance and social security benefits, among other social government-mandated programs.

Table 2. Summary of Macro indicators

$88.94	$8,005.11	$18,419.03	137
GDP ($USD Billion, 2019)	GDP per Capita ($USD, 2019)	GDP per Capita (PPP,2019)	Global Corruption Index Rank (Out of 180 countries)
10,627	2,974	1,911	1%
Population, in thousands	Population aged 14 years and younger, in thousands	Population aged 15-24 years, in thousands	Annual population growth

Source: World Bank Country Indicators, Unesco Country Indicators

Low-quality public spending and the unsustainable fiscal deficit is often highlighted as one of the most worrying macroeconomic conditions in the Dominican Republic[10] [11] [12]. The Dominican Central Bank estimates that government (Non-Financial) debt will end above 54% of GDP in 2020 [13]. Despite the economic growth in recent years, the Debt-to-GDP ratio increased from 43.01% in 2015 to 50.53% in 2019 [14]. The situation causes decreased fiscal space for policy measures to recover from the economic recession caused by COVID-19, as 5.8% [15]of GDP will have to be dedicated to service the debt in 2021 (more than 25% of the Government's budget).

2.1.2 Doing Business

According to the World Bank's Doing Business Report, the Dominican Republic is ranked 115 out of 190 countries in terms of business conditions. High electricity costs, unreliable service, high tax rates for the formal sector, and weak institutional protections (contract enforcing and insolvency) are the country's rankings' main determinants. Furthermore, the time spent preparing taxes, getting permits to create new businesses, and electric services average twice as long compared to OECD high-income countries. Also, firms report that taxes represent 48.8% of profits, slightly higher than the 47% average in Latin America and the Caribbean and 39.9% for OECD high-income countries[16].

2.1.3 Political Overview

The Dominican Republic is a representative democracy with an Executive Branch represented by the President, a bicameral Legislative Branch, and an independent Judiciary Branch. The country has 31 provinces and a National District, each with its municipal Government. Elected authorities are elected every four years. The country has two major parties, the PLD and the PRM, with PLD holding the presidency from 2004 until 2020. Recent elections in 2020 have led to a new governing party (PRM) having significant representation in both the Legislative Branch, Municipal governments, and control of the Executive Branch. The newly elected officials have ambitious plans for business-promotion and have appointed successful businesspeople to public offices to "*strengthen corporate*

[6] Open rate of unemployment. The expanded rate is 14.3%.
[7] World Bank Unemployment Indicators
[8] World Bank Unemployment indicators
[9] Banco Central de la República Dominicana: Labor Market Statistics
[10] International Monetary Fund: Request for Purchase
[11] Diario Libre (National Newspaper): Public debt concerns
[12] World Bank: Systematic Country Diagnostic
[13] Banco Central de la República Dominicana: Economic Report 2020
[14] Banco Central de la República Dominicana: Economic Report 2020
[15] Banco Central de la República Dominicana: Economic Report 2020
[16] World Bank: Doing Business report

governance and promote public-private partnerships." The Law of Public-Private partnerships is relatively new in the country (passed in 2019), and the current administration is expected to support it.

The new (PRM) government, under president Luis Abinader, is looking to change a few things related to the educational sector. The new president has proposed to change to a competency-based school curriculum, expansion of technical secondary schools, as well as proposed changes in how decentralized district educational authorities are hired.[17]

2.2 Education sector in the DR

2.2.1 Education system context and administration

In the school year 2018-2019, a total of 11,272 schools enrolling 2,807,279 students comprised the Dominican education system, representing 26.8% of the total country's population (MINERD,2019b). The following paragraphs provide a brief description of its governance, instructions, administrative division, and planning levels.

Governance. The Ministry of Education (MINERD) is the administrative body responsible for managing public schools and overseeing private schools. Within the MINERD, there are six deputy ministries and seven institutes in charge of different aspects of the system (i.e., students' well-being and nutrition, curriculum and pedagogy, educational research, adults education, vocational education, among others). The Department of Private Educational Institutions is in charge of overseeing private schools in the country. The MINERD leads the National Education Council (NEC), a committee that defines long-term education policy decisions. Members of the NEC include scholars, civil society institutions, teachers' unions, religious groups, and private sector leaders. The president appoints the minister, vice-ministers, and directors of the seven institutes.

Levels of instruction. In 2013, the Dominican education system reformed its curriculum to align with UNESCO's International Standard Classification of Education (ISCED) (NEC, 2013). Consequently, the school system now has three official levels (initial, primary, and secondary), each level with two cycles and six grades. The final cycle of higher education has three modalities: Academic, Arts, and Technical, with most students, enrolled in the Academic modality (76.8%). Table 3 presents levels, cycles, grades, and ages in which students should assist each grade.

Table 3. Dominican Republic's Education Structure

Level	Initial	Primary	Secondary
Duration	Six years	Six years	Six years
First cycle grades	Maternal, Infantes, Párvulos	First, Second and Third Grade	First, Second, Third Grade
Second cycle grades	Pre Kínder, Kínder, and Preprimario	Fourth, Fifth, and Sixth Grade	Fourth, Fifth, and Sixth Grade
Theoretical Age	45 days-5 years	6 - 11 years	12-17 years

Planning instruments. The MINERD is equipped with a centralized enrollment platform to carry out planning activities and school accreditation known as SIGERD (The Integrated System for School Management). Historically, this platform contained basic data of all public and recognized private schools. Recently, the MINERD has also included 'unrecognized' schools in this database, enabling a more complete tally of private schools in the country. The SIGERD assigns an ID number to each school site[18], school, and student, allowing the MINERD to oversee students' evolution and budget policies and programs. Schools must register their students each school year in the SIGERD, along with their end-of-year Academic status and other monitoring indicators.

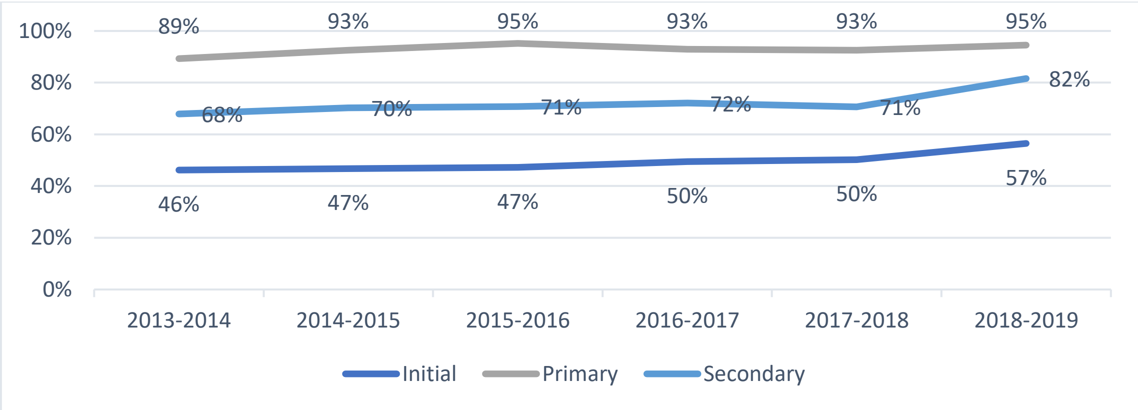
[17] Presidential Inauguration Speech (English Translation)

[18] Many schools can operate in the same building with different schedules.

Students' ID also allows them to obtain documentation of their Academic history, which is necessary to write national tests the MINERD administers as secondary school exit exams.

Enrollment and coverage. According to SIGERD statistics (MINERD, 2019b), net enrollment statistics reflect high levels of enrollment at the elementary level with 95% in the school year 2018-2019. The initial and secondary levels reflect lower levels of enrollment with 57% and 82%, respectively, with improvements with respect to previous years (See Chart 3 below). There are not significant differences in enrollment by gender. By school year 2018-2019, the differences in net enrollment were 1.5, 0.5, and 4.5 percentage points for initial, primary and secondary level respectively. In all cases net enrollment was higher for females.

Chart 3. Net Enrollment Rate 2013-2019, by instruction level



Source: Authors with data from MINERD yearly report

School Type. Four types of schools operate in the system: Public, Semi-Official and Co-managed (which combined hold 66.8% of enrollment) and Private Schools (23.2% of enrollment) for the school year 2019-2020 (Ulloa, 2019). The main characteristics of each type of school are summarized below:

i) *Public schools.* Owned, administered, and funded by the MINERD. By law, public schools are secular and monolingual. These are the most common types of schools in the Dominican Republic.

ii) *Semi-official schools*. Owned and administered by a private entity (mainly the catholic church) but receives funding from the Government. These schools cannot charge tuition to parents. Although they appear in official statistics, they are not regulated separately. Instead, administrators consider semi-official schools as public.

iii) *Co-managed schools.* Private schools that receive support from the MINERD in exchange for gradually reducing tuition for students until an agreed price. They are allowed to charge minimal tuition; however, they are considered to be public as well. These schools are mostly evangelical, and the modality is relatively new.

iv) *Private schools.* Owned and administered by private citizens and funded through parents' monthly tuition payments. Some private schools receive MINERD's support (mainly school breakfast and partial payroll coverage) in exchange for the enrollment of students who do not pay tuition to the school.

Table 4. Dominican Schools classification

<table>
<tr><th colspan="2" rowspan="2">Dominican Schools</th><th colspan="2">Provision</th></tr>
<tr><th>Private</th><th>Public</th></tr>
<tr><td rowspan="2">Finance</td><td>Public</td><td>Semi-Official
Co-manage[19]</td><td>Public</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

[19] Co-managed schools receive both public and private financing as the government provides them with some form of support (payroll or breakfast) and they are allowed to charge a tuition fee to parents at rate supervised by MINERD.

	Private	Private	

Source: Authors using [Patrinos et al. (2009)]

During the school year 2018-2019, private schools enrolled 24% of all students in the country. Although private schools offer all levels of instruction, they tend to focus on the initial level and in early grades of the primary level.

Table 5. Enrollment by school type, school year 2018-2019

School Year 2018-2019	Private	%	Public	%	Semi-Official/Co-Managed	%	Total	%
Initial	**198,035**	**54.8%**	157,598	43.6%	5,876	1.6%	361,509	100.0%
Elementary	**284,103**	**23.0%**	934,890	75.6%	17,936	1.5%	1,236,929	100.0%
Secondary	**172,535**	**18.3%**	754,422	80.2%	13,635	1.4%	940,592	100.0%
Adults[20]	**14,614**	**5.4%**	243,526	90.8%	10,109	3.8%	268,249	100.0%
Total	**669,287**	**23.8%**	2,090,436	74.5%	47,556	1.7%	2,807,279	100.0%

Source: MINERD statistical report 2019

Most private schools in the country are located in the National District (17.2%), Santo Domingo (41%), and Santiago (9.6%).

Image 1. Private Schools by province

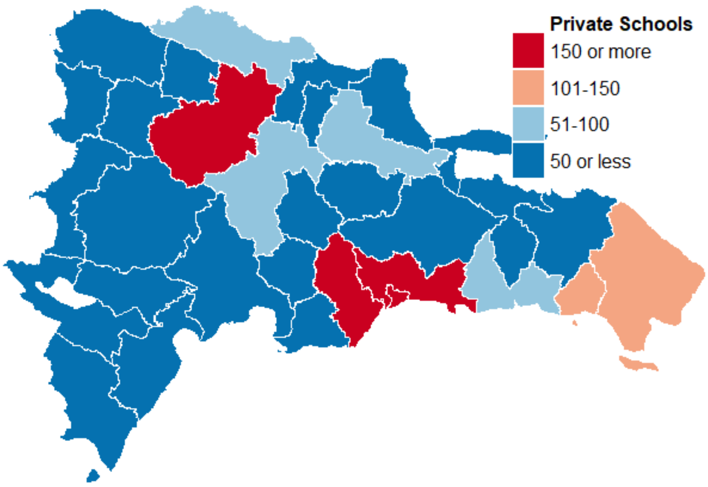
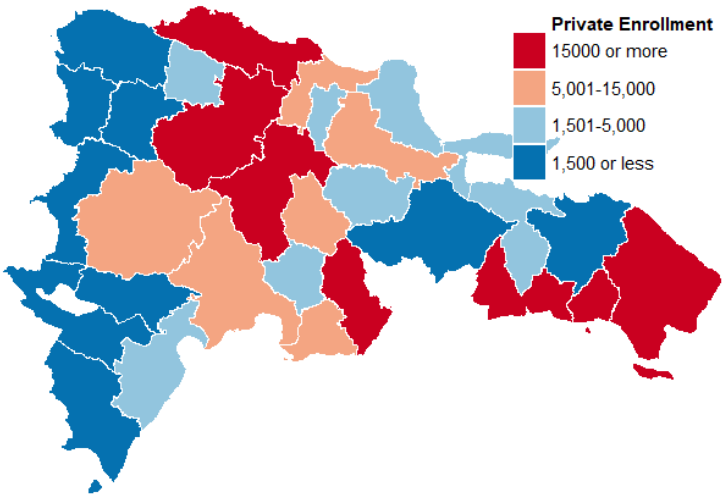


Image 2. Private student enrollment by province



2.2.2 Education Reforms of 2013

Overcrowded classrooms, low investment, and poor teaching quality in a challenging socio-economic environment has led the country to consistently perform in the last place in regional examinations of math and literature (UNESCO, 2019). This motivated a movement known today as the "4% movement", a series of social protests from 2010 to 2012 calling for action to improve education. Civil society and private citizens demanded authorities to assign an equivalent to 4% of GDP or 10% of the Government's budget, whichever is higher, to k-12 education. In 2013, the Government allocated 4% of the GDP to this education sector (20% of the public budget). For the Ministry of Education, this meant a budget increase of 72%, being the largest budget increase for a public institution in recent national history (MINERD, 2014). The political agreement also included creating the

[20] Adult education is presented separately in official statistics and offers Primary and Secondary education to individuals 14 years and older with flexible schedules (weekends, night). 63% of its enrollment attends secondary education. 54% of all individuals enrolled in adults' education are below 18 years old (SIGERD 2018)

National Pact for Education (NPE) in 2014, a strategic document in which all stakeholders from society participated (NPE, 2014). The NPE states a civic agreement on the new budget's goals, school infrastructure, teaching quality, and funding distribution.

From 2013 to 2019, the educational reform resulted in significant changes to the public system. The Ministry of Education (MINERD) started to transition the public-school system from a 4-hour to an 8-hour daily schedule (NPE,2014). With children spending the whole day at school, authorities also introduced free lunch in all public schools that operated in the new schedule. For the 2019-2020 school year, 4,200 public schools nationwide operated in an "Extended journey schedule," and 71% of the public-school students attended one such school (MINERD, 2020a). Also, the MINERD significantly increased salaries for elementary and high school teachers. From 2012 to 2018, the average elementary teacher's salary increased by 96.93%, which exceeded the country's accumulated inflation in the same period of 20.82% (IDEC, 2018b).

These reforms made public education system more attractive for students as well as teachers, and adversely affected demand for private schools. Official statistics show that since the reform started in 2013 714 private schools (15% of total private schools) have either been acquired by the Government and turned public, or have closed (MINERD,2013; MINERD, 2019b). The ministry estimated that between 2012 and 2017, over 60,000 students (approximately 10% of total private school enrollment) migrated from private to public schools (IDEC, 2018b). The rapid influx of students from private to public sector has put pressure on the public school system. Public schools have not been able to add classrooms to keep up with the increased demand.

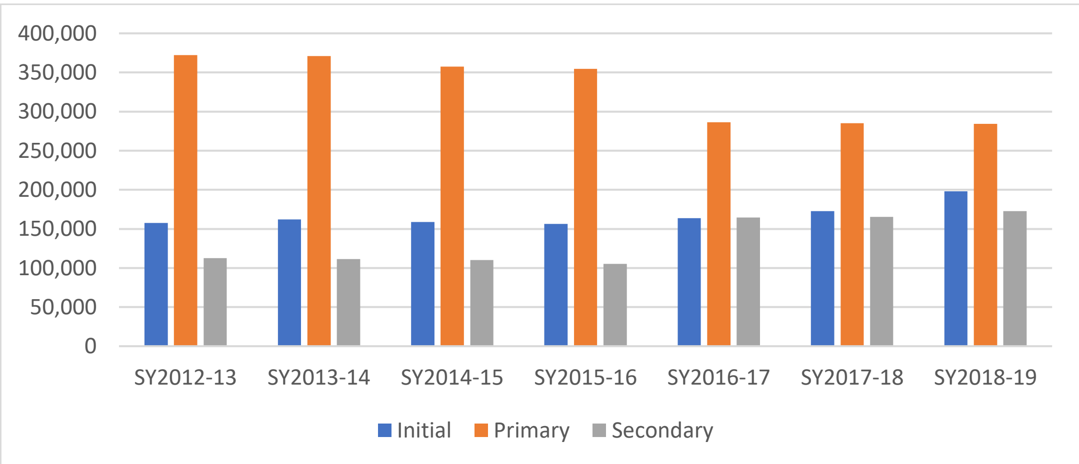
Table 6. Total number of schools by sector and school year

School Year	Private	Public	Semi-Official
SY2012-13	4,350	6,929	281
SY2013-14	4,424	7,083	273
SY2014-15	4,333	7,241	269
SY2015-16	3,795	7,176	233
SY2016-17	3,778	7,289	222
SY2017-18	3,709	7,385	209
SY2018-19	3,636	7,440	196

Source: Authors with data from MINERD statistical reports 2012-2019

Although primary level enrolment in private schools has decreased since the introduction of education reforms in 2012-13, enrolment in initial and secondary level has seen a steady, even slightly increasing, trend.

Chart 4. Total enrollment in private schools, by instruction level



Source: Authors with data from MINERD statistical reports 2012-2019

In addition to a loss in enrollment, private schools also report losing their best teachers to public schools and inability to hire and retain the best teachers. They are unable to compete with the newly increased public sector salaries. From 2014 to 2017, the average salary for public school primary teachers increased by 88.3% and 97.3% for secondary teachers. As of 2017, a primary public school teacher earned 1.98 the GDP per capita, and a secondary teacher earned 2.3. On top of the higher wages for these teachers, working in the public sector translates into an automatic association with the teachers' union and an affiliation with the teachers' cooperative. The private school association has stated that although they "understand the teachers shift," these migrations often occur in the middle of a school year, causing even more inconveniences for private school directors (Batista, 2019). Schools consulted for this study highlighted the teachers' switch as a major inconvenience:

"*We have lost up to five out of sixteen teachers at once in the middle of a school year, due to the public system hiring practices. This situation often leaves us in desperate positions to hire individuals with less qualifications than what we want, because we need them to finish the school year. We train our teachers, and then they leave to the public sector" Colegio Central*

"In the school year 2017-2018, we lost 5 of our best teachers in the middle of the school year. We had 22 teachers left, so we could overcome the situation, however every year we lose at least one teacher to the public sector as we cannot compete with those salaries now" Colegio Enmauel

2.3 Education quality

Over the past two decades, Dominican students have had a poor performance in standardized evaluations nationally and internationally. For instance, Dominican students have been in the lowest rank among the 15 Latin-American countries participating in the TERCE evaluation in 2013 (UNESCO, 2015), and among the 81 countries in PISA 2015 (IDEICE/OECD, 2015), and PISA 2018 (IDEICE/OECD, 2018), with most students performing in the lowest achievement level. In the case of local assessments, 3rd, and 6th-grade Diagnostic Tests, over 40% of students in each grade were classified at the lowest performance level (MINERD, 2017a; MINERD, 2018a). When disaggregating sector results, private school students have consistently had higher results in almost all the assessments mentioned. However, the gap between sectors closes when controlling for the families' socioeconomic status, with some differences remaining statistically significant (i.e., Science in TERCE) without a clear pattern. It is also worth noting that, as opposed to private schools, public schools are not allowed to expel students, so low-performing students may remain in the school even if they fail a grade and that they cannot conduct tests to decide whether to admit students. These factors also affect performance differences.

The Dominican education system faces severe quality and efficiency problems regardless of sector. Traditionally, families base their demand for private education in the Dominican Republic on faith, better infrastructure, better management, and better academic performance. Lizardo (2010) analyzed several case studies to understand public and private schools' internal cost structure. Findings suggest that teachers' salaries account for 70% of all annual costs in both cases; however, private schools spent more on administrative costs and infrastructure maintenance (Lizardo, 2010). This might justify families' perception of an improved learning environment and a better school climate in private schools. However, the assertion of better Academic performance is a more complicated matter.

USAID's Dominican Republic Country Development Cooperation Strategy (CDCS) discusses students' poor performance in international and local tests and the lack of differences between sectors (USAID,2014). The CDCS highlights Dominican students' poor performance in Reading, which is a major concern for local authorities and Academics. Although reading skills are crucial to achieving educational success throughout the students' academic life, teachers often promote comprehension from early grades without adequate reading comprehension strategies. (USAID,2014).

Regarding educational coverage and efficiency the country has made progress by incorporating the school-age population into primary education (6 to 11 years), achieving a net enrollment rate of 95%. However, there are lags at the preschool (3 to 5 years) and secondary (12 to 17 years) levels, with net enrollment rates of 57% and 82%, respectively. In terms of efficiency, by the year 2018, 7.5% of all primary students and 19.5% of secondary students were overaged (MINERD, 2019a). That means they were at least three years older than the theoretical age of their attending grade.

Studies on determinants of school dropout have shown that being overaged is a significant risk factor for school dropout (Taveras & Nielson, 2016; Disla, 2018). Since populations attending public schools are more disadvantaged, and dropout decisions have a heavy socioeconomic component, efficiency levels are significantly lower in the public sector (Cooper, Mones & Morales, 2016).

When studying determinants of the low achievement and efficiency levels, several studies mention the role of teachers. Decades of low salaries and low entry barriers to teaching programs have generated a situation where a high percentage of teachers are underqualified. A local NGO evaluated a sample of elementary school teachers and compared their knowledge with curriculum expectations (Educa,2016a). The study found that teachers were competent in an average of 60% of the curriculum subjects for their specific instruction grade (Educa-Rodriguez, 2015).

Moreover, in 2017 MINERD conducted a nationwide teacher assessment with 32.7% of teachers achieving the lowest performance level in Class Execution, 57.7% in Class Planning, and 30.7% in a Professional Assessment (OEI,2018). Despite professional development efforts put forward in the reform, teaching quality continues to be an issue. The private sector has more flexibility to evaluate teachers individually upon entry. In contrast, the public sector has to rely on massive evaluations that the teachers' union often refutes for being "unfair and inconsistent " (ADP,2019).

2.2.4 Regulations for non-state schools

In the year 2000, the MINERD passed the current normative (00-16) to regulate private schools' operations (NEC, 2000). According to this normative and the General Education Law 66-97, the ministry has the responsibility to oversee private schools' accreditation, service expansions, student enrollment administration, class development, among others. When a new private school opens, the MINERD conducts initial supervision to determine whether the new institution complies with the minimum operational requirements specified in the Law. The evaluation includes assessing school infrastructure (location, safety, adequateness) and confirming that at least 80% of the teaching body holds a bachelor's degree from a publicly accredited higher education institution (NEC,2000). The assessment is performed individually at each instruction level as the MINERD grants separate authorizations for each level (i.e., a school might be authorized to operate in primary, but not secondary). This task is conducted by the ministry's school district technicians from January to April before the following school year starting in August.

The Law specifies that if the ministry's assessment concludes the school complies with the minimum standards, it can grant **"Recognition,"** allowing them to operate legally. If the evaluation is not satisfactory, the school can apply for a reassessment after six months (NEC,2000). Recognition will enable schools to become part of the official system, register their students' Academic records in the SIGERD, and receive supervision by the MINERD on their pedagogical strategies and their alignment with the official curriculum. In addition to the Recognized and Unrecognized status, the MINERD also grants **"Accreditation**." After six months of operations, if a school meets additional to the minimum standards for opening, it can request accreditation. These standards include adhering to higher infrastructure requirements, 100% of the teaching body holding a bachelor's degree[21], possessing high-quality equipment, and organized parents' association, among others (NEC,2000). Schools that passed the more rigorous evaluation are accredited.

Current regulations also include price control provisions for private schools. According to Law 86-00 that regulates prices of private education, if a private school wants to increase its tuition fees by a percentage greater than the annual inflation rate, the MINERD needs to validate that the suggested price increase is consistent with an increase in the number or quality of services provided (GEL 97-66,1997). This provision is not enforced strictly by MINERD. The Law establishes that the ministry should compare the new services offered with its internal

[21] Not all public-school teachers have a bachelors' degree, however since 2007 teachers are required to have a bachelors' degree. This has reduced the number of teachers without a degree. By 2018, over 90% of public school teachers had some formal training (UNDP,2020)

categorization of schools[22] before authorizing an increase in fees. Furthermore, Children's' Protection Law 136-03, Article 48 prevents private schools from implementing any sanction (expelling, retaining documentation, or any other) to students if their parents fail to pay school fees. According to the Law, the school must allow the student to end the school year before suspending educational services because of missing payments. Schools are aware of this regulation, as well as parents who know they can complain in the Ministry of Education or the minors' protection court. Overseeing of this regulation is precarious, as parents need to complain to the government to intervene. The practical effects of this law are addressed in section 2.2.5.

2.2.5 Regulations in practice.

Current regulations address four main themes: School Recognition Status, Pedagogical Oversight, Price Regulation, and Service Provision in Case of Missed/Delayed Payments. The following paragraphs outline the status of these regulations in practice using published studies and interviews with a) school owners (8), b) school associations (4, including the largest association that has a place in the NEC), and c) Government officials. The stakeholders interviewed are listed in Annex I.

School Recognition Status. In practice, schools keep operating, although not officially, even when they fail the initial MINERD's assessment (EDUCA, 2016b). The MINERD calls such schools **"Unrecognized"** and transfers pedagogical supervision to parents. After consulting with MINERD's authorities, they confirm that by 2019, 56.3% of all private schools operate without recognition. The main constraints to reach recognition are 1) Teachers without a bachelor's degree, 2) Inadequate infrastructure and lack of recreational space, and 3) Lack of adequate furniture and equipment. The lack of an appropriate building is the constraint most difficult to overcome. Schools consulted reported that when they started they used their living rooms as classrooms, and that it takes them long to make the switch to a more adequate building.

"The school started in 1992 in the principals' living room, with second hand furniture that she herself had to repair and paint. We stayed there until 2005, when we rented a space. Still today we don't own a building" Maternal Tía Pancha

"We started with small children in the owners living room in 1982, because our community didn't have any offer for the initial level. We stayed there until we built our own building in 1992" Colegio Central

Despite the recognition issue, in terms of enrollment, 71.6% of all students enrolled in the private sector attended a school that is recognized by the school year 2019-2020 (SIGERD, 2019). Higher levels of non-recognition can be found in the initial level, where 51.3% of all enrolled students attended an unrecognized school in 2019-2020 (SIGERD, 2019).

Before 2015, unrecognized schools managed to enroll students in SIGERD through a recognized school code, allowing students to write mandatory national tests in the 8th grade[23]. In the past five years, this situation has changed significantly, as the MINERD decided to provide codes to all schools, regardless of their recognition status. The ministry assists unrecognized schools in creating development plans. Through these development plans, the MINERD advises schools to improve one level of instruction before providing services to the next level. However, schools rarely make advances in their development plans and continue to add grades to their offer as students' progress.

Price Regulation. Schools consulted for this study reported that price regulation is not an issue for them. MINERD conducts an internal survey each year to monitor school prices and investments. However, a local NGO that advises private schools reported that MINERD does not have authority to approve price increases, and MINERD officials acknowledged that it is note as per Law. Private schools only needed to submit an agreement between

[22] A price catalogue based on empirical data.
[23] Before 2015, primary education had eight grades instead of six.

the school ownership and the parents' association to increase fees. In any case, press coverage is commonly given at the beginning of each school year to energized discussions between parents' associations and school owners regarding fee increases. According to school principals, this coverage has contributed to a negative image of private schools in society. School Principals shared that there is a traditional misconception that school owners are "greedy" and that "true vocation does not imply charging expensive fees." Key stakeholders foresee that in the future MINERD will focus on overseeing pedagogical aspects[24] rather than prices.

Service Provision in Case of Missed/Delayed Payments. The MINERD acts as a mediator between parents and schools when issues arise. The MINERD offers a customer service program that can be used to request mediation in such situations. MINERD officials emphasized that their role is more focused on regulating pedagogical practices, yet over 90% of all complaints submitted to the customer service program are related to missed/payments.

The rates of late/missed payments in private schools are considerably high. School principals and experts consulted indicated rates of non-payment as high as 40% previous to the COVID-19 crisis, and all reported this phenomenon as a widespread problem for the sector.

In practice, schools adhere to the law in order to avoid legal issues with parents. However, they have developed mechanisms to protect themselves and force parents to repay, in particular to recover past missed payments. High-cost schools charge either all or most school year tuition upfront to avoid these inconveniences. However, lower-cost schools cannot impose such measures on the families they serve. A popular mechanism among mid and high-cost schools is to force parents to sign a notarized payment obligation in which schools will continue to provide the services until the end of the school year even if the parent stops making payments, as the Law requires. Under this agreement if the parent does not pay and wants to take the child out of the school, they would continue to be in debt with the institution. Notarized payment obligations allow schools to seize goods from parents and effectively make parents repay part of the debt. This mechanism is also not popular among the lowest cost-schools. The last resort used by schools is to deny parents the students' updated Academic history. This document is issued by the principals using the SIGERD platform and is a document that certifies school year completion. Without this document, students cannot take mandatory national exit exams in the 6th grade of secondary[25]. This is the only mechanism that low-cost schools feel is adequate to recover a debt. However, the measure generates altercations between schools and parents, causing the MINERD to intervene. If an agreement is not reached after mediation, parents can sue the school in an administrative court. The trend is that parents often win the agreement as the Law protects children in these situations.

2.4 Summary

Enablers of non-state education in DR

- **Large number of private schools (3,600+); private enrollment is a significant share (24%) of overall enrollment in the country.** 54% of all students enrolled in the initial level in the country attend a private school.

- **Regulatory authorities are supportive of low-cost private schools**. MINERD provides technical support for unrecognized low-cost schools to enable these schools to achieve recognition. MINERD has also recently included unrecognized private schools in their administrative enrollment platform SIGERD. Being part of the official enrollment platform facilitates student transitions within the system and allows

[24] There is no explicit reform for this, however, in the past years MINERD authorities have focused on providing pedagogical advice and training to private schools, especially monitoring the implementation of the new national curriculum. Training and advising is often focused on initial level academic coordinators and teachers.

the school to register approved grades in a national centralized Academic record for the student. MINERD officials mediate between school owners and parents in case of a dispute.

- **Long term macroeconomic stability.** Although the pandemic might impose constraints on the economy moving forward, the country has shown steady growth rates for over a decade and has experienced reductions in its poverty rates. Moreover, the social protection infrastructure has improved in the past decade, with over 300,000 families included in the conditional transfers program, which has been crucial to facing the pandemic crisis.

- **The political climate is favorable to promote SMEs.** Newly elected government officials are mostly from the private sector. They have made it a priority to integrate private investment into development problems through public-private alliances.

Challenges to expanding non-state education in DR

- **Cost of doing business.** The costs of doing business in the country are high, and the tax system's difficulties impose formalization limits. Electricity costs, high effective tax rates, and weak institutional capacity to protect private property are some of the main constraints.

- **Heavily regulated market.** In an effort to protect children's right to education, the market for non-state education is heavily regulated. MINERD oversight extends beyond pedagogical practices into school fees charged by the schools. Price increases are regulated by Law, although not 100% enforced, and schools are forced to provide services even if parents do not pay fees. Although the provisions aim to protect children, these leave mid and low-cost schools with rates of unpaid services of up to 40%. The schools' constant debate over prices and payments has created a negative social image of them being "greedy" and overly expensive. Some financial institutions refuse to lend to schools since Dominican regulations ban education centers from expelling students for non-payment reasons, weakening school’s ability to collect unpaid fees.

- **Closure of Private Schools.** An intensive educational reform of public schools has resulted in primary level students to migrate from the private sector to the public sector. The loss in enrollment has resulted in nearly 15 % (700+) private schools to either close or become public.

3. Requiring Financing (Demand-Side)

3.1 Market segmentation

Non state schools in the Dominican Republic can be segmented using different characteristics (faith-based, language of instruction, receiving government assistance, school fee, school size, etc) and ownership (private, public). MINERD does not provide separate enrollment statistics for Faith-based schools, public or private. We have discussed two characteristics below (price/school fee and number of students enrolled) where data is publicly available and that are relevant to this assessment. For this study, the term Non-State Schools (NSS) only includes private schools. Although public, semi-official schools, and co-managed schools might take informal loans, they are not legally allowed, as they are considered public institutions from the central government[26] to incur in any form of credit. [27] Also, MINERD does not publish separate data for semi-official schools, and co-managed schools are very new and occupy a very small share (<2%) of overall enrollment.

Priced based segmentation. Table 7 shows the four categories and annual[28] price ranges based on MINERD's price survey conducted in August 2019. The category labels (very high cost, high cost, etc.) and the fee range for each category are set by MINERD. When comparing MINERD price categories with national income averages, most Dominican households can only afford schools in the Very low-cost category. [29]

Table 7. Price based segmentation

Category (set by MINERD)	Annual price range (DOP$)	Annual price range (USD$)[30]	Annual price range over GDP per capita	Private sector student enrollment	Percentage of private schools
Very high-cost	Over 400,000	Over 6,855	Over 0.85	1.00%	0.61%
High cost	180,001 to 400,000	3,084 to 6,855	0.38 to 0.85	1.69%	1.42%
Mid cost	120,001 to 180,000	2,056 to 3,084	0.25 to 0.35	1.48%	1.52%
Low cost	45,001 to 120,000	771 to 2,056	0.09 to 0.25	14.55%	11.38%
Very low-cost	45,000 or less	less than 771	less than 0.09	81.28%	85.06%

Source: Authors using an Interview with MINERD authorities and a price survey conducted in August 2019

Size-based segmentation. The MINERD also classifies schools according to the number of students enrolled. Table 8 below presents the distribution of private schools according to these types. Nearly half the private schools have less than 100 students (49.8%)[31], similar to the public schools where 56.3% fall into this category.

[26] The Public Credit Law (06-06) states that central government institutions are not allowed to take any form of credit. All public debt of the executive branch needs to be approved by the Ministry of Finance and Congress. Under this scenario, not even MINERD is allowed to contract debt on its own.

[27] Furthermore, as they are all regulated by the MINERD's Public Schools Manual (MINERD, 2013), the Fiscalization Unit within MINERD monitors in what they spend their resources, and debt repayments are not an allowed spending category.

[28] A regular school year is nine months long.

[29] Average hourly income in the country is DOP$ 121.1 in the formal sector and DOP$ 75.7 in the informal sector (BCRD, 2020).

[30] Market rate 16/11/2020: 1USD$ = DOP$ 58.35

Table 8. Percentage of private schools by sized based classification

Type	%
Type I. 500 students or more	5.4%
Type II. From 300-499 students	9.3%
Type III. From 100 to 299 students	35.5%
Type IV. Less than 100	49.8%
Total	100.0%

Source: Authors using enrollment data from SIGERD 2019

During the school year 2018-2019, private schools enrolled 24% of all students in the country. Although private schools offer all levels of instruction, they tend to focus on early grades – private enrollment in pre-primary centers is 54.8%.

3.2 Early Childhood Education

Since the early '00s, authorities in the public system have increased gross coverage in educational services for children below six years. First, trying to universalize the pre-primary grade (for children age 5) and later on developing specialized early childhood institutions for children with 0 to 5 years old[32]. Despite these efforts, by 2017, the gross national coverage for children 0 to 5 years was 39%, while the regional average for Latin American was 75% for that year (UNICEF, 2017). Coverage has grown to 56.6% for 2019; however, most impoverished regions report lower rates (MINERD, 2019a). Dominguez (2015) studied nationwide household demand for early childhood educational services; he found that 25% of the country's households with children 0-5 years old live in an area where pre-primay education is not offered (Dominguez,2015). The study also found that attainment rates for low-income families were 14% lower than the rest of the households. The gap rises to 29% when considering only four years old children (Dominguez,2015).

The country's principal provider of early childhood education is non-state education, with 61.9% of all the enrolled children in the first cycle and 54.1% of the second cycle, overall average at 54.8% (MINERD, 2019b). 70.6 % of all private schools in SIGERD have at least one child from 0-5 enrolled, and 23.2% only have 0-5 years old children enrolled (SIGERD, 2018). Despite low levels of coverage, students who do attend early childhood education in the country have better educational and life outcomes (Aristy-Escuder, 2015), consistent with traditional literature on the level of attainment' impact (Currie & Thomas, 1995; Cunha & Heckman, 2010; Campbell et al., 2014)

In the past decade, MINERD has included plans to strengthen private schools' administrative capacity that offer this service to recognize the importance of their role for the level (IDEC,2018a). For instance, the National Pact for Education Quality included developing strategies with the private sector to increase coverage on this educational level. In this sense, MINERD has put forward plans to provide **"Recognized"** status to these schools and reduce variation in the service quality by standardizing grades and curriculum (IDEC,2018b).

It is essential to highlight that public expansion in this level of attainment has not affected private enrollment as it happened at the Primary level. The total enrollment growth for this level in the private sector was 23.9% from 2013 to 2019 (MINERD 2013; MINERD, 2019b), while primary and secondary education levels decreased 2.9% and 8.8%, respectively. However, it is important to note that the authorities interviewed confirmed that a significant proportion of the increase responds to schools providing this level being included in the SIGERD platform recently. Some of them already were in SIGERD, but their initial level was not recognized, and thus students were not in SIGERD.

[32] These centers offer educational services, however their focus is families' wellbeing. They receive 33.9% of children with 0-4 years old.

3.3 Status of non-state Education in the Dominican Republic

3.3.1 Lack of Infrastructure

Public authorities and schools interviewed reported that low-cost and very low-cost schools in the country tend to originate with teachers who open their houses to provide early childhood education. As students progress, these teachers continue adding grades without a defined strategic plan. MINERD's authorities reported that one of the main reasons for denying authorization to low-cost schools is the lack of infrastructure, as most of them operate in houses or improvised spaces. Some schools transition from being a very-low-cost to a low-cost school when they move into a commercial building. Schools reported that the infrastructure is what allows them to make that transition and gain recognition.

3.3.2 Administrative structure and operations

Although "very low-cost" schools often only staff a few teachers, who also handle all Academic and administrative tasks themselves, they usually have an administrative assistant handling the SIGERD and payments. These schools' main cost is the payroll, which often represents 85-90% of all their income. In the case of "low-cost" and "mid-cost" schools, they have an administrative director, an administrative assistant, an accountant, concierges, a doorman, and Academic coordinators to support the school administration.

Regarding tuition fees, most private schools charge parents monthly, except for high and very high-cost schools that require a portion of the year's fee upfront. Late and missed payments of the monthly fees are a constant operational challenge for low-cost schools. The association of very low and low-cost schools, as well as school principals, reported that payroll responsibility is a source of stress for schools each month as they do not receive payments on time. Moreover, the association representative also highlighted that missed payments translated into late payroll payments, discouraging qualified teachers from staying in the school.

On top of tuition fees, schools charge parents for the inscription at the beginning of each school year, regardless of whether they are new to the school or not. This fee is controversial in the country, and confrontations between parents' associations and school associations are often covered by the press each year. Schools report that they use inscription payments to estimate how many students will be enrolled in the starting year and to pay for teachers' summer salary and end-of-year bonuses. According to school associations' consulted, the "inscription" is the first installment of yearly cost, and they are concerned that authorities will try to regulate the fee in the light of COVID-19 as a means to support families.

Despite the infrastructure challenge and the fee controversy school owners report that parents prefer to send their children to a private school over a free public school due to perception of higher education quality and a safer learning environment at these schools.

3.3.3 Requiring finance

Most private schools in the country are Small or Medium Enterprises (SMEs), meaning that they are eligible for most Government programs implemented in the past years to support this type of business. These programs often aim to increase SMEs' technical capacity, provide seed capital, access to credit and improve their overall financial inclusion (MIC,2017). Although loans to SMEs have experienced over 100% growth in the past decade, experts consulted highlighted that low-cost schools still face significant limitations. The five main constraints very low and low-cost schools face are:

Financial Inclusion and formalization. Although formalization is an implicit requirement for gaining recognition, most very-low-cost schools are not registered businesses. This means that when requesting a loan, they must present the owners' personal documentation to fulfill banks' requirements. With low levels of financial inclusion in the country, these individuals often lack a bank history that allows lenders to evaluate their credit ratings. Moreover, most schools' accounting abilities are limited, preventing them from seizing benefits meant for SMEs. For instance, experts mentioned most very-low-cost and low-cost private schools' employees couldn't benefit from subsidies the Government provided at the beginning of the COVID-19 crisis. The main reason for this was that schools do not register employees in the Social Security Treasury, which was required to obtain these public benefits.

Poor financial management. Government stakeholders consulted consider their main problem is structural. These government officials believe schools are often owned and managed by teachers that have not to receive formal training in financial management. Furthermore, the government experts mentioned the lack of financial planning knowledge by very-low-cost school administrators has not allowed them to improve their conditions, even before the pandemic. After COVID-19, government officials consulted for this study predict that half of the very-low schools might disappear as public enrollment for early grades grows in the next decade (although there are reports that public schools are unable to accommodate existing demand due to lack of infrastructure). When consulted, low-cost school association ASOCOPRINA highlighted that to compensate for the COVID-19 crisis, Banreservas (a commercial bank owned by the Government) was willing to provide loans to the sector to balance their losses. However, Banreservas was forced to deny most of these loans since school owners were already highly in-debt prior to the COVID-19 crisis. An MFI cooperative consulted also highlighted that the larger schools, with professional management (i.e. an accountant and a school administrator) are better at surviving the hit of COVID-19. These schools are taking in students from other schools that have closed.

Traditional Banks unwillingness. Experts also pointed out that large traditional financial institutions leading SMEs lending in the country are unwilling to lend money to schools, even when they meet all the loan requirements. This happens since banks perceive schools and churches' collateral (their buildings) as highly valued by society, and therefore seizing these buildings would affect the financial institutions' public image. Another reason is that the education market is highly regulated and that can impact school finances. Even when a low-cost school meets the standards, bank agents have difficulty estimating their creditworthiness or reliably predicting cashflows, as these schools can lose income because of missed payments. The case is different for specialized Micro Finance Institutions, as it will be discussed in sections below.

3.3.4 The COVID-19 crisis and adaptation

School owners describe the school year 2019-2020 as "chaos" and "a scam". Students stopped attending schools in March. Schools report highest levels of missed payments in their history. In a phone survey conducted on a sample of 218 private schools, 97.7% said they lost income with the crisis, and 83.2% reported that they experienced even more payment delays due to COVID-19. [33]

As a result of the Government's social distancing measures to counteract COVID-19's expansion, mass layoffs and furloughs occurred, leading to higher levels of missed payments. This situation and migration to a virtual teaching format set schools on a difficult path. They had to make significant technological adjustments to finish the school year and prepare for the next one. Very low-cost schools used phone chats to send homework and provide guidance to parents, while the rest incorporated digital platforms (Google Classroom and Zoom) to teach the rest of the year. Parents, especially those of small children, were unwilling to pay for the virtual service, as they perceived it to be ineffective. Schools consulted highlighted heated arguments between parents and the schools' Academic administration, resulting in even more children migrating to public schools.

Moreover, a televised announcement by the recently elected Government stating all public-school students would receive a laptop/tablet for the next school year further incentivized the exodus to public schools. With only 7% of Dominican students having computers in their houses, and economic crisis developing, and considering distance

[33] Information on students moving from private to public schools due to COVID-19 is not yet available. SIGERD dataset shows that 376 private schools closed due to COVID-19 in 2020. School associations expect that some of these schools will re-open for the next school year.

learning not worth the price, schools reported that the governments' support plan caused a wave of parents to switch their children to public schools. Most parents left private schools without paying their tuition debt.

Since the MINERD prohibited schools from retaining documents, schools and school associations demanded that the ministry pay them a bonus to balance their losses. The school associations reported that the MINERD refused to provide this sort of support because they were "private entities." Schools consider government authorities to treat them "As private business" for one thing and as "Charity institutions" for other things. A microfinance institution interviewed reported that their clients defaulted; even schools with 30-years old in the market went bankrupt due to this years' crisis.

Schools that survived the hit prepared better for the new school year. All principals interviewed highlighted that they had to invest heavily in technological infrastructure, mainly on their internet capacity. They trained their teachers on the use of inexpensive digital platforms and educated parents on the value of their services. They also laid off teachers as their enrollment decreased and took loans to recover. Most of the surviving schools are now operating with a reduced amount of student enrollment. Low-cost and mid-cost schools expect that students might return from the public schools after social distancing ends.

3.4 Ancillary services

We identified two main types of ancillary services: 1) Book producers/distributors and 2) After school homework programs *(salas de tarea)*. Besides tuition, the primary cost parents face for a school year is the cost of books. Most editorial material in the country is imported and distributed by authorized resellers. Book distributors often work with high-cost schools to decide which material will be required each year. However, low-cost schools often rely more heavily on teachers planning and the use of supplies. The burden of books is more present for students enrolled at the secondary level. Book producers interviewed described three types of business in this sector:

Small book producers – Create content for a specific target population and hire printing services. The content is created by teachers, and books are specific by subject and grade according to the national grade structure. The book publishers have information on their own business but do not keep market size or market share statistics.

a) Large book producers – Create content or use content from their parent company, international editorials such as *Santillana* and *Ediciones SM*. These companies print their material internally.

b) Book distributors – This can be large retailers and supermarkets to whom book producers supply books depending on location and demand. There are also smaller specialized booksellers of new and used books, such as *Librería Solano*.

Book producers promote their material with private schools by distributing samples and giving free training for their teachers on how to use the material in their classes properly. Their goal is that schools include their books in the list of requested supplies to parents at the beginning of the school year. As MINERD conducts centralized book purchases, promotion to public schools is limited. MINERD’s book purchases have been limited in the past few years as the curriculum has been under review. The primary constraint that book producers reported was counterfeit textbooks and the lack of public support against copyright violations. Large producers use content from international authors and adapt it to the Dominican context; these books tend to be full color and are edited every four years, which makes them harder to counterfeit. Thus, the counterfeiting problem affects more small producers whose books are printed in material easier to reproduce. They reported having to finance confiscation operations for the Police Department on Copyright Violations and the National Office of Copyright. From these confiscation operations, book publishers see the low quality of counterfeit material and how they mix material from different grades. They also pointed out that the books more often subject to counterfeiting are used heavily by very low-cost schools and low-income population to teach Reading (Nacho) and writing (Caligrafía Dominicana), printed by small producers such as “Nacho” and “Caligrafía Dominicana.”

Regarding access to credit, both financial institutions and book producers (including small producers) reported that the sector has access to formal banking without major inconveniences. Book producers reported having taken loans with and without collateral in the past to finance infrastructure expansions and to meet the demand increases at certain points. Books are not taxed with the country's value-added tax (ITBIS), and from 2008 until 2018, Law 502-08 of Books and Libraries protects book producers of educational content from paying taxes on net profits from these sales[34]. The Law expired in 2019, and in 2020 for the first time in 10 years, book producers who took advantage of this benefit had to pay taxes on net profits. Book producers and distributors interviewed highlighted that the expiration of the Law will force them to increase book prices. They also believe that the increase in their tax bill and the COVID-19 crisis will dramatically affect their sales this year.

Other important ancillary services in the country are after-school "Homework" programs. They offer assistance with homework and reinforcement learning. Frequent users of this service are parents who send their children to mid-cost schools and parents who perceive the service as childcare. Owners of this type of business tend to be retired teachers and often provide services at their homes. These services are often informal and not regulated by the Government.

3.5 Summary

Enablers

- Parents prefer to send their children to a private school over a free public school due to perception of higher education quality and a safer learning environment at these schools.
- **Large demand for finance among low-cost schools –** most low-cost schools interviewed for this study have borrowed from a formal source. School owners looking for credit have either borrowed from a high-cost informal lender, or an MFI. They have limited access to traditional banks with larger loan size.
- **Schools have improved their technological capacity**. To remain competitive, low-cost schools had to invest in training their teachers, increasing their internet connection, among other similar investments. This increased technological capacity can be leveraged to improve their online presence and their use of technology for financial purposes (i.e., digital payments, internet banking usage, etc.)
- **Regulations support private education.** MINERD has plans to introduce standards to 'Recognize' pre-primary education centers and formalize this sector

Challenges

- Despite significant gains in increasing access, academic achievement by Dominican students suggest serious quality issues. Dominican students achieved lowest rank out of the 15 Latin American countries in TERCE evaluation (2013), recent international evaluations between 2016-2018 reflect a similar trend of low academic achievement.
- **School Managers limited financial management abilities.** Individuals with limited knowledge of finance manage very-low cost schools. The situation causes high debt levels and an impaired assessment of their business sustainability, limiting further access to formal credit, even to current microfinance programs.
- **Lack of formalization of low-cost non-state schools.** Low-cost private schools tend not to be formalized, restricting their access to the formal banking sector and making it more difficult to determine their creditworthiness. These entities are often forced to request loans as individuals, facing higher interest rates and more stringent loan conditions.
- **Reduced enrollment and foreclosures, especially in early childhood education.** Private schools have lost a large number of their students to the public sector due to the reforms in public education. Further enrollment losses are expected due to the economic crisis caused by COVID-19. Early childhood centers

[34] The Ministry of culture has to grant a permit that certifies that the content is educational.

report losses due to COVID 19 closures – parents have decided to take their children out of school since distance learning for younger children not seen as worth the fee.

4. Providing Financing (Supply-Side)

4.1 Oversight and regulation

4.1.1 Financial system oversight

The Dominican financial system is regulated by the Financial and Monetary Law No. 183-02, passed on December 3, 2002. This law created the Financial and Monetary Administration, a governing body composed of three entities responsible for regulating the financial system. Its functions include defining sectoral policies and executing, supervising, and applying sanctions upon the law's breaches and complementary regulations.

The entities that compose the Financial and Monetary Administration are: 1) the Monetary Board, 2) the Central Bank, and 3) the Banks' Superintendence. The Monetary Board is the ruling entity of this governing body, and it is the one that dictates all regulation and supervision provisions in monetary and financial matters. The Central Bank oversees the monetary, financial, and exchange rate policies, following the Monetary Program approved by the Monetary Board. The third entity, Banks' Superintendence, is responsible for supervising financial intermediation entities to verify their compliance with existing regulations.

In recent years, the Dominican Republic has carried out efforts to strengthen its financial system's regulatory framework. In regards to the promotion of credit access to micro, small and medium-sized enterprises (MSMEs), the Government has implemented the following initiatives: a) Revised the Asset Assessment Regulation[35] (REA by its acronym in Spanish), b) Revised the Microcredit Regulation[36], b) Passed the Movable Collaterals Law, No. 45-20[37], and c) Expanded the scope of action of the Ministry of Industry, Commerce and MSMEs[38], including within its functions the design, coordination, execution, and supervision of strategies to strengthen the segment of micro, small and medium enterprises. However, despite advances in regulatory matters, the financial system still faces important challenges, such as enhancing its supervisory capacity and promoting widespread adoption of inclusive insurance[39]. [40]

4.1.2 Financial intermediaries

According to the Financial and Monetary Law No. 183-02, financial institutions in the Dominican Republic are classified into five categories[41]: 1) Universal banks, 2) Saving and credit banks, 3) Savings and loan associations, 4) Credit corporations, and 5) Public and mixed entities. This classification of financial institutions is based on the type of operations they can carry out, the capital required to operate, and the shareholder composition. The Dominican Republic has 49 financial intermediation institutions: 17 universal banks, 14 savings and credit banks, ten savings and loan associations, six credit corporations, and two public and mixed entities. All these institutions offer credit to Small and Medium Enterprises.

4.2 Financial institutions offering SME/private school loans

4.2.1 General Overview

The traditional banking system does not make any special differentiation regarding granting loans to private schools or other educational entities. Instead, credit analysis is based on the debtor's information according to

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[35] Amendment approved and released by the Monetary Board on September 28, 2017.
[36] Amendment approved and released by the Monetary Board on May 17, 2018.
[37] Passed on February 21, 2020.
[38] Former Ministry of Industry and Commerce. MSMEs refers to micro, small, and medium businesses.
[39] Insurance for the excluded or underserved market
[40] This according to the Global Microscope 2019, a report prepared by The Economist Intelligence Unit that analyzes regulatory aspects of the financial system of 55 countries.

their financial indicators and payment behavior. Given most non-governmental education entities fall within the SMEs category, in this section, we analyze SMEs' incidence in the financial sector and credit to education SMEs as a share of total SMEs credit. According to the Superintendence of Banks, the consolidated balance of loans to MSMEs in the Dominican Republic was US$ 5,183.9 million on August 31, 2020. This number represents 49% of the total balance of commercial loans in the banking system. Of this amount, US$ 27.6 million are loans to educational institutions, accounting for 0.53% of the MSMEs loan portfolio. It should be noted that as of December 2019, this proportion was at 0.63%, a figure more consistent with the last 4-years average, which is 0.58%. This decrease might be a reflection of the effects of the COVID-19 pandemic. It is also important to note that the actual percentage could be higher – school loans are often not categorized correctly, or owners can take loans on their name. For instance, during key informant interviews a leading MFI (ADOPEM) reported that they have over 2,000 private schools and "Salas de Tarea" (an ancillary educational service that receives students in afternoons to provide homework assistance)[42] credits. This is not reflected in the official Banks Superintendency Statistics, as they only classify credits to finance higher education programs into that category. Table 9-11 present credit information from the financial institutions providing credit to MSMEs. Tables show Balances (total amount owed by MSMEs to the financial institution) and Loans (Number of MSMEs that have an active loans with the institution).

Table 9. Credit to MSMEs

Institution	MSMEs Balances in US$		MSMEs Nos. of Loans	
	USD$	**%**	**Nos. of Loans**	**%**
ADOPEM	99,429,779	1.9%	175,326	33.6%
ADEMI	85,512,417	1.6%	94,020	18.0%
BANRESERVAS	1,123,445,767	21.7%	68,970	13.2%
POPULAR	1,614,688,910	31.1%	57,713	11.1%
BHD LEON	919,946,252	17.7%	38,745	7.4%
BANFONDESA	35,758,140	0.7%	25,614	4.9%
SCOTIABANK	370,109,835	7.1%	17,017	3.3%
Rest of system	935,012,456	18.0%	44,749	8.6%
Total	**5,183,903,556**	100.0%	**522,154**	100.0%

Source: Superintendence of Banks. August 31, 2020.

Table 10. Credit to Education MSMEs

Institution	MSMEs Balances in US$		MSMEs Nos. of Loans	
	USD$	**%**	**Nos. of Loans**	**%**
ADOPEM	399,992	1.4%	384	15.2%
ADEMI	343,653	1.2%	373	14.8%
BANRESERVAS	5,721,695	20.7%	530	21.0%
POPULAR	7,178,402	26.0%	425	16.8%
BHD LEON	7,059,020	25.6%	415	16.4%
BANFONDESA	261,817	0.9%	123	4.9%
SCOTIABANK	300,586	1.1%	10	0.4%
Rest of system	6,329,146	22.9%	266	10.5%
Total	**27,594,311**	**100%**	**2,526**	**100%**

Source: Superintendence of Banks. August 31, 2020.

[42] Based on ADOPEM internal statistics.

Table 11. Average MSME Loan Size

Institution	Average MSME Loan Size (USD$)	Average Education MSME loan size (USD$)
ADOPEM	567.11	1,041.65
ADEMI	909.51	921.32
BANRESERVAS	16,288.90	10,795.65
POPULAR	27,977.91	16,890.36
BHD LEON	23,743.61	17,009.69
BANFONDESA	1,396.04	2,128.59
SCOTIABANK	21,749.42	30,058.60
Rest of system	20,894.60	23,793.78

Source: Superintendence of Banks. August 31, 2020.

Notably, from the seven leading banks in terms of the level of credit granted to MSMEs, three originated as non-profit entities designed to meet MSMEs' financing needs: ADOPEM, ADEMI, and BANFONDESA. Among these, ADOPEM bank stands out, being an international benchmark in granting microcredits, with special emphasis on female inclusion. On the other hand, the remainder institutions that make up this ranking are the largest in the national financial system. These seven banks concentrate approximately 80% of credit balances, 90% of the credits destined to MSMEs, and 90% of credit directed to non-governmental educational institutions. Banreservas, Popular, BHD Leon, and Scotiabank are traditional banks, and their main source of funding is their deposits, while ADOPEM, ADEMI, and BANFONDESA are MFIs and use their deposits as well as onlending funds from international cooperation agencies and nonprofits. Banreservas, Popular, and BHD León's branch network are concentrated in geographic zones where they can contact premium clients that represent less risk, and therefore, they can raise higher deposits from fewer customers. ADOPEM, ADEMI, and BANFONDESA have lower average balances, with low-income clients located in rural areas and inner neighborhoods. Regarding average loan size, the credit sizes MFIs lend might not allow private schools to conduct the infrastructure modifications. As mentioned in previous chapters, MINERD authorities highlighted infrastructure as one of the main reasons for not granting recognition to schools.

These institutions offer commercial loans (credit lines, long-term loans guaranteed by collaterals[43], mid-terms loans unsecured, credit cards, leasing, factoring, and credit letters), mortgages, and personal loans (unsecured loans, long term loans guaranteed by collaterals, credit cards, and auto loans. Interest rate variations by loan type are presented in Table 12 below:

Table 12. Interest rates by type of loan and institution

Loan Type	BANRESERVAS	SCOTIABANK	POPULAR	BHDL	ADEMI	ADOPEM	BANFONDESA
Mortgages	12.95%	10.25%	9.95%	13.00%	14% /28%	32%	
New Cars	12.95%	9.45%	9.95%	13.95%			
Used Cars			12.50%				
Personal	18.00%	14.95%	16.95%	17.70%	17% /44%	36%	28% - 36%
SME's	16.75%		15.95%	8.00%	15% / 48%	18% - 43%	28% - 48.95%
Corporative	11.80%			17.50%			

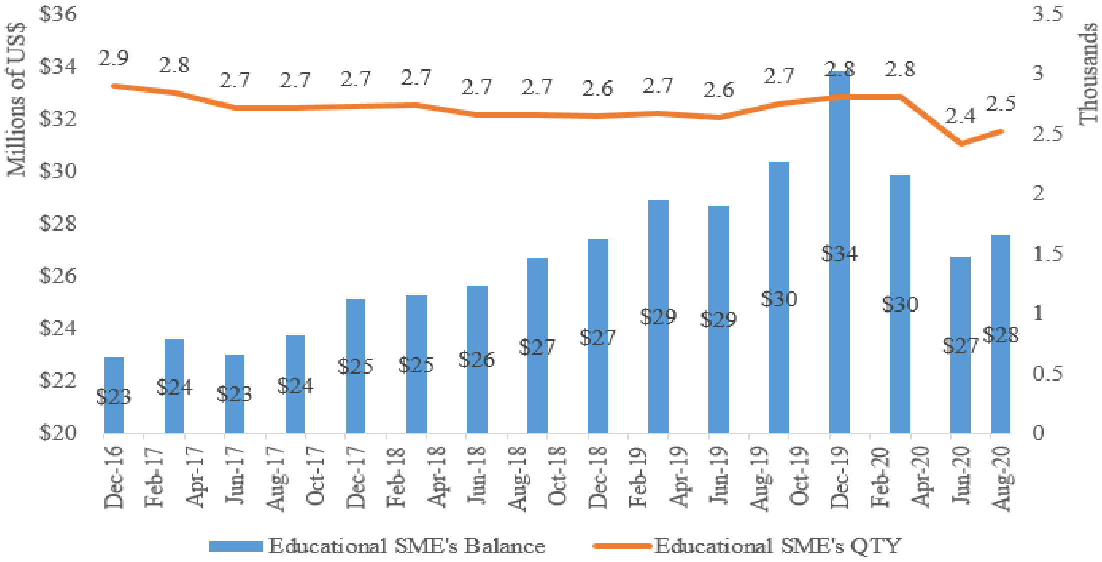
Source: Superintendence of Banks. August 31, 2020.

An analysis of the financial system's balance sheets reflects an important growth of credits destined to non-governmental (private) education institutions. From December 2016 to December 2019, the amount of loans to

[43] Most used collaterals according to the Banks Superintendency are Financial Instruments and Mortgages.

these institutions has been growing at an annual rate of 12%, practically double the rest of the MSMEs in the same period. Curiously, when trends of loan sizes are analyzed, the data reveals a decrease. Credit size to non-governmental education institutions decreased in Feb-March 2020 onwards due to the pandemic.

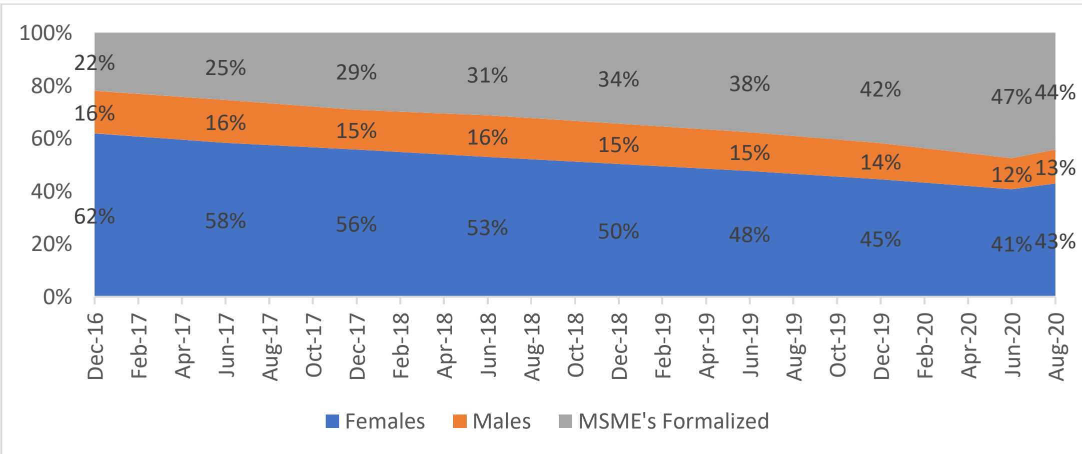
Chart 5. Educational Credits



Source: Superintendency of Banks. August 31, 2020.

When analyzing credit by type of borrower (female, male, Formalized MSME's) from December 2016 up to August 2020, women seem to dominate the MSMEs credit segment. The ratio of credits to women is approximately 3:1 to men (Chart 6). Also, the enterprises' growth as a share of the total suggests trends of business formalization, meaning clients who previously accessed credit as individuals are now doing it so under a company's legal person. This transition to formality could be associated with tax refund request procedures since to provide taxpayers with invoices of school fees valid for a tax refund, schools must be registered in the tax authority[44]. The number of education centers registered to issue valid tax refund invoices has doubled in the past decade (see Chart 7). This creates an incentive in schools to formalize and remain competitive, and opens doors for more private schools to join the formal financial system.

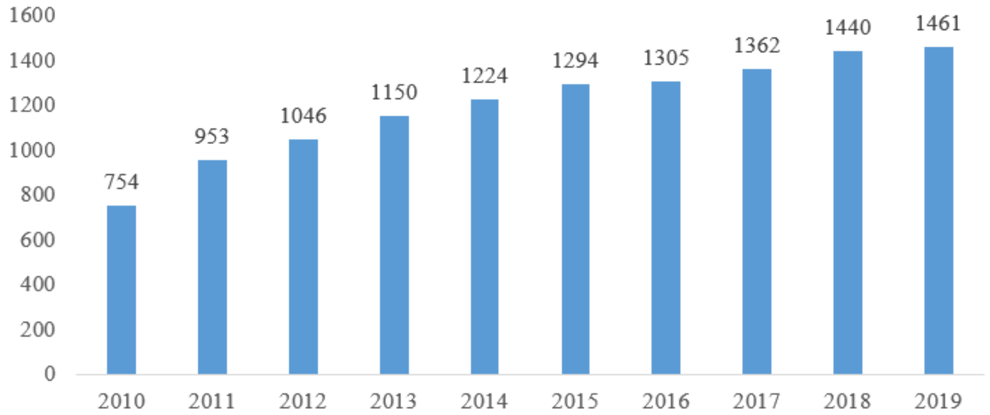
Chart 6. Distribution of Quantity of Credit by Debtor



Source: Superintendency of Banks. August 31, 2020.

[44] Dirección General de Impuestos Internos (DGII), is an entity dependent from the Ministry of Finance, and the tax authority in the Dominican Republic. According to Law 179-09, employees, liberal professionals and independent workers who pay income tax can report education expenses to deduct it from their income.

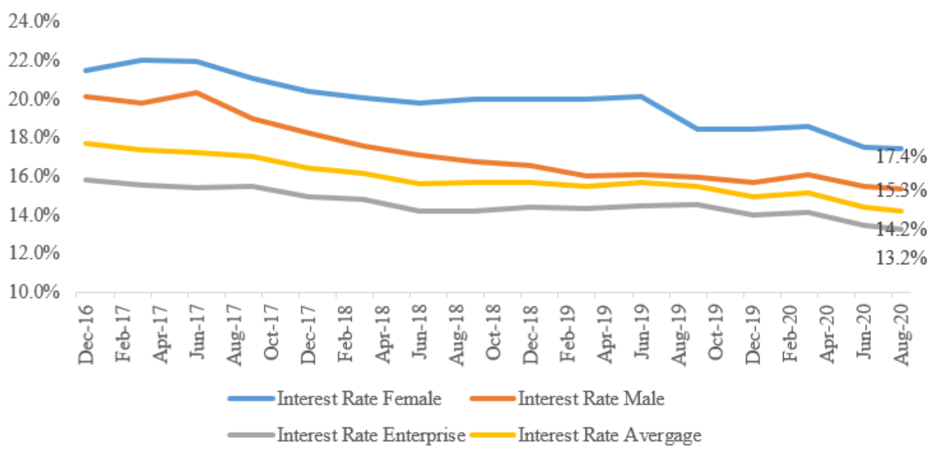
Chart 7. Number of education centers authorized to issue vouchers for tax refund 2010-2019



Source: Deductions Educational Expenses 2019, General Direction of Internal Revenues

On the other hand, interest rates paid by education entities show a consistent decrease during the last four years. The average interest rate has decreased from 17.7% in 2016 to 14.2% in 2020, most of these loans are made by Universal banks to formalized educational institutions that are perceived to be less risky and hence receive lower interest rates on loans. Lowering of Central Bank Reference rate has also contributed to the rate decline. Educational centers that are formalized enjoy better credit conditions since they pose a lesser risk for financial institutions.[45] Notably, females bear the highest interest rates (17.4%), since female-owned businesses are more likely to be informal, which leads to a higher risk perception and higher interest rate (Chart 8).

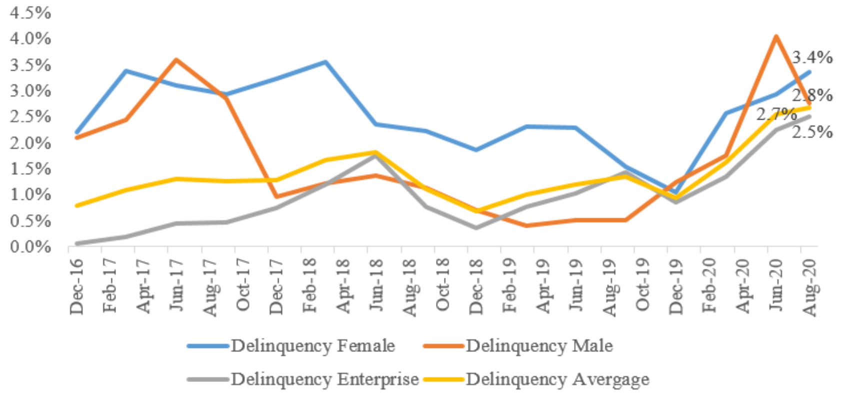
Chart 8. Private (Non-government) educational institutions: Average interest rate charged by gender and type



Source: Superintendence of Banks. August 31, 2020.

[45] According to financial experts consulted, assets of formal business are often registered under a legal entity, while assets of non-formalized business are usually part of family equity, making the execution of guarantees difficult.

Chart 9. Non-government educational institutions: Delinquency by gender and type



Source: [Superintendence of Banks. August 31, 2020.]

Banreservas is the largest bank in the country, and as it is owned by the government. All the public sector employees receive their salaries through the institution, including police officers, public school teachers, nurses, doctors, and military officers nationwide. Banco Popular, BHD León, and Scotiabank are the three largest financial institutions following Banreservas. Universal Banks are not focused on offering micro-credits, and thus their evaluation procedures make it harder for microbusinesses to access credit with them. Non-state schools and school associations consulted consider that it is nearly impossible for a small/low-cost school to get a loan from these institutions as a new business. For instance, the director of the AINEP (school association) illustrated the statement with an example from his own school, a high-cost school located in downtown Santo Domingo, founded 50 years ago. He highlighted his struggles getting loans for infrastructural improvements within his school, stating that Universal Banks were requesting more collateral than what they would request for a different type of client, and a negative predisposition towards lending to schools in general as the major constraints. Although the school could access the loan, both the president and the executive director of AINEP highlighted that the low-cost schools they work with within their association would not have had the technical capacity nor the collateral requirements to access a similar loan. Similar statements were issued by other school associations, school owners, and government officials consulted. However, they did acknowledge improvements in recent years when compared to previous decades with the inclusion of SMEs departments in BHD León, Popular, and Banreservas. In particular, associations noted that even with difficulties, mid-sized and large schools could access loans that would not have been possible in the past.

Financial institutions consulted (large and small) highlighted that their schools' requirements are similar to the ones for the rest of SMEs and do not have special treatments for schools. The requirements often include an assessment of their credit history, presenting documentation on their income source, such as bank statements from the last three months, and a land/building appraisal in the case of collateralized loans. Frequency repayment is monthly for all products and in all institutions. They also highlighted the difficulty to assess SMEs true credit quality, especially when they are young or do not move their revenues on a bank account, and that low-cost schools often operate in the owners' household, making it difficult to discriminate which assets belong to the schools and which were personal belongings of the owner. Traditional banks have developed educational programs to help SMEs navigate their requirements as they state most of them are Banks Superintendency requirements based on the Financial and Monetary Law 183-02. For instance, Banco BHD León has developed a platform called OPEN to provide financial training to SMEs that would allow them to access loans more easily and are an ally of the SMEs center focused on financial access (see facilitators section). OPEN also promotes its SMEs clients' services on their website as well as their training opportunities. Popular and Banreservas also offer different versions of these training programs.

4.2.2 Microcredits Institutions and non-state schools

The largest MFIs in the country are ADOPEM and ADEMI; both of them are privately owned and managed. Their clients are often not part of the traditional banking system. Additionally, Banca Solidaria operates as an MFI, which is a public program coordinated by Pro-Mipyme, an organisation attached to the Ministry of Industry and Commerce. Banca Solidaria has 110 branches nationwide, while ADOPEM and ADEMI have 70 and 62. The average loan size to MSMEs in August 2020 for Commercial Microcredits was US$567.1 for ADOPEM, US$909.5 for ADEMI, and US$1,155.3 for Banca Solidaria (BS, 2020).

ADOPEM has received funds from the European Investment Bank (EIB) to strengthen agricultural activities, offering specific products for the preferential rate EIB gives them, as well as products for women victims of domestic violence using funds from the Attorney General's office, OikoCredit, and Opportunity international. The institutions' rates for these loans vary depending on the program the funds are part of[46]. When consulted on loans to non-state schools, ADOPEM highlighted they have over 2,000 clients who own either a "Sala de Tarea[47]" or an initial level school and that although they didn't have a specific product to lend to schools, they prioritize supporting women in business and single mothers. They noted that 70% of the private schools/ancillary clients that they have lent in the past have these characteristics. Portfolio quality of these loans is similar to rest of the loan portfolio with under 5% delinquency rates, i.e. lending to these schools has not posed a higher than average risk.

Banfondesa is another relevant MFI in the country that offers loans to MSMEs in similar conditions to ADOPEM and ADEMI. BANFONDESA has 59 branches, most of them located in the northern part of the island. The average loan size for BANFONDESA is US$139 and they offer loans starting at DOP$3,000 (USD$51.3). The types of loans most often offered by BANFONDESA are personal loans (with productive purposes), which represent 67.8% of all its credit balances, and commercial microcredits that represent 27.4%. BANFONDESA also has products developed with funds from non-profits and international cooperation agencies such as the French Development Agency, European Investment Bank, and the International Financial Cooperation (IFC). However, their relevance to the non-state education market relies on its non-profit FONDESA, which specializes in educational loans. As FONDESA is a non-profit, its characteristics will be addressed in that section. BANFONDESA originated from FONDESA; however, they now operate with separate purposes.

4.2.3 Cooperatives

Cooperatives play a crucial role in credit provision to SMEs, reaching rural areas and far-removed communities where the traditional banking system is not present. According to the National Cooperatives Council, the number of cooperatives in the Dominican Republic has tripled in the last three decades, increasing from 376 in 1980 to 916 in 2017. This rapid increase is in part because of the ease of access to credit that members of cooperatives have (whom may not have access to formal credit in traditional banking), the vast experience the managers of cooperatives have acquired during the years, and the increasing strengths of unions (who tend to open cooperatives for their members)[48]. By 2017, cooperatives had more than 1.9 million members, out of which 50% were women and accumulated assets of over US$4.5 million[49].

To access credit through cooperatives, borrowers must first become members of the respective organization. The main membership requirement is to open a savings or term product in a cooperative. One of the main advantages of cooperatives regarding access to credit is that documentation required to apply for loans is often minimal. In fact, it is enough to have a national identity card or "cédula" in some cases. However, depending on the loan's

[46] They reported from 8% to 29% annually to be the most frequent rates.
[47] An ancillary service, a teacher that helps children do their homework in a controlled environment. They are not regulated by MINERD.
[48] Fulcar (2019)
[49] Official average exchange rate for 2017: RD$47.44/US$

size, other information may be required, such as proof of income, evidence of having roots in the community where the cooperative is established, commercials references, and guarantees, etc.

CoopAspire is an example of a cooperative that provides credit for low-cost schools and is well recognized within the market. The organization offers loans to 1) parents in agreement with schools aimed at financing a years' tuition, and 2) schools to improve infrastructure or buy equipment, and 3) teachers for personal purposes. Out of their 45,000 partners, 6,000 have one of these three loan categories, with 1,200 being private schools. The cooperative has branches in low-income neighborhoods nationwide and is mainly focused on micro-lending, with an average loan size of DOP$ 50,000, starting from DOP$2,500, and 65% of their clients are women. The average annual interest rate for educational loans is 18%. CoopAspire often uses technical support and funding from international non-profits such as Opportunity International and Edify. Additionally, Coopnama, the cooperative of public schools' teachers, also offers loans to individuals that have taught in the public system at some point in their lives. Public school teachers receive a payroll discount to fund Coopnama operations and loans. The cooperative has a wide variety of credit products, including investments which teachers can use for productive activities, and their interest rates range 18-24%. Stakeholders consulted from both the financial and education sector mentioned that private school owner are often teachers that come from the public sector. If that is the case, they are allowed to take loans from Coopnama.

4.2.4 Nonprofit credit entities

Some examples of non-profits are the Dominican Development Foundation (FDD), the Fund for the Financing of Microenterprise, Inc. (Fondo Micro), FONDESA, Dominican ECLOF, Dominican Institute for Integral Development, Dominican Network of Microfinance (Redomif), and ADOPEM Foundation, all of which are private.

FONDESA is well-known among private school owners and school associations for providing loans to the education sector. FONDESA is a non-profit affiliated with a Credit and Loans Bank, BANFONDESA. They offer loans to finance higher education, professional development programs. The institution has a specialized credit line for private schools and private school associations to improve infrastructure, local and international teacher professional development, acquire equipment, incorporate sustainable energy matrices, and organize symposiums or events. FONDESA often uses funds from international cooperation institutions as investors for these loans. For instance, in 2019, they implemented the Program to Finance Educational Entities (PROFE) to provide loans to adequate classrooms and increase sustainable energy sources with 1.6 million euros from the European Investment Bank. Moreover, FONDESA is also popular for financing large-scale events that school associations organize with their members. School associations consulted for this study have used credits from FONDESA for that purpose.

Table 13. Summary of principal institutions lending to private schools

Name	ADOPEM	ADEMI	CoopAspire	BanFondesa
FI Type	Credit and savings Bank -MFI	Commercial Bank - MFI	Cooperative - MFI	Credit and savings Bank - MFI
Branches	70	62	26	59
Main types of loans offered	SMEs, Personal, Group Loans, and Mortgages	SMEs, Personal, Group Loans, and Mortgages	SMEs and Personal	SMEs, Personal, and Group Loans
Number of active loans by August 2020	175,326	94,020	N/A	24,640
Average loan size/ range (USD$)	567.11	909.51	855.4	1,396.06
Interest Rate of loans to SMEs	18%-43%	15%-48%	18%-24%	28%-48.95%

Name	ADOPEM	ADEMI	CoopAspire	BanFondesa
Repayment frequency	Monthly	Monthly	Monthly	Monthly
Collateral required to access	No	No	No	No
Partners	OikoCredit, Government (Attorney General, Municipalities, among others), European Investment Bank, Opportunity International, Fondomicro, Iadb, Spanish Cooperation Agency, IFC, ONTRIX.	OikoCredit, European Investment Bank, Iadb-OikoCredit, ONTRIX, FMO, European Union.	Opportunity International, Edify, Fundación Banreservas, Fondomicro	European Investment Bank, French Development Agency, IFC

4.3 Summary

Enablers

- **Access to non-profits and MFIs as program administrators.** Many non-profit financial institutions run microcredits and other financial programs for international and national organizations. Some are already lending to private schools though they don’t have a specific product and their current loan sizes are too small for infrastructure investments. This can facilitate the implementation and/or possible investments/lending programs by EduFinance by relying on organizations with vast experience in the Dominican Republic's small business market, especially for social development programs. These organizations have experience partnering with international funders.
- **New regulations are introduced to facilitate SMEs' access to credit.** Financial authorities have passed new regulations to promote credit access to micro, small and medium-sized enterprises. For example, it has revised the Asset Assessment Regulation, the Microcredit Regulation, passed the Movable Collaterals Law and expanded the scope of action of the Ministry of Industry, Commerce, and MSMEs. These initiatives aim to facilitate credit analysis and access, as well as to design strategies to strengthen the segment of micro, small, and medium enterprises.
- **Schools and microlenders are geographically close**. Microfinance institutions are located in the same neighborhoods and towns as schools are. Furthermore, schools are aware of the opportunities available to them in these institutions.
- **Loans to private schools perform at par with rest of the portfolio.** Financial institutions that currently lend to private schools don’t report a higher than average credit risk for these loans.

Challenges

- **COVID-19 induced economic crisis.** The most critical challenge facing the Dominican economy is the Covid-19 pandemic. The private low-cost school sector has been significantly affected, with numerous schools closing operations. However, financial institutions have also been affected, with some reporting having closed branches due to the crisis and decreased demand for productive loans.

5. Financial infrastructure

5.1 Payment Systems

There are different payment instruments available in the Dominican financial system. These are provided by traditional financial institutions, such as banks, credit corporations, savings and loan associations, and both physical and electronic. The main payment instruments include checks, direct debits, and credits, interbank operations, operations with bank cards through electronic tellers, point of sale terminals, and mobile devices.

Table 14. **Popular digital/mobile payment systems used in DR**

	tPago	POS	ACH	LBTR
Amount transfer	Adheres to the banks transfer limits for this method	No limit	Depends on the Bank	No limit/ Schedule limits
Cost per transfer	USD$ 0.77 per month for unlimited transactions	2.75-7%	Free, subject to taxes	USD$ 1.72 per transaction, subject to taxes
Transaction location	Mobile phone (doesn't use internet)	Computer, mobile phone	Computer, mobile phone	Computer, mobile phone

It is worth noting there are other actors involved in the financial system, which support the execution of payments, such as payment service entities. The Central Bank of the Dominican Republic is the exclusive administrator of the check clearinghouse and payment system between financial institutions. However, payment service entities ("compañías de adquisición" in Spanish) help process credit card payments. Among these companies are check printers, scanners, software providers, and any other service related to the processing of payments. Payment services entities in the country are CardNet, VisaNet, and Azul.

Internet banking is one of the most used transfer payment services in the Dominican Republic. This service is made available through private digital platforms by different financial institutions, including a wide range that goes from banks to cooperatives. In general, payments and transfers offered within the nation are free of charge when customers use the ACH system (Automated Clearing House). When payments are made through the Real-Time Clearance system (LBTR - Liquidación Bruta en Tiempo Real in Spanish), a fee of approximately RD$ 100.00 (US$1.72 at a current exchange rate of RD$58.3538/US$) is charged by financial institutions. This fee can vary depending on the institution providing the service. The difference between these two systems is the payment processing time, LBTR transactions are settled in approximately 15 minutes or less, but ACH transactions may last up to two days.

Electronic transactions (and checks) paid to third party accounts are also charged with a tax of 0. 15% (RD$1.5 per thousand) on the operation's value, this in accordance with article 382 of the Dominican Tax Code Law 495-06. This tax excludes the withdrawal of cash both in electronic tellers and in bank offices, consumption through credit cards, payments to the Social Security, transactions and payments made by pension funds, payments of taxes made to the Dominican State, and transactions carried out by the Central Bank.

Payment solution providers such as VisaNet, CardNet, and Azul offer online payments (payment links, e-commerce, virtual POS) and electronic payments at points of sales (POS). Online payments made through these providers, as well as by platforms such as Paypal (which is linked to Banco Popular), charge a fixed fee per transaction. Regarding the use of POS, these entities charge fixed fees for the use of payment devices (terminals) that range from RD$ 500.00 up to RD$ 4,000.00 (approximately US$8.5 and US$68.4, respectively). Also, they charge businesses with transaction costs between 2.75% and 7% of the monetary volume handled; the percentage applied to vary by the size and type of business. The cost reduction in POS has led to an increase in the transactions performed through this channel. Between 2008 and 2020, the volume of payments with debit cards through POS has grown by 219%, while 319% in terms of value.

Mobile payments providers such as electronic wallets and tPago use a wide variety of pricing schemes. For example, Moni, an electronic wallet currently operating as an intermediary for four of the country's top largest banks, is free of charge for users. While tPago, a similar service based on both the internet and the USSD technology to carry transactions, charges a monthly fee to users(USD$ 0.77) , though offers the possibility of performing unlimited free transactions within a specific network of providers. This brand offers the facility to make payments without requiring an internet connection, increasing its attractiveness, given the reduced internet mobile penetration, which was around 21% in 2016, according to the Mobile Economic Report.

However, mobile payment services are still at an early stage of adoption. According to the Central Bank, approximately 1 million are users of this type of service. It is worth highlighting that despite the number of users, there is still plenty of room to grow; since 2011, it has five-folded. Schools and education centers can register as billers and offer the tPago platform as a payment option to their students. Nonetheless, only four education institutions provide this service, and all of them are private colleges that serve a small number of students. Regulations limit the wide adoption of services like tPago, since the Central Bank and the Bank Superintendence must approve every new product and service developed.

5.2 Credit Reporting Bureaus and Rating Agencies

There are three credit information companies (SIC) or credit bureaus established in the country: Consultores de Datos del Caribe, commonly known as DataCredito, Transunion S.A. and Acierta Consulting, S.R.L. These entities must be authorized to operate by the Superintendence of Banks. Law No. 173-12, commonly named the Habeas Data Law, that regulates credit information companies and oversees the comprehensive protection of personal data recorded in archives, public registries, databases, and other technical means of data processing. Most traditional banks use information from one or more of these credit bureau agencies to make loan decisions. Unfortunately, as the credit bureau agencies have little to no information of individuals not using formal financial services, the reliance on these agencies proves to be a challenge for the large share of financially excluded population of the Dominican population.

Other than credit bureau agencies, we can also find securities and assets rating agencies. Three rating agencies are authorized to operate in the Dominican Republic: Pacific Credit Rating (PCR), Fitch República Dominicana, and Feller Rate. These entities provide a technical and specialized opinion about issuers of securities and public offering instruments. They are supervised by the Securities Market Superintendence and regulated by Law No. 249-17[50] and Regulation No. 664-12 for the application of this law.

5.3 Collaterals and regulation

The Dominican financial system contemplates the use of collateral as mitigating factors for any potential losses associated with debtors' default. According to the REA, there are three main types of collaterals that debtors can use to ensure repayment of loans before financial intermediation entities (See Annex for detailed information):

1. *Cash deposits and financial instruments.* These collaterals have loan-to-value ratio limits ranging from 80% in the case of Reciprocal Collateral Certificates to 100% in the case of Debt securities issued or

[50] This corresponds to the latest update of the law, dated December 19, 2017. The original Law No.19-00 that regulates the Securities Market in Dominican Republic was dated May 8, 2000.

guaranteed by the Dominican Government Term deposits in the national or foreign currency issued by others financial intermediation entities.

2. *Real estate properties.* Land, residential buildings, hotels, industrial and commercial buildings, and free zones are accepted as collaterals. The loan-to-value ratio limits range from 60% in free zones to 80% for the rest of the properties.

3. *Movable collaterals.* Motor vehicles, aircraft, heavy vehicles, and renewable energy equipment are accepted as collaterals. The loan-to-value ratio is 50% for cars and 80% for the rest of the equipment.

Cash deposits and financial instruments are registered in a platform administered by CEVALDOM. The only entity in the country is allowed to register and administer financial instruments, including those emitted by the government. Financial institutions, including cooperatives, have access to CEVALDOM's platform to verify information regarding these collaterals. Motor vehicles and heavy vehicles are registered in a computerized public platform administered by the General Direction of Tax Collection (DGII) that allows financial institutions to validate their authenticity easily.

Land titles are issued and registered by the Jurisdicción Inmobiliaria, a public entity part of the government's judicial branch. This institution's titles have serial numbers in a centralized computerized platform that allows easy verification of ownership. Land titles issued by Jurisdicción Inmobiliaria are taken as collateral by financial institutions, as they can easily verify. However, a significant part of the country's land either have irregular titles or don't have any. Rural areas and inner neighborhoods' lands are characterized for having multiple owners, each one with a different title. Throughout history, different institutions in the country issued "provisional" titles that never became definitive. Solving this issue is included in the National Development Strategy and has led several administrations to put forward programs to provide official titles and prioritize the issue[51]. As most low-cost private schools are located in marginalized neighborhoods, likely, they don't have the official land title in which their buildings (commercial or houses) are and cannot use them as collaterals. It is worth noting that sometimes these lands have owners with their own official titles, but families entered the territories generations ago, generating conflicts. For example, in 2018, the neighborhood of Los Tres Brazos, the most populated of the Santo Domingo Province, was sold almost entirely from one owner to another without notifying the 17,300 residents that reside in the area. New owners started threatening owners and requiring them to buy the space they were occupying. The issue received significant media coverage and generated backlash from local interest groups. By the school year 2018-2019, the neighborhood of Los Tres Brazos and that by the school year 2017-2018 had 21 private schools that served 1,830 students (SIGERD-data,2018).

It is worth highlighting that in February 2020, Congress passed Law No. 45-20 of Movable Collaterals, which seeks to expand the use and promotion of movable property as a credit guarantee for small and medium-sized businesses. The law includes the creation of a national registry for warranties.

5.4 Summary

Enablers

- **New collateral law.** This regulation gives the opportunity to non-state schools, especially low-cost ones, to use different categories of non-traditional assets as collaterals. This, in turn, increases the possibility of accessing credit through formal means.
- **The sophistication of financial infrastructure.** In the past years, there has been an increased diversification of means of payments and financial transactions. The country enjoys traditional payment channels, as well as a variety of digital options, such as wire transference, mobile payment options, and point of sales. The costs of these services have been made accessible to SMEs, increasing the number of users and transactions performed through these channels.

[51] It also affects touristic industry, as investors often can't verify ownership of lands near points of interest (ex. https://cdn.com.do/destacados/realizan-levantamiento-terrenos-disputados-donde-estado-asento-pescadores-agricultores-sanchez/)

Challenges

- **Low internet penetration.** Schools have increased their internet connection and technological capacity in the past year. However, roughly one-fifth of mobile users have access to the internet on their devices. This limits the possibility of adopting new transactional mechanisms and facilitating widespread access to financial services.
- **A complicated web of regulations:** Depending on the type of financial institutions, different elaborate sets of rules can apply.

6. Intermediators/Facilitators

We have identified three types of facilitators for non-state schools' access to credit: School Associations, Nonprofits/government, and Banking Subagents. Their role in the system will be described in the sections below.

6.1 School associations

School associations are common within the education sector in general and especially common within the non-state education market. Their primary role is to promote professional development opportunities, promote private schools' legal rights and duties, and to represent its members' interests to MINERD. Associations form around a common characteristic of schools, such as religious affiliation or location. The most organized entities often participate in regulatory decisions voicing non-state schools' interests in the specific matter being addressed. Schools can be affiliated to several associations or not be affiliated to any association; however, the decisions these most organized entities reached with MINERD often benefit all private schools regardless of association. Associations charge schools for being a part; however, the amounts vary depending on the school's fees. Low-cost schools are exonerated from paying these fees. In addition to school associations, the Dominican Union of Private Educational Institutions (UDIEP), which is part of the National Education Council, reunites school associations from different characteristics nationwide. UDIEP is a private entity whose main role is to represent and promote operating schools' legal aspects.

The main role school associations see themselves performing is representation. For instance, in the light of the COVID-19 crisis, legislatures have announced their intention to further regulate school prices as an effort to reduce the financial burden to families. The four associations consulted, including UDIEP, are working to prevent these new regulations from passing congress under the premise that current regulations are already limiting private schools' abilities. UDIEP is the largest association in the country, with 2,800 schools affiliated with them indirectly. In the context of COVID-19, they conducted an internal survey to assess their affiliated schools' status. UDIEP's president highlighted that 70.6% of their schools have two or more loans, and over 35% complained their employees couldn't access government programs meant to support private employees in times of quarantine (FASE I and FASE II). The main reason for not accessing is that they needed to be up to date (June) in their payroll payments to teachers validated in the Social Security Treasury. UDIEP's president highlighted it was impossible to be up to date with payroll if parents stopped their monthly fees in March. The statement of not being able to access FASE was also highlighted by MINERD's officials who tried to advocate for them. UDIEP submitted several proposals to the past administration Ministry of Finance and Ministry of the Presidency and is negotiating with current officials.

School associations also promoted schools' inclusion, particularly low-cost schools in the programmatic structure of the Ministry of Industry and Commerce (MIC). After that, UDIEP and MIC have worked together to help schools access credit opportunities by accompanying them through the process and creating technical advice programs specific to their needs.

6.2 Non-profits, government, and private entities

The three main private entities promoting credit to MSMEs in the country are Fondomicro, Redomif, and Banreservas Foundation. Fondomicro is a private entity created in 1990 by the Ministry of the Presidency and USAID, their main lines of action are: 1) lending to financial and non-profit institutions that lend to MSMEs, 2) Conduct research that informs the financial system and society at large on dynamics affecting MSMEs, and 3) provide advising to financial institutions. Redomif is a nonprofit network of 31 Dominican MFIs, regardless of their financial classification (non-profits, cooperatives, savings and credit banks, etc.). Redomif's work is focused on representing the interests of their affiliated institutions, promoting their work, and conducting research to promote sector development. Lastly, Banreservas Foundation is a non-profit owned by Banreservas that uses banks' revenues and government funds to lend to non-regulated MFIs, mainly cooperatives[52]. Banreservas Foundation also conducts research and provides technical support to MFI non-profits and cooperatives.

In the public sector, the Ministry of Industry and Commerce (MIC), with their division of MSMEs promotion, has worked as an advocate of MSMEs within the government. Their work included facilitating the elimination/modification of regulations that affected specific MSMEs, connecting MSMEs with leaders within the financial sector[53], and providing technical support in different areas of need. This division within the MIC has worked along with school associations to make technical support opportunities reach more private schools. The support includes advice to become formal, information of MFIs offering loans to schools, accounting practices for microbusinesses, entrepreneurship, among others. Officials from the past administration consulted reported they have tried to work with MINERD to review price regulations and propose joint solutions to Congress unsuccessfully.

The MIC, in a public-private alliance with universities, created the MSMEs Centers, specialized units within universities that provide advice to business owners on the issues that more often affect them. There are 11 MSMEs centers that provide brand development, financial planning and inclusion advice, graphic design, and guidance to obtain permits.

6.3 Banking subagents

One of the actors that have gained importance in recent years is the banking sub-agents. Banking sub-agents are "natural or legal persons who carry out commercial activities and who in that capacity are hired by financial intermediation entities to carry out operations, on their behalf, and provide financial services….". Sub-agents allow banks to further their operative reach without increasing traditional banking institutions' operating costs and reduce informality levels since businesses have to register to qualify for the task. (Lozano & Baldera, 2014).

The sub-agent role can be performed by grocery stores, hotels, telecommunications service companies, supermarkets, hardware stores, and any other entity approved by the Superintendence of Banks. Among the operations, banking sub-agents are authorized to perform the following: 1) Receive payments in cash, loans, and credit cards, electronic means of invoices for services, fees, taxes, or any other payment on behalf of third parties; 2) Send or receive transfers within the national territory; 3) Receive cash deposits in savings or checking accounts; 4) Allow cash withdrawals from savings accounts, made only by the customer who owns the account; 5) Sale, recharge and withdraw funds associated with prepaid cards; 6) Deliver remittances/transfers received, 7) Receipt and process all types of requests for products and services, including loans and credit cards; 8) Review account movements and product balances of the holder; 9) Receipt claim requests from clients; among others.

6.4 Summary

Enablers

- **Schools associations are broad and consolidate a large number of non-state schools.** They represent the interests of schools, regardless of size and price, to MINERD and to Congress. Their leadership is active and effective at distributing information to their membership and gathering information for them.
- **Entities are lending and promoting MSMEs.** There are experienced non-profit institutions in the country that offer loans to MFIs to benefit MSMEs. There is also a network that consolidates all MFIs in the country, Redomif. The board of Redomif could help identify which MFIs would be a more suitable partner of a specific project involving Blended Finance in the country.

[52] Including CoopAspire, a cooperative that has specific products to private schools.
[53] They have a specific unit focused on financial inclusion

- **Bank subagents increase the presence of financial institutions nationwide.** Bank subagents are located closer to the places where people reside, reducing transportation costs to clients, and making it easier to make payments.

Challenges

- **School associations and COVID-19 crisis.** Associations have not been able to make an agreement with the government (neither the exiting nor the new one) to receive any form of financial support.
- **Difficulty negotiating with MINERD.** Associations and the MIC have partnered up to negotiate with MINERD, but they reported no progress towards improving existing regulations.

Annex I. Stakeholders

Table A1. Stakeholders list

#	Stakeholder type	Institution	Interviewee	Date
1	Government supporting and regulating agencies	Ministry of Industry and Commerce	Ignacio Mendez	October 28th, 2020
2	Government supporting and regulating agencies	SMEs center	Roselys Arias	November 3rd, 2020
3	Government supporting and regulating agencies	Ministry of Education – Early Childhood Education	Alexandra Santelises	Pending
4	Government supporting and regulating agencies	Ministry of Education – Private Schools Department	Susana Michel	November 6th, 2020
6	Non-state school owners/administrators	Low-cost faith based	Colegio Central	November 4th, 2020
7	Non-state school owners/administrators	Low-cost faith based	La Milagrosa	Pending
8	Non-state school owners/administrators	Low-cost not faith based	Colegio Getsemani	November 2nd, 2020
9	Non-state school owners/administrators	Low-cost not faith based	San Marcos	November 12th, 2020
10	Non-state school owners/administrators	Low-cost emphasis pre-k	Colegio Marie White	Pending
11	Non-state school owners/administrators	Low-cost emphasis pre-k	Maternal Tía Pancha	November 1st, 2020
12	Non-state school owners/administrators	Mid-cost	Saint Lawrence School, Juan Valdez	October 29th, 2020
13	Non-state school owners/administrators	Mid-cost	Colegio Enmanuel	November 2nd, 2020
14	Non-state schools' associations	Unión Dominicana de Instituciones Educativas Privada	Mercedes Coronado	November 3rd, 2020
15	Non-state schools' associations	Asociación De Instituciones Educativas Privadas - AINEP	Anton Tejeda	November 13th, 2020
16	Non-state schools' associations	Unión Nacional de Escuelas y Colegios Católicos	Yudelkys Torres	November 6th, 2020
17	Non-state schools' associations	Asociación de escuelas confesionales no católicas	Lester Flaquer	November 4th, 2020
18	Financial institutions that provide credit to SMEs	GCS Systems – T Pago	Digna Villa	November 5th, 2020
19	Financial institutions that provide credit to SMEs	Asociación La Vega Real de Ahorros y Préstamos	ALAVER	November 11th, 2020
20	Financial institutions that provide credit to SMEs	COOPASPIRE	Jesús Cordero	November 5th, 2020
21	Financial institutions that provide credit to SMEs	SCOTIABANK	SCOTIABANK	November 12th, 2020
22	Financial institutions that provide credit to SMEs	FONDESA	Claribel Rodriguez	November 11th, 2020
23	Financial institutions that provide credit to SMEs	ADOPEM	Mercedes Canalda	November 11th, 2020
24	Financial institutions that provide credit to SMEs	Asociación Cibao de Ahorros y Prestamos	Delia Mateo	November 13th, 2020
25	Financial institutions that provide credit to SMEs	BHD Leon	Carly Popoter	Pending
26	Financial institutions that provide credit to SMEs	Banca Solidaria	Wagner Jiménez	November 19th, 2020
27	Financial institutions associations	ABA	Julio Lozano	Pending
28	Other	Dominican teachers' union	Maria Teresa Cabrera	Pending
29	Other	Ancillary services - Book distributor (Libreria Solano)	Federico Solano	Pending
30	Other	Ancillary services - Book distributor	Ediciones SM	November 27th, 2020

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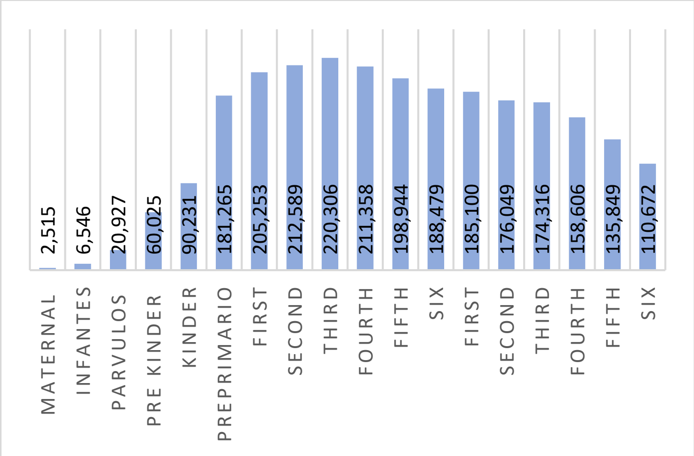
Annex III. DR Education Additional Statistics

Table A1. K-12 enrollment by zone, school year 2018-2019

Zone	Enrollment
Rural	452,963 (16.13%)
Urban	2,354,586 (83.8%)

Source: Indicators report from Dominican Ministry of Education

Chart A1. Overall K-12 enrollment by grade school year 2018-2019



Source: Indicators report from Dominican Ministry of Education

Table A2.

Average score TERCE, third grade		
TERCER Third grade	Reading	Mathematics
Chile	582.44	571.28
Costa Rica	557.52	542.83
Uruguay	550.55	524.17
Mexico	549.26	519.39
Brasil	539.54	519.33
Argentina	533.26	512.48
Peru	532.74	521.39
Ecuador	524.17	508.43
Colombia	518.88	519.1
Honduras	507.52	496.81
Guatemala	500.69	494.86
Panama	494.15	489.93
Paraguay	487.84	480.94
Nicaragua	484.7	478.01
Dominican Republic	454.03	448.03

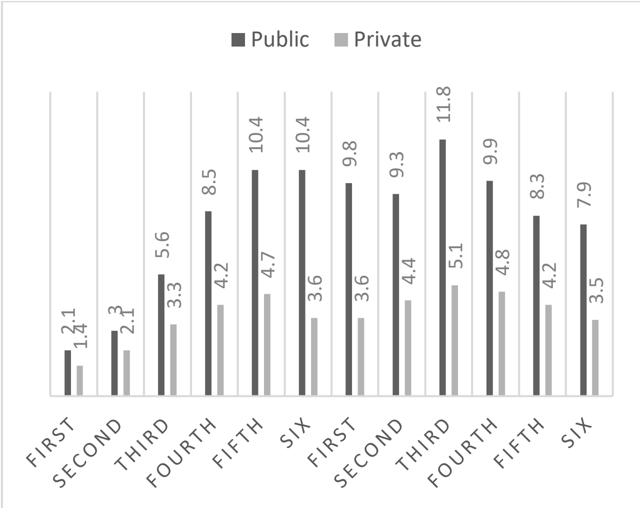
Source: Third Regional Comparative and Explanatory Study - TERCE. Available at https://bit.ly/36IMIAl

Table A3.

Overage rate by Levels, 2018 - 2019	
Levels	Overage
Initial	1.2
Primary	4.8
Secondary	6.2

Source: Indicators report from Dominican Ministry of Education

Chart A2. Percentage of overaged students by grade and sector, 2018-2019



Source: Indicators report from Dominican Ministry of Education

Table A4.

Average score TERCE, sixth grade			
TERCE Sixth Grade	Reading	Mathematics	Science
Chile	557.01	580.51	
Costa Rica	545.5	535.19	
Uruguay	531.79	566.57	516.86
Mexico	528.77	565.77	
Colombia	525.57	514.69	526.5
Brasil	523.93	519.63	
Argentina	508.58	530.23	501.31
Peru	505.44	527.25	500.68
Ecuador	490.7	513.12	
Guatemala	489.03	487.98	
Panama	482.63	461.48	475.11
Honduras	479.19	479.79	
Nicaragua	478.96	462.31	
Paraguay	469.14	455.55	454.76
Dominican Republic	455.94	436.85	443.74

Source: Third Regional Comparative and Explanatory Study - TERCE. Available at https://bit.ly/36IMIAl

Table A5.

Average score by domain , TERCE		
TERCE	Domain	Score
Third Grade	**Reading**	454.03
	Mathematics	448.03
Sixth Grade	**Reading**	455.94
	Mathematics	436.85
	Science	443.74

Source: Third Regional Comparative and Explanatory Study – TERCE Available at https://bit.ly/36IMIAl

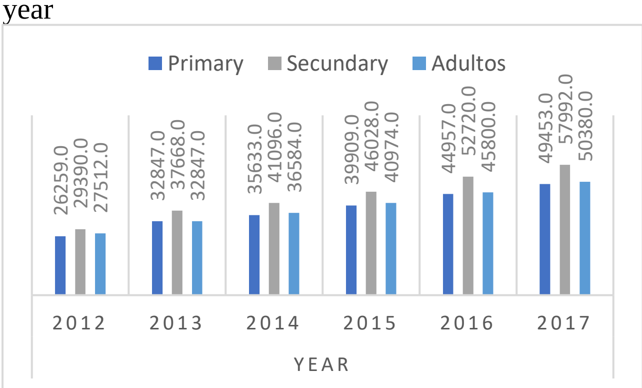
Table A6.

PISA 2018 Average score Dominican Republic		
	Public	Private
Reading	332	395
Mathematics	317	372
Science	327	384

Table A7.

Average score PISA 2018			
	Reading	Mathematics	Science
Chile	452	417	444
Uruguay	427	418	426
Costra Rica	426	402	416
Mexico	420	409	419
Brasil	413	384	404
Colombia	412	392	413
Pedu	401	400	404
Argentina	401	380	404
Panama	377	353	365
Dominican Republic	342	325	336

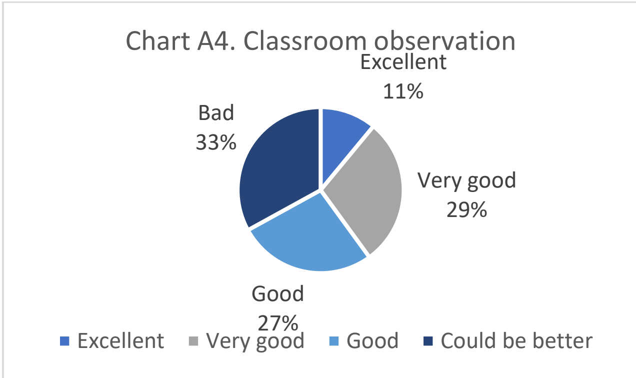
Chart A3. Average public school teachers' salary, by year



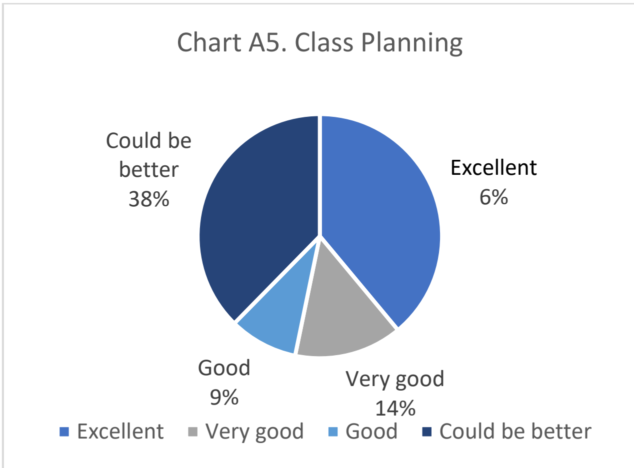
Source: Dominican Ministry of Education

The Teacher Performance Evaluation is part of a comprehensive system that encompasses a set of mechanisms to define the degree to which people contribute to the achievement of the professional standards required for the position they occupy. This assessment was carried out in 2017 by the Dominican Institute for Research and Evaluation of Educational Quality (IDEICE) and the Organization of Ibero-American States for Education (OEI).

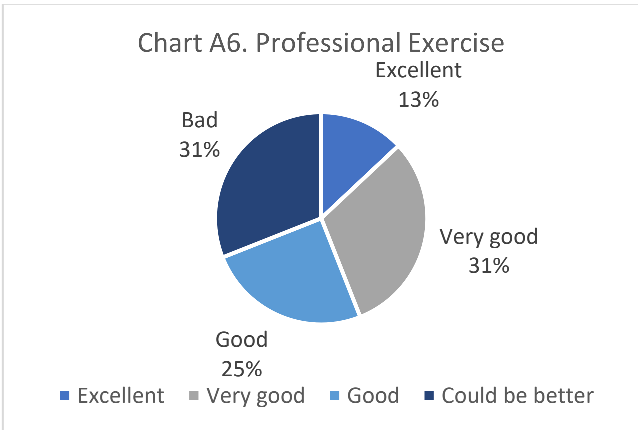
The assessment oversaw five performance dimensions: 1) Professional Exercise, 2) Class Planning, 3) Classroom Observation, 4) Teachers' Self-evaluation and 5) Director's Evaluation. In each dimension, aspects considered valuable for the achievement of appropriate learning achievements by the students were evaluated. As a result of the evaluation, each teacher received a grade on a scale of 0 to 100 points. On average, teachers obtained 74.5 points in the Classroom Observation dimension, 66.2 in Class Planning and 72.8 in Professional Exercise.



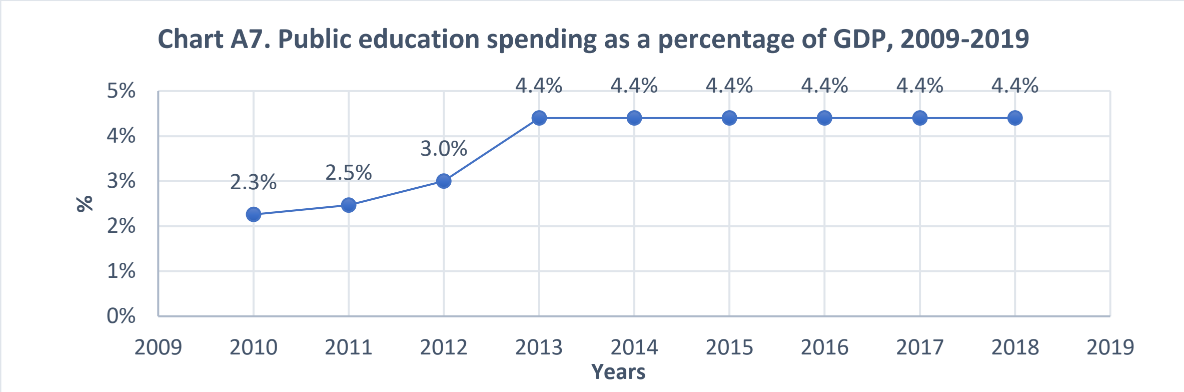
Source: Dominican Ministry of Education



Source: Dominican Ministry of Education



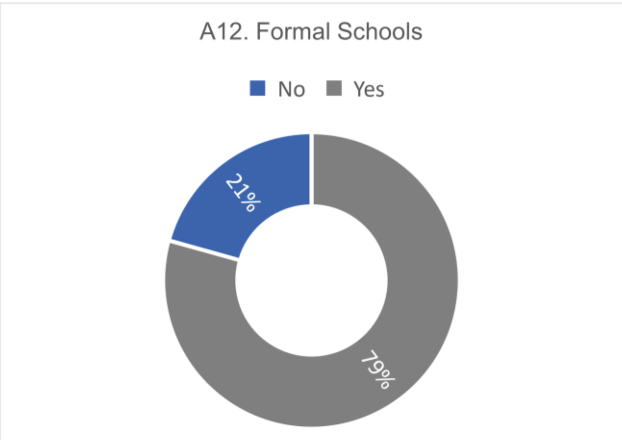
Source: Dominican Ministry of Education

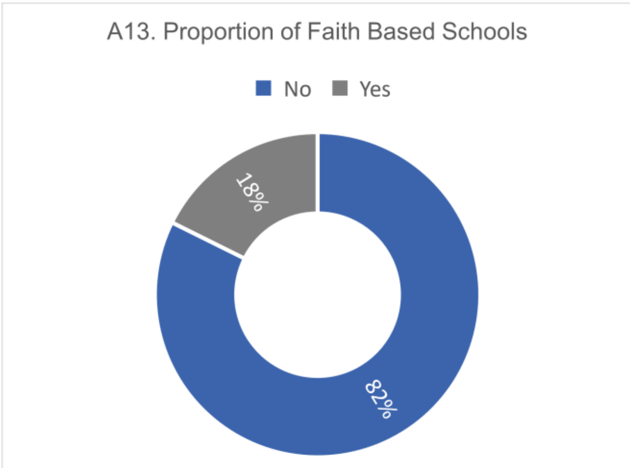


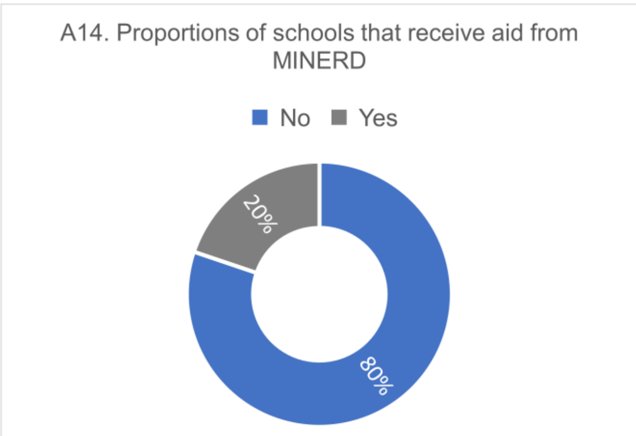
Source: information extracted from the following link http://www.ministeriodeeducacion.gob.do/transparencia/media/presupuesto/consideraciones-presupuestarias-minerd/consideraciones-presupuesto-2018-ministerio-de-educacionpdf.pdf

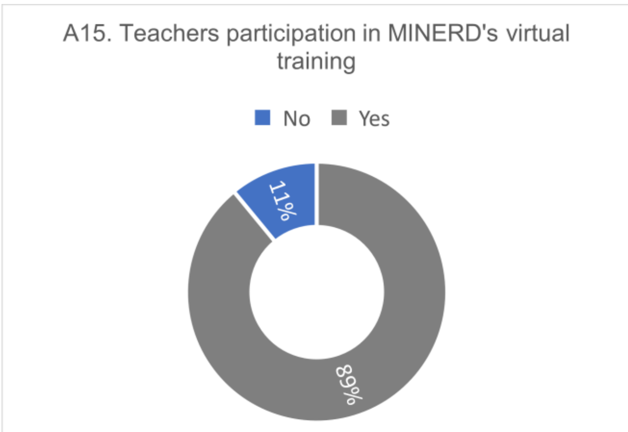
Annex IV. Summary Results from School Survey

Using databases from SIGERD and the Diagnostic Tests (3rd, 6th and 9th), we developed a sampling frame of private schools nationwide whose average socioeconomic index was not in the 5th quintile. The selected sample was stratified by whether the school offered initial level, and the sample allocation was proportion. The sample confidence interval was 95% and error margin 5.75%. The effective sample was 280 schools.









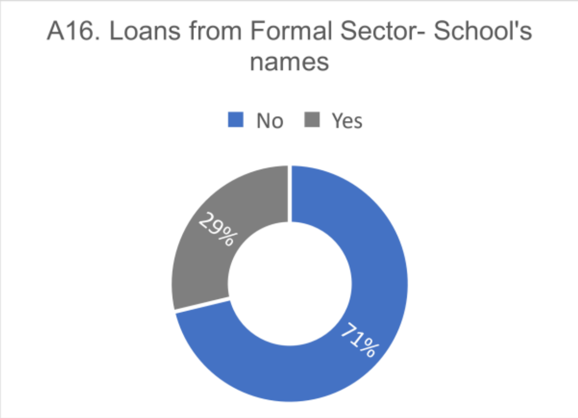


Table A12. Purpose for the formal loan	%
Purchase of equipment and furniture	21%
Cover payment default	2%
Current expenses	9%
COVID- 19 lost	4%
Investment in infrastructure	61%

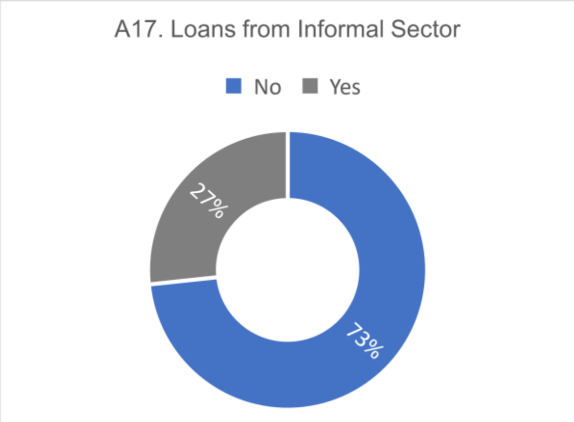
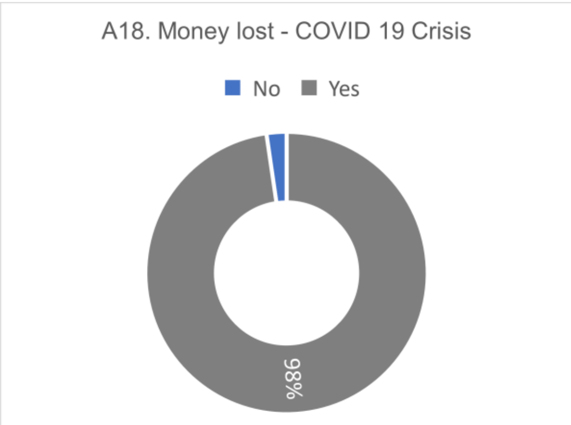
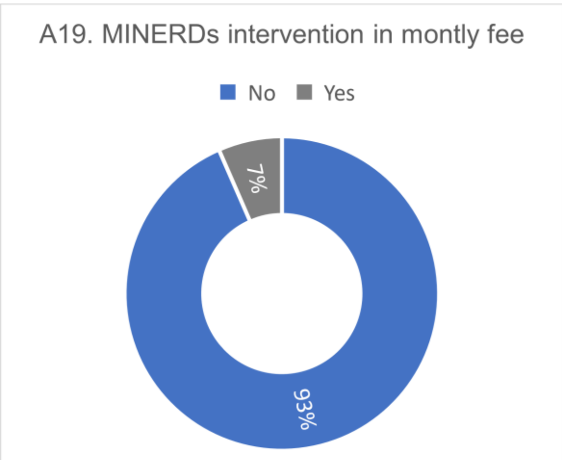
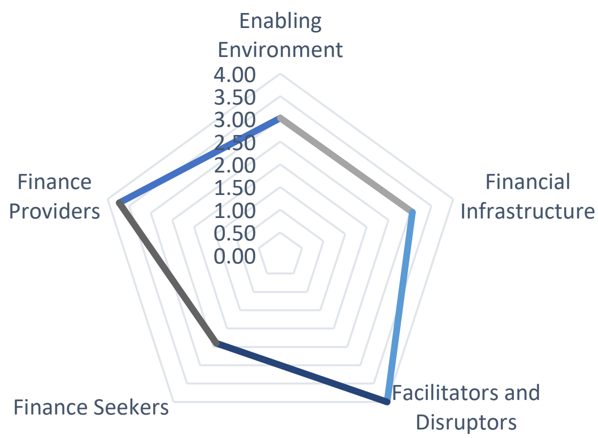


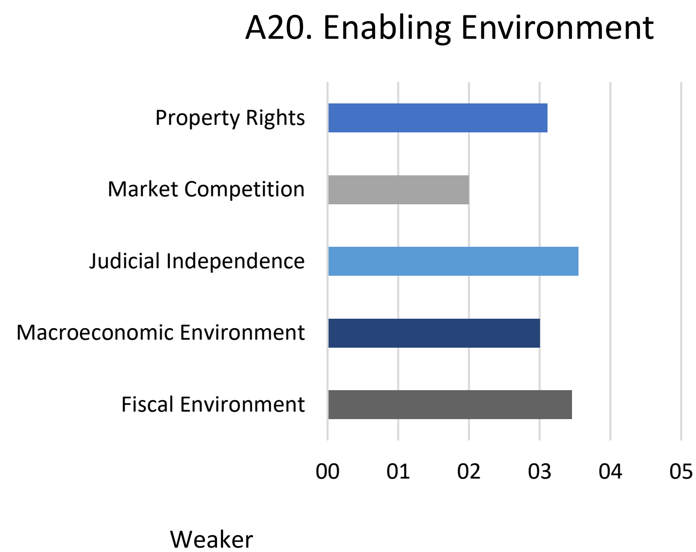
Table A13. Purpose of the informal loan	%
Purchase of equipment and furniture	15%
Purchase of School's land	3%
COVID- 19 lost	2%
Investment in infrastructure	72%
Current expenses	7%

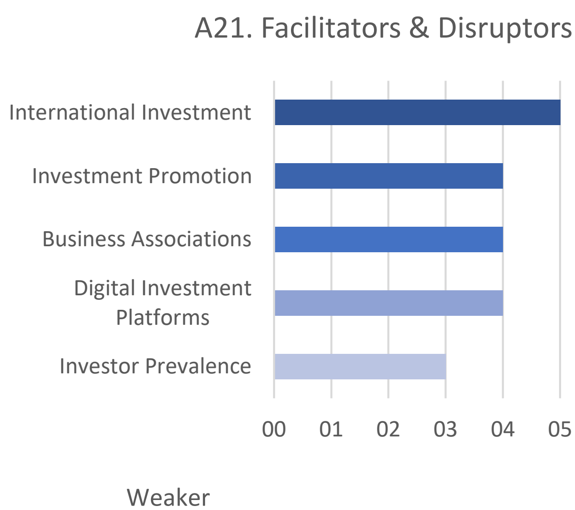


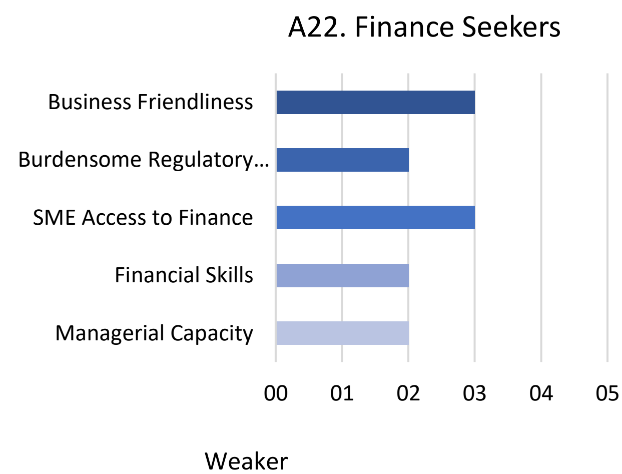


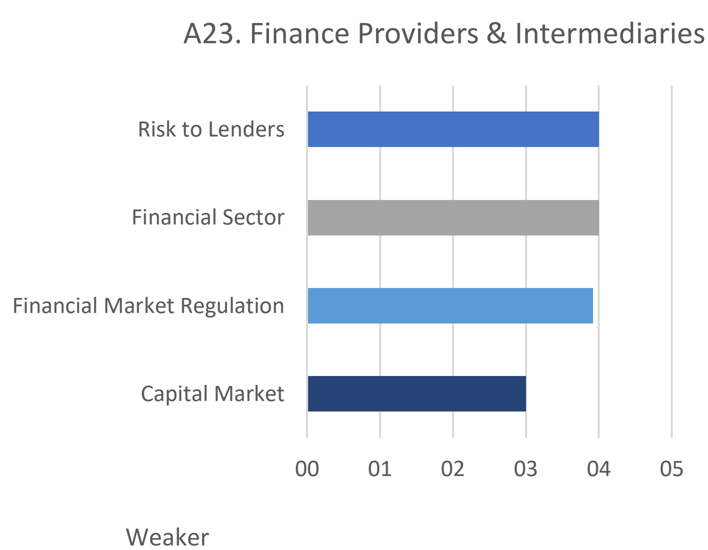
Annex V. Five point framework diagnostic results











Annex VI. Case Studies

Case study 1: Low cost confessional school

School name:	Colegio Getsemaní
Location:	Barrio Prosperidad, Bonao
Classifications:	Very-Low cost, receives government support, Monoligual-Spanish, Confessional-Catholic, low income students.
Status:	Recognized and formal
Tuition:	DOP$12,600 (yearly) + enrollment fee
Informant:	Sor Genoveva García, School principal

Colegio Getsemaní was founded 52 years ago by the Sisters of the Sacred Heart of Jesus (SSHJ) in the municipality of Bonao located in Monseñor Nouel, a northern province of the country. In their beginnings, they used to be located in a neighborhood that lacked sufficient public schools to support low-income families. However, after 25 years of operations, the neighborhood's public schools and income levels improved, motivating them to move to a more economically deprived area. Nowadays, the Colegio Getsemaí teaches in the three instruction levels (initial, primary, and secondary) in two 4-hour schedules, mornings, and afternoons. The school feels that the community has a positive perception of the school, and often they have to reject children because they don't have the space to receive. The SSHJ owns several institutions with similar characteristics in the country, and they share resources donated to the organization, which represent a small proportion of their income.

The school typically receives 660 students; however, due to the pandemic, they only received 300 for the school year 2020-2021. The school has 28 teachers, three academic coordinators, four school psychologists, and administrative/academic director, an accountant, a cashier, a secretary, a doorman, and concierges. Important administrative decisions are taken jointly with other principals of the congregation.

Although a private institution, they receive 110 students each year that don't pay tuition. In exchange, MINERD pays some of their teachers' salaries and provides them school breakfast and afternoon snacks. The schools' main income source is the tuition, and their largest costs are payroll and building maintenance. The main challenge they face is late payments; **previous to COVID-19 almost 40% of parents were often late with payments**. This situation was exacerbated with the pandemic, with most parents not paying tuition. The principal had to create a discount system to encourage parents to pay and enroll their children for the new school year**. She also highlighted that they lost almost half of their enrollment, but that parents were only switching to the public sector to receive technological equipment that the government was offering. She says they have requested her to save a space for their children in the next year and keep calling her regularly to insist on the request.**

The SSHJ is a private institution, and as such, they can take loans if they decide to. Moreover, their administration does not prevent them from taking loans, although it is not frequent. However**, the school principal considers that they cannot afford the market's interest rates and instead prefers to save up tuition income to afford their needs.** For instance, before COVID-19 they were saving up to expand their infrastructure, but they had to use that money to pay teachers and invest in technological capacity for the school year 2020-2021. The administration reported that they spent over DOP$150,000 only improving the internet reception to give online classes from the school and prevent technical incidents that might occur if they work from their houses (poor internet reception, energy shortages).

The institution is nonprofit, so all of their income goes to fund operational activities. The school principal is a teacher, but she relies on financial professionals from the congregation to develop business plans and financial projections if interested.

Case study 2: Low cost – non-confessional school

School name:	Colegio Central
Location:	Herrera, Santo Domingo
Classifications:	Very-Low-Cost, does not receive government support, Monolingual-Spanish, non-confessional, low-income students.
Status:	Recognized and formal
Tuition:	DOP$27,000- DOP$31,500 (yearly) + enrollment fee
Informant:	Ursula Veloz, School principal and founder

The Colegio Central was founded by a Social Sciences teacher who recently graduated from college. **She started with the school in 1982 in her living room, and by 1984 she got recognition from the MINERD, which she considers "was easier back then".** She was motivated to start this business because there were no school buildings in her community, and parents willing to enroll their students had to do so very far away from their homes. Her husband later joined her in the business, and today he is the school's administrative director, while she acts as academic director. **Although she started receiving students at the initial level, as children were promoted, she began adding grades.** In 1992, they built the facility in which they run their business today. There they offer the three levels of instruction (Initial, Primary, and Secondary).

The school receives a range between 600 to 800 students each year. Due to the pandemic they only received 315 for the school year 2020-2021. The school has 16 "classroom teachers" and 5 visiting teachers (that teach English, Arts and Civics in several grades), three academic coordinators, an administrative assistant, a secretary, a doorman, and concierges for a payroll of 30 individuals.

Public school reforms have hit the school hard in terms of teachers' availability, because the public sector pays almost twice of what they can afford to pay. **Hence, they have lost up to five teachers at once in the middle of a school year, leaving them in a desperate position to hire underqualified individuals.** However, they did not lose students due to the reform as the community they serve is highly populated and public schools are not sufficient. The main enrollment loss in their history was experienced last year due to the pandemic.

The schools' main source of income is tuition, which is differentiated by level of instruction and charged in monthly installments. Their largest operational cost and concern is the payroll, which represents 71% of their total expenses. Over 50% of parents are always late with tuition, even before the pandemic. Late payments are a major stress for the administration, because this affects their ability to pay teachers on time and, thus, threatens them to lose personnel. The principal has taken informal loans from family members, on several occasions, to pay salaries. **The pandemic worsened this situation with 35% of parents still owing months from last year.** The principal highlights that she never retains students' documents as she is aware it is illegal and supports the rationale of the Children's Protection Law 136-00. However, she has made parents sign notarized payment agreements, although unsuccessfully.

Due to the COVID-19, they had to adapt to the schools' technological capacity. That effort entailed to buy new computers, train teachers, and increase their internet capacity. The school has taken several loans in the past, but under the owners' name as they don't believe they would be granted loans of the size they need if they use the schools' names. The owner highlighted that microlenders that offer loans to schools such as CoopAspire, Fondesa, and Ademi, have higher interest rates, and their amount is insufficient.

Case study 3: Very low cost school – emphasis on preschool

School name:	Maternal Tía Pancha
Location:	Los Mina, Santo Domingo
Classifications:	Very-Low-Cost, does not receive government support, Monolingual-Spanish, non-confessional, low-income students.
Status:	Recognized and formal
Tuition:	DOP$9,000 (yearly) + enrollment fee
Informant:	Milagros Díaz, School principal and founder

The Maternal Tía Pancha is a preschool located in the neighborhood of Los Mina, a low-income community within the Santo Domingo Province. **The school started in 1992 in the principals´ living room until 2005 when they rented a space given their community success.** In the beginning, they started with second-hand furniture that the principal had to paint and repair herself. She also had to distribute ads around the neighborhood by herself and only had one employee. As of today, the school receives students from the initial level and elementary up to 3rd grade. Before the COVID-19, the school received between 100-120 and had nine teachers, a secretary, an accountant, and concierges. The school has never received any form of financial support; however, they have received technical support.

The institutions' main source of income is tuition, and their main costs are payroll and utilities (Water, electricity, telephone, internet, among others.). **COVID-19 dramatically affected the end of the school year 2019-2020, with most parents not paying tuition after March 2020**. The principal has given discounts, and payment plans for parents but the efforts have not succeeded. Parents tell her they do not have the time to help students take classes at home and thus don't perceive the value of continuing with school. As a result, for the school year 2020-2021 the Maternal Tia Pancha only received 31 children. Most students are in 2nd grade, and parents are worried about literacy and reading distance learning, so they made an effort to continue with classes. Under this scenario, the principal thinks laid-offs are imminent. Due to the lack of payments last year, the principal couldn't make infrastructure investments for this year. Thus, teachers are preparing materials weekly and giving them to parents with instructions each Friday.

When assessing the Maternal Tía Pancha's future, management will make efforts to finish the school year, as they think that after COVID-19 passes, they will recover. The school has studied that most parents in the community have lost their job temporarily or permanently. Thus, they would be willing to accommodate them to return to school next year. These accommodations may include forgetting last year´s missing payments. Moreover, some of the children enrolled this year are not paying tuition.

The school has taken loans in the past through the Banca Solidaria and Banreservas to buy furniture and meet payroll payments. However, these loans were taken under the owners´ names not the institutions. **The school is currently looking for credit opportunities to recover from last years´ hit. The owner is aware of opportunities available for her, such as Banca Solidaria and Adopem. Although the school is formal, the principal believes she could reach better rates if taking a loan under her name**.

Case study 4: Mid cost school – emphasis on preschool

School name:	Colegio Enmanuel
Location:	San Gerónimo, Santo Domingo
Classifications:	Mid-cost, does not receive government support, Monolingual-Spanish, Confessional Evangelical, middle -income students.
Status:	Recognized and formal
Tuition:	Initial- DOP$45,000 (yearly) + enrollment fee Primary – DOP$58,500 (yearly) + enrollment fee Secondary – DOP $67,500 (yearly) + enrollment fee
Informant:	Ana Margarita, Academic coordinator, and daughter of the owner/founder

The school opened in 1983 in the living room of the owner's house teaching Initial level grades. By 1993, the owner took a loan and developed the building they have today, which abides all MINERD's regulations. The building today has 14 classrooms, a cafeteria, sports facility, and an informatics laboratory (MINERD's requirement). The school has expanded since his its founding and now offers the three levels of instruction (Initial, Primary, and Secondary) and promotes Christian values, although it teaches MINERD's approved curriculum without modifications.

Currently, the school receives 110 students, and has 28 teachers. Additionally, the school's payroll an Academic Director, an Administrative Director, an Accountant, a Secretary, a Receptionist, an Academic Coordinator. Their main cost is the payroll which represents around 90% of all the income they receive. The other relevant expenses are taxes, and maintenance, which entails a thorough repair at the beginning of the year. They have reduced expenses in professional development in the past years thanks to training programs offered at preferential rates by the school association they are affiliated (Ainep and Christian School Association). Their main operational challenge relates to parents miss and delayed payments. **By November each school year, already aprox. 40% of parents are either late with their monthly payments or not paying at all.** Although they recognize the students' rights and do not retain documents, the make parents sign a notarized agreement, which make them liable even after the school year ends. The usage of notarized agreements has improved delinquency rates over the years, but still today most parents that leave the school with debt, never repay it. The school owner has a good relationship with other Christian schools of the district and are in constant communication debating strategies to avoid parents who have debts in other schools. They have identified that parents with debts, often move their children to another Christian school instead of to a Public school, and frequently also leave debt in the new school. They believe MINERD and the school associations should join efforts to regulate this behavior and not allow them to continue these practices. **Another major inconvenience the school is facing is that teachers are going to the public sector, noting that in the school year 2017 they lost 5 teachers at the same time in the middle of a school year.** Teachers continue to move to the public sector each year.

The school has taken loans several times throughout its history, mainly with the purpose of expanding infrastructure. For the first 20 years of existence those loans were taken to the name of the founder and used her assets as collateral (i.e her house). They noted that back then, opportunities to get loans were even more reduced than today. Nowadays, due to the schools' long-term relationship with a traditional Universal Bank, they can access to loans directly to the schools' name. In recent years, they have taken consumption loans, and mortgages to finance operations and to expand infrastructure. **They often use their building as debt collateral and feel they have been able to access competitive interest rates. They know what microcredit institutions lend to schools (Fondesa, Adopem and CoopAspire), however, they no longer use microcredits and prefer to take loans in traditional banks, where they can get lower rates, although they believe the rates are higher when compared to other businesses taking loans in traditional financial institution under similar conditions.** They cite as the major inconvenience to take these loans that paperwork requirements are exhausting even for them that have all their saving accounts in the same institution, they take the loans. They also cite the building appraisal process to be tedious and time consuming.

Case study 5: BANCO ADOPEM - MFI providing loans to private schools

MFI name:	Banco Adopem
Classifications:	MicroFinance Institution, Savings and Credit
Informant:	Mercedes Canalda de Beras-Goico, Vice-president and daughter of the founder

Adopem foundation was founded in 1982 by Mercedes Canalda as a non-profit microcredit institution focused on financial inclusion for women, who at the time couldn't access credit without their husbands' signature. In the year 2000, they opened the doors for men, and in 2004 they founded Banco Adopem, a Savings and Credit institution. Creating the Bank was motivated by the need exceeding the goal of financial inclusion (access to a one-time credit), achieving bancarization (having and using financial products regularly, and being included in credit bureaus). The founder of Adopem foundation remained as president of the foundation, while her daughter Mercedes Canalda de Beras-Goico would be the first president of Banco Adopem. Their philosophy is to guide clients to responsible personal finances without taking more loans than what they need. Banco Adopem now has 70 branches nationwide and around 400,000 clients. They only lend money for productive purposes; consumption loans are not part of their offer.

Their clients' average highest education level is 6th grade of Primary education, 70% are women, and 40% live in rural settings. Banco Adopem adapted to the reality of the population they serve in two ways: 1) strategically locating their branches in urban marginal, rural and rural isolated settings and 2) designed a model of agents, training them to deal with their target population, which are low-income individuals and microbusinesses. Their agents are trained to develop a balance sheet along with their clients, interviewing them on their income and expenses, and visiting and observing their operations and inventory. Training agents has an elevated cost, as sometimes they are part of the same community their branches serve and do not have a bachelors' degree, which is intentional. An agent can spend several years in the institution as "Relevo," a trainee position before becoming an agent officially. The current government program for Micro Credits, Banca Solidaria, has become their competition, often recruiting their agents and locating in the same places it has taken them years to identify as strategic.

Banco Adopem uses funds from its passive accounts to lend to its clients, as well as from the government and international cooperation agencies. They have programs with the European Investment Bank (EIB), Opportunity International, OikoCredit, among others. They have partnered with the Dominican Attorney General's office to offer loans to women victims of Domestic Violence, with Nestle to provide loans for Micro Franchises in inner neighborhoods, with the Municipality to lend to fruit market stand owners in markets around the city, among several others. They also noted that some large business of the country had moved their corporate accounts to Adopem, requiring them to use their funds to lend to specific population groups (i.e, women owning beauty salons). With these funds, they now offer over 20 micro-finance products, each meeting the specific needs of a section of the market and each with its own interest rate. **They define their interest rates as a function of three factors: 1) the cost of the funds they are lending (which varies depending on the source), 2) administrative costs, and 3) Margin spread as allowed by the Banks Superintendency**. Their administrative costs are higher than those from other financial institutions as their clients cannot complete all the information that Anti-Money Laundering regulations require in the country. The due diligence process is time-consuming with any client and particularly time-consuming with microbusinesses and low-income individuals. Their typical rate currently oscillates between 18-26%.

The application process for a client includes assistance from the agent in developing balance sheets and situational analysis shared with the customer. They also assess their credit behavior using contracts from phone companies and bureau history; however, they don't use it as predictive models and rather trust more in their agents' and the assessment they conduct. Delinquency rates for the institution are below 3%, although COVID-19 will make it go up. COVID-19 has also made them close branches, although they have not laid off their personnel.

Banco Adopem has a long history of lending money to private schools located in marginalized neighborhoods, as well as lending to ancillary services, mainly Salas de Tarea**. They currently have over 2,000 clients who either own a school or a Sala de Tarea, 98% females. Some of their current clients have taken loans several times with them**. The loan's main objective is often to cover for improvements, buy computers, and repair furniture. Evaluating a school is similar to any other business and often entails visiting the school while in classes to assess how many children they receive and how the loan would help them.

Although they don't offer a specific product addressed at private schools, they have plans to develop them in the near future. In particular, they want to partner with Claro (the largest phone company in the country), offer them loans to buy technological equipment, and improve their internet access, which would be crucial for distance learning in the context of COVID-19. The program is still in plans, but they understand it is crucial to prevent the low-cost market from collapsing and not being able to compete, depriving families of the much-needed service. Overall, they are interested in evaluating alternatives to prevent private schools from collapsing, especially their clients; some have been their clients for over ten years.

The Bank also considers these private school loans to be of high quality and deem the overall repayment culture of microbusinesses in the Dominican Republic as "Exceptional". The Vice President serves as the president of Redomif and has trained and advised MFIs in other parts countries' of central America and the

Caribbean. When analyzing and comparing those countries' realities to their reality in Adopem, she believes traditional banks' assessments of microbusinesses are inaccurate. She believes the key to lending to Microbusinesses is assessing their true credit capacity and not "over-lending" them.

Banco Adopem has a specific product to finance higher education programs. The product can be used to finance vocational training education, 2-year college programs, and 4-college programs. The loan includes a mentoring program to facilitate students' insertion in the labor market.