

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

**PROGRAM FOR THE DEVELOPMENT OF
COMPETITIVE ADVANTAGES**

INNOVATION LOAN

(DR-0152)

PROJECT REPORT

This document was prepared by the project team consisting of: Martin Chrisney (RE2/FI2), Project Team Leader; Alejandro Prada (RE2/FI2); José Juan Gomes, (RE2/OD3); Diego Belmonte (RE2/FI2); Julian Cruz (COF/CDR), Armando Chamorro (COF/CDR); Miguel Coronado (LEG/OPR); and Yolanda Galaz (RE2/FI2).

CONTENTS

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Competitiveness and the economic environment.....	1
B.	Sector challenges.....	1
C.	Consensus-building on competitiveness policies	2
D.	Environmental and social aspects of competitiveness	3
E.	The country's sector strategy.....	4
F.	The Bank's sector strategy.....	5
G.	Rationale for the innovation loan	6
II.	THE PROGRAM	7
A.	Program objectives.....	7
B.	Program description and components.....	7
C.	Cost and financing	10
D.	Poverty-targeting and social sector classification.....	12
III.	EXECUTION OF THE PROGRAM.....	13
A.	Borrower and executing agency	13
B.	Functions and activities of participating bodies	14
C.	Procurement of goods and services	19
D.	Execution period and disbursement schedule.....	19
E.	Monitoring and evaluation.....	20
F.	Audits and transparency.....	20
IV.	BENEFITS, RISKS, AND VIABILITY	22
A.	Benefits.....	22
B.	Risks	22
C.	Environmental and social management program	24
D.	Institutional viability of the program	24

ANNEXES

Annex I	Logical framework
Annex II	Procurement plan

BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

ABBREVIATIONS

CCS	Competitive cluster strategy
CNC	National Competitiveness Council
CONEP	Private Enterprise Council
EPZs	Export processing zones
FONDEC	Competitiveness Fund
OC	Ordinary Capital
PNC	National Competitiveness Program
SCS	Sector competitiveness strategy
SEIC	State Secretariat for Industry and Commerce
SMEs	Small and medium-sized enterprises



DOMINICAN REPUBLIC

IDB LOANS

APPROVED AS OF JUNE 30, 2003

	US\$Thousand	Percent
TOTAL APPROVED	2,283,623	
DISBURSED	1,738,808	76.14 %
UNDISBURSED BALANCE	544,815	23.85 %
CANCELATIONS	562,246	24.62 %
PRINCIPAL COLLECTED	666,073	29.16 %
APPROVED BY FUND		
ORDINARY CAPITAL	1,488,369	65.17 %
FUND FOR SPECIAL OPERATIONS	708,848	31.04 %
OTHER FUNDS	86,405	3.78 %
OUTSTANDING DEBT BALANCE	1,072,735	
ORDINARY CAPITAL	648,873	60.48 %
FUND FOR SPECIAL OPERATIONS	416,058	38.78 %
OTHER FUNDS	7,803	0.72 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	509,932	22.32 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	130,175	5.70 %
ENERGY	339,744	14.87 %
TRANSPORTATION AND COMMUNICATIONS	232,431	10.17 %
EDUCATION	253,396	11.09 %
HEALTH AND SANITATION	185,324	8.11 %
ENVIRONMENT	0	0.00 %
URBAN DEVELOPMENT	33,021	1.44 %
SOCIAL INVESTMENT AND MICROENTERPRISE	335,860	14.70 %
REFORM AND PUBLIC SECTOR MODERNIZATION	188,738	8.26 %
EXPORT FINANCING	20,296	0.88 %
PREINVESTMENT AND OTHER	54,706	2.39 %

* Net of cancellations with monetary adjustments and export financing loan collections.



DOMINICAN REPUBLIC

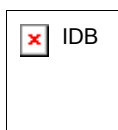
STATUS OF LOANS IN EXECUTION

AS OF JUNE 30, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	2	104,000	78,597	75.57 %
1997 - 1998	6	265,460	162,052	61.05 %
1999 - 2000	5	183,700	16,788	9.14 %
2001 - 2002	3	335,000	100,502	30.00 %
2003	1	5,000	0	0.00 %
TOTAL	17	\$893,160	\$357,939	40.08 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Dominican Republic

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
DR0146	Pensional Reform Implementation	5.0	APPROVED
DR0152	Competitiveness Promotion Program	9.0	
DR0151	Financial Reform Consolidation Sector Program	106.0	
DR0159	Sustainable and Protection of Social Reforms	150.0	
Total - A : 4 Projects		270.0	
DR0149	Inform. Society's Institutional Develop	5.4	
DR0148	Sector Facility for Foreign Trade	5.0	
Total - B : 2 Projects		10.4	
TOTAL 2003 : 6 Projects		280.4	

2004

Project Number	Project Name	IDB US\$ Millions	Status
DR0141	Housing Program	30.0	
DR0156	Public Investment Project strengthening Management	5.0	
DR0154	Tertiary Education Improvement	34.0	
DR0143	Rehabilitation Historical Center Sto Domingo	50.0	
DR0153	Inst. Strengthening for Local Development (Phase I)	26.4	
Total - A : 5 Projects		145.4	
DR0076	Social Welfare Sector Reform	5.0	
DR0127	Municipal Governments Development	30.0	
DR0142	Credit Global Program	30.0	
DR0157	Fiscal Modernization Program	5.0	
Total - B : 4 Projects		70.0	
TOTAL - 2004 : 9 Projects		215.4	

Total Private Sector 2003 - 2004 **0.0**
Total Regular Program 2003 - 2004 **495.8**

*** Private Sector Project**

PROGRAM FOR THE DEVELOPMENT OF COMPETITIVE ADVANTAGES

(DR-0152)

EXECUTIVE SUMMARY

Borrower and guarantor:	Dominican Republic	
Executing agency:	State Secretariat for Industry and Commerce [Secretaría de Estado de Industria y Comercio] (SEIC)	
Amount and source:	IDB: (OC)	US\$ 9.40 million
	Local contribution	US\$ 4.10 million
	- Public sector	US\$ 3.05 million
	- Private sector	US\$ 1.05 million
	Total:	US\$13.50 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	36 months
	Execution period:	30 months
	Disbursement period:	36 months
	Interest rate:	LIBOR
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	US dollars drawn from the OC Single Currency Facility.
Objectives:	The program's overall objective is to contribute to sustainable economic growth in the Dominican Republic by improving the business climate and increasing inter-firm associativity. Its specific purposes are to set in motion a participatory consensus-building process focusing on policies and strategies for boosting competitiveness and to undertake associative ventures that will foster competitiveness in firms (including small-scale businesses) in the manufacturing, export-processing, agribusiness, and tourism sectors.	
Description:	The program components include activities designed to: (i) strengthen consensus-building mechanisms for the public and private sectors under the National Competitiveness Program [Programa Nacional de Competitividad] (PNC) and its National Competitiveness Council [Consejo Nacional de Competitividad] (CNC); (ii) provide technical assistance in promoting associativity in	

key private-sector industries; and (iii) promote competitiveness-enhancing activities by cofinancing eligible projects.

Component 1: Strengthening dialogue and building consensus on competitiveness policies (US\$1,425,000). This component will include a series of activities aimed at identifying and removing barriers to competitiveness in selected sectors. To this end, the component will finance: (i) baseline studies to identify the structural weaknesses and strengths of Dominican firms and the country's economy as a whole and to determine what kinds of tools and policies can be used to boost sector competitiveness; (ii) workshops focusing on best practices for competitiveness and on strengthening the CNC; (iii) dialogues and consultations with key stakeholders in each sector aimed at reaching agreement on the action to be taken and submitting recommendations to the senior management; and (iv) the use of various media to disseminate information to the public on the PNC and its strategies. A series of instruments will be developed and used to translate the outcomes of this dialogue and consensus between the private and public sectors into concrete measures, together with sector competitiveness strategies (SCSs) and competitiveness pacts at the national level.

Component 2: Formation of clusters and provision of specialized technical assistance (US\$745,000). This component will finance: (i) technical assistance in identifying, configuring and starting up clusters; (ii) the development of cluster service providers; and (iii) the promotion of social/environmental capital. The formation of approximately 15-20 clusters is planned. The program will be open to other groups that wish to form clusters so long as they abide by the Operating Regulations.

The program will furnish technical assistance to facilitate the formation and development of clusters. In order to expand the supply of cluster services, it will also provide guidance to trainers and consultants in the areas of associativity, strategic planning, and competitiveness. Financing will be furnished for specialized technical assistance in subject areas relating to corporate social responsibility as part of an approach focusing on environmental and social competitiveness. Through the provision of specialized technical assistance, the program will also promote and cofinance projects, processes, and/or initiatives with the private sector in areas such as: ecoefficiency, environmental and social corporate management tools and systems, the identification of new market niches or opportunities for the sector and its positioning in those areas; the promotion of environmentally sustainable activities that will give the private sector better market access; and the

modernization and implementation of socio-environmental regulations.

Component 3: Competitiveness Fund (FONDEC) (US\$8,562,000). This component will finance the implementation of the activities outlined in the various strategies and pacts agreed upon by the public and private sectors, together with measures for improving the clusters' competitiveness at the company level. The aim of this component will be to finance matching grants for projects that will augment and/or diversify exports of goods and services. In order to ensure the program's effectiveness and incorporate the lessons to be learned, program activities will be evaluated and monitored from the very outset. To that end, a system for measuring the program's impact in all its spheres of action will be designed and implemented. Steps will be taken to closely monitor: (i) the quality of the services provided by consultants and outsourced firms; (ii) how well FONDEC is administered; and (iii) the impact of the goods and service export activities undertaken by firms in the clusters and of changes in the business climate brought about by the program.

Rationale for the innovation project

The program provides for innovative approaches in various areas. Generally speaking, it will entail the use of innovative tools to facilitate consensus-building by the public and private sectors with regard to their vision of sector competitiveness and the changes needed to translate that vision into concrete action. Matching grants will be used to create a flexible, efficient mechanism for formulating and implementing measures to promote competitiveness. In addition, the program will provide incentives for the development of joint projects involving elements of corporate social responsibility that will yield social and environmental benefits as well as helping to boost the firms' financial returns. In order to ensure the program's effectiveness and incorporate the lessons to be learned, program activities will be evaluated and monitored from the very outset. If the program model proves capable of producing concrete results in terms of productivity gains at the company level and policy changes and reforms, then consideration could be given to expanding these activities.

The Bank's country and sector strategy:

On 25 July 2001 the Bank approved its country strategy (country paper) for 2001-2003. This strategy is designed to: (i) resolve persistent macroeconomic and financial fragilities; (ii) put public finances on a sounder footing so that the country can mobilize the resources and achieve the economies needed to improve the provision of social services and help overcome poverty; (iii) eliminate the bottlenecks that hinder the performance of production sectors; (iv) strengthen the country's capacity for environmental protection and for natural-disaster prevention,

mitigation, and relief; and (v) build up administrative and political institutional capacity to meet social demands. This program is therefore consistent with strategic vector (iii).

Coordination with other multilateral development agencies:

The proposed program will capitalize upon the many lessons learned by the United States Agency for International Development (USAID) in the course of its efforts to foster strategic public-private partnerships for the promotion of competitiveness. The program is not intended to replace or compete with the efforts of other agencies. On the contrary, clearly defined links will be established with such projects during the program's preparation in coordination with the CNC and through the active participation of those programs' executing agencies in order to reinforce the synergies and complementarity of these activities and the proposed program (see paragraph. 1.14)

Environmental and social review:

The operation's environmental feasibility is ensured by the fact that: (i) it will not generate any direct environmental impacts; and (ii) environmental considerations are an integral part of the program's components, which are designed to ensure that the program activities promote environmental sustainability.

Benefits:

The program will seek to produce measurable impacts at its various operational levels: (i) activities relating to business clusters are expected to impact exports by expanding the volume of products and services or by increasing their value added through the introduction of changes in production and/or marketing; (ii) in the area of public-private dialogue and consensus-building, the program will have a direct impact through the creation of new mechanisms for reaching consensus and agreeing upon competitiveness policies; and (iii) through the initiation of these processes and the establishment of an effective institutional structure, the program can be forged into a tool for policy-making and consensus-building in other sectors, thereby permitting the identification of new projects and further structural reforms that will enjoy broad public and private support.

Risks:

The program's prospects for success are based on the assumption that macroeconomic stability will be maintained, thereby allowing its outputs in terms of specific reforms and increased competitiveness on the part of business clusters to have a sustainable impact. It will also be important to consolidate the political will on the part of the public and private sector to coordinate their efforts to boost competitiveness. To ensure that such political will is forthcoming, the program provides for the participation of both public and private stakeholders at all levels, from the CNC to the clusters themselves. By designing and implementing new systems to help the public and private sectors to establish shared objectives and responsibilities, the

program will strengthen stakeholders' commitment to the success of the PNC.

The success of the FONDEC component will hinge upon whether or not sufficient demand is generated by its potential beneficiaries. The program will be designed to be flexible enough so that the allocations for its various areas of activity can be adjusted and, if necessary, more funding can be assigned to areas in which greater effective demand exists. In addition, a wide range of technical and financial inputs for stimulating demand for the program's resources have been prepared (e.g., technical assistance for clusters and differentiated counterpart funding to promote small-scale projects).

A bottleneck may be encountered in the provision of assistance to the clusters owing to the lack of a sufficient number of cluster service providers. In order to mitigate this risk, the program will train independent consultants and will reach inter-agency agreements with other programs serving business groups as a means of establishing comparable standards and common methodologies for the provision of support to business clusters.

Special contractual clauses:

As a condition precedent to the disbursement of funds for the FONDEC component, it must be demonstrated that a consulting firm has been engaged to administer the program (see paragraph 3.8). A midterm review and a final evaluation will be special conditions for execution of the program (see paragraph 3.19). In addition to the conditions normally stipulated for this type of program, a revolving fund equivalent to 10% of the resources will also be required.

Retroactive recognition of expenses:

A maximum of US\$500,000 incurred prior to 15 September 2002 may be recognized retroactively and charged to the local counterpart contribution in connection with expenses relating to (i) preparation of the guidelines for the CNC institutional design; (ii) formulation of the competitiveness strategy; (iii) dissemination of the national competitiveness program; and (iv) technical assistance and training for promoting exports from small and medium-sized businesses provided that conditions substantially similar to those in the prospective loan contract have been satisfied.

Poverty-targeting and social sector classification:

This operation does not qualify as a social-equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI) (see paragraph 2.17).

Exceptions to Bank policy:

None.

Procurement: The procurement of goods and services will be conducted in accordance with Bank policy. Contracts for the procurement of goods for sums of US\$250,000 or more and the engagement of services at a price of US\$200,000 or more will be awarded by means of international competitive bidding. The selection and engagement of a consulting firm to administer the Competitiveness Fund (FONDEC) may be based on the quality and price method, provided that the relative weight assigned to price as a criterion shall not be more than 20% of the total ranking.

I. FRAME OF REFERENCE

A. Competitiveness and the economic environment

- 1.1 In the 1990s, the Dominican Republic's economy expanded rapidly, unemployment declined and inflation slowed. The country's macroeconomic performance was based on a wide-ranging structural adjustment and stabilization program coupled with the furtherance of the trade liberalization process, privatizations and public-sector reforms. In this more stable economic environment, sectors that were more open to international markets flourished. These sectors (e.g., tourism, telecommunications and export processing zones) became the main recipients of foreign direct investment, the principal sources of foreign-exchange earnings, and the economy's major employers. In the second half of the 1990s, these sectors accounted for over 60% of total economic growth and attracted approximately 76% of total foreign direct investment.
- 1.2 Despite the progress that has been made, the business climate is showing the effects of increasing international competition and of the barriers that continue to be generated by institutional constraints and distortions. The less dynamic production sectors, such as agriculture and industrial activities, have stagnated or shrunk in recent years as a consequence of State interventionism, low international prices, and a fragmented production structure. Dynamic sectors, such as the export processing zones and tourism, on the other hand, are faced with the need to diversify their markets and raise their level of competitiveness in order to deal with new world-class competitors.
- 1.3 The economic authorities have recently been faced with serious problems in the banking sector. They were obliged to intervene in the management of one of the country's biggest banks, and the central bank found it necessary to guarantee all public-sector deposits. Although the authorities' strategy has been successful in heading off a systemic crisis, it has had a significant cost in terms of macroeconomic equilibrium and has revealed severe weaknesses in the banking system's regulatory and supervisory mechanisms. The government is now in the process of negotiating a program with the International Monetary Fund with a view to restoring confidence in the country and reestablishing the type of sustainable macroeconomic balance necessary for medium-term economic growth and development.

B. Sector challenges

- 1.4 In a number of sectors, microeconomic constraints hinder growth and productivity gains. In the **agriculture** sector, the State continues to intervene in various activities in which it controls both costs (through the use of import barriers, service subsidies, and interest rates) and earnings (by buying at prices above the border price). The **manufacturing** sector suffers from the atomization of production units and infrastructure and service constraints that impede it from attaining economies of

scale. Because most production units operate on a small scale, they have imperfect access to the technological, business, and market information they would need in order to adopt modern patterns of productivity. In addition, support programs for small and medium-sized enterprises have relied heavily on subsidized credit, which distorts returns to factors.

- 1.5 Competitive pressure is on the rise in the faster-growing sectors, such as tourism and the export processing zones (EPZs), as well. The **EPZs** must stand up to strong competition from producers in other countries, as well as being faced with the prospect of the forthcoming expiration of the Multifibre Arrangement, which will spur international competition. In the near future, the production model based on large-scale manufacturing (to achieve economies of scale) and inexpensive labor will cease to represent a clear comparative advantage for the Dominican Republic since it will be competing with other countries where the scale of production is larger and labor is even cheaper. In the **tourism** sector, the country is also faced with mounting competition at the regional level, together with other structural problems caused by the absence of a State policy on the sustainable development of the sector and the promotion of its competitiveness. The steady decline in the number of people visiting various tourism sites in recent years is a reflection of the continuing deterioration of tourism infrastructure and environmental conditions.
- 1.6 In view of the many initiatives involved in removing barriers to competitiveness and generating competitive advantages, a pressing need is seen for the creation of institutional mechanisms that will permit greater coordination of the key stakeholders' efforts to define the relevant sector policies. It is therefore imperative that the public and private sectors reach a consensus regarding a new approach for making the country's production sectors more competitive. The successful experiences of other countries clearly indicate that concerted efforts to this end should focus on initiatives for improving the business climate and acting as a catalyst for associativity in the private sector. New tools will be needed in this area in order to translate the agreements reached by stakeholders into action. Innovative approaches will also be required to boost firms' productivity so that they can stand up to the increasing competition in local and international markets.

C. Consensus-building on competitiveness policies

- 1.7 In response to the need for a consensus regarding new policies on competitiveness, the government created the National Competitiveness Council (CNC) as an institutional mechanism for pooling the efforts of the government and the private sector to formulate and implement specific action-oriented measures. The CNC was established by presidential decree to define competitive strategies and priorities together with a strategic competitive vision for developing the country's economic potential. The CNC still lacks the institutional underpinnings and funding it needs to fulfill its mandates, however. Nor are the necessary tools yet available for implementing the agreements reached by the private and public sectors regarding a

long-term strategic competitive vision and the corresponding short- and medium-term actions, such as the formulation of competitive export arrangements (see Appendix I). In order to heighten the CNC's effectiveness, the country should develop an efficient and effective institutional process for identifying, with the participation of the private sector, the obstacles that hinder efforts to boost competitiveness, to build a policy-making consensus and to establish commitments concerning joint public/private initiatives.

- 1.8 In addition to the importance of coordinating the public and private sectors' efforts, there is also the challenge of promoting associativity within the private sector. One of the main constraints in many aspects of the country's export production, marketing, and distribution systems is the small size of its production units, which limits their purchasing power, affords them fewer opportunities to position themselves in the global economy, and makes them less likely to undertake collective action. A key factor in the creation of competitive advantages for Dominican firms would be the adoption of modern associative forms of organization that would allow them to increase the efficiency of their production processes, improve the quality of their products and services, and achieve international coverage in marketing and in the identification of new markets, brands and products. This approach has been used successfully in various countries of the region, such as Chile, Colombia, and Mexico, where an awareness has been created of the importance of inter-firm relationships, and programs have been set up to promote the creation of firms and their organization into clusters. In the Dominican Republic, steps are beginning to be taken to foster corporate associativity. The efforts being made in this direction would benefit from greater coordination and from a dialogue at the national and sector levels concerning reforms and policies for the development of clusters.

D. Environmental and social aspects of competitiveness

- 1.9 In addition to the lack of effective coordination between the public and private sectors and the private sector's low degree of associativity, the failure to develop a greater sense of social and environmental responsibility places a further limitation on the country's competitiveness. A shortage of skilled labor or environmental degradation, for example, will have negative repercussions on firms' financial viability. Experience at both the local and international levels demonstrates that corporate social responsibility has become a competitive advantage in the global economy. This type of responsibility encompasses the incorporation of a wide range of policies, practices, and programs into each firm's operations and decision-making processes. It entails changing the entire way in which the firm is managed, including its mission and approach, the work environment, production processes and their environmental impacts, responsible marketing, and the promotion of positive impacts (recruiting from the local community, using local suppliers, encouraging staff to do volunteer work, etc.)

- 1.10 Promising examples of collaboration between businesses and civil society organizations can be found in the Dominican Republic. For example, the Hotel Administrators Association (ASONAHORES) has undertaken clean-up campaigns in small towns located near tourism centers in order to mitigate the environmental impact on these firms' own commercial properties. Some of the investments made by the Dominican ice cream manufacturer Helados Bon are yet another example (see Appendix II). These types of initiatives have generally, however, been confined to the geographical sphere of influence or to the interests and concerns of the firm's board of directors, employees, or customers.
- 1.11 Unfortunately, there are few incentives for the development of corporate social responsibility projects or for experimentation with such initiatives. Because so many different approaches are used by private-sector institutions and agencies, they lack the institutional structure they need to gain access to the necessary knowledge, to secure qualified consultants, and to incorporate the lessons learned in this field. These firms also have limited experience in the preparation of environmental impact assessments.¹

E. The country's sector strategy

- 1.12 In 1998 the National Competitiveness Plan [Plan Nacional de Competitividad] was drawn up and in 2000 the National Competitiveness Strategy [Estrategia Competitiva Nacional] was designed. These efforts led to the launching of the National Competitiveness Program (PNC) in March 2002; the CNC was designated as the oversight agency for this joint public/private venture.² This agency's main objective is to formulate and implement competitive strategies in key production sectors of the Dominican economy. One of its priorities is to identify and develop competitive advantages in the production sectors that contribute the most to the economy; action committees have also been established for each of these sectors (i.e., tourism, agribusiness, local manufacturing and export processing, and small and medium-sized enterprises (SMEs)). Generally speaking, the CNC's lines of action focus on improving the business climate and environment, developing export and trade activities, developing clusters and production chains, and enhancing competitiveness.

¹ Under the provisions of the Environmental Act (Act 64 of 2000), it is mandatory for business enterprises to prepare environmental impact assessments for all new projects. This new requirement is intended to create and disseminate a new type of awareness regarding corporate social responsibility.

² Decree 1091-01 of 3 November 2001, under which the CNC was established; Decree 377-02 of 11 May 2002, which provided for the designation of the members of the CNC, its consultative group and its regional councils; and Decree 975-02, which increased the Council's membership.

F. The Bank's sector strategy

- 1.13 On 25 July 2001 the Bank approved a country strategy (country paper) for 2001-2003. This strategy is aimed at: (i) overcoming persistent macroeconomic and financial fragilities; (ii) putting public finances on a sounder footing so that the country can mobilize the resources and achieve the economies needed to improve the provision of social services and help overcome poverty; (iii) eliminating the bottlenecks that hinder production sectors' performance; (iv) strengthening the country's capacity for environmental protection and for natural-disaster prevention, mitigation, and relief; and (v) building up administrative and political institutions' capacity to meet social demands. This program is therefore consistent with strategic vector (iii). The technical cooperation and loan portfolios both include a number of initiatives for reinforcing a broad-based competitiveness strategy.³ The proposed program provides for activities that will complement a number of other projects that have been approved, as well as the formulation of a strategy that is aligned with those projects and based on the participation of the appropriate executing agencies and government bodies.
- 1.14 Considerable effort has been devoted to ensuring that the Bank's work in the area of competitiveness is coordinated, taking into account the efforts of other donors. Although various entities have made breakthroughs in business competitiveness,⁴ the approach of the program, with its focus on the strategic public-private partnership, is still exceptional. The proposed program will, in particular, capitalize upon the many lessons learned by the United States Agency for International Development (USAID) in the course of its efforts to foster strategic public-private partnerships for the promotion of competitiveness. The program is not intended to replace or compete with the efforts of other agencies. On the contrary, clearly defined links will be established with such projects during the program execution. To this end, the board of directors may enter into interagency agreements to strengthen the CNC as a body coordinating efforts to improve competitiveness and to promote active involvement by the executing agencies of these programs, an action that would reinforce the synergies and complementarity of these activities

³ These operations include the following: Program for Self-Management of Irrigation Systems (905/OC-DR); Program to Support the Transition to Competitive Agriculture (1397/OC-DR); Program for the Modernization of Real Property Adjudication (1079/OC-DR); Labor Training and Modernization Program (1183/OC-DR); Local Road Maintenance and Rehabilitation Program (1114/OC-DR); Program for the Modernization of the Drinking Water and Sanitation Sector (1198/OC-DR); Support Program for the Competitive Development of Export Processing Zones (ATN/SF-7733-DR); Support Program for the Development of the Information Society (ATN/JF-7859-DR); Banking Regulation and Supervision Support Program (ATN/MT-7252-DR); Support Program for Scientific and Technological Advancement (ATN/CT-8050-DR); and the Rural Microfinance Facility (SP/SF-0215-DR).

⁴ A total of 26 projects in the field of competitiveness involving US\$130 million have been identified. These projects are being carried out by the Multilateral Investment Fund (MIF), the World Bank, the German Agency for Technical Cooperation (GTZ), the European Development Fund, the United States Agency for International Development (USAID), and other such bodies.

and the proposed program. The FONDEC component will also be able to receive additional funding from other donors to broaden its scope and temporarily expand its activities.

G. Rationale for the innovation loan

- 1.15 The program addresses one of the main objectives of innovation loans, since it focuses on developing a coordinated process of dialogue and consensus-building by the public and private sectors. It entails a variety of innovative features.
- 1.16 The program will entail the use of innovative tools to facilitate consensus-building by the public and private sectors regarding their vision of sector competitiveness and the changes needed to translate that vision into concrete action. Through the use of matching grants, the Competitiveness Fund (FONDEC) will create a flexible, efficient instrument for designing and implementing measures to foster greater competitiveness. Sector competitiveness strategies (SCSs) that define medium- and long-term actions and competitiveness arrangements that outline strategic short-term activities will be used in an effort to demonstrate the feasibility of collaboration among various stakeholders. With the help of these tools, the program will provide an opportunity for a learning process to take place regarding the effectiveness of these models for building a consensus on competitiveness policies and promoting productivity.
- 1.17 The program will also provide incentives for the preparation of joint projects that will include elements of corporate social responsibility. By the end of the program, these efforts are expected to permit the presentation of concrete, documented cases of projects that not only help firms increase their profitability in financial terms but also yield social and environmental benefits at the same time.
- 1.18 To ensure the program's effectiveness and incorporate the lessons learned, evaluation and monitoring activities will be included from its outset. Independent evaluations will be used to establish baselines at the start of the activities for each cluster, comparative groups will be examined in order to determine the differentiated impacts of the steps taken to boost productivity, and indicators will be defined for the various types of policy reform measures. If the program shows that the model yields concrete benefits in terms of productivity gains at the company level and of policy reforms and changes, consideration could be given to expanding its scope by institutionalizing the competitiveness arrangements, reinforcing the CNC's legal foundations to ensure its continuity, and possibly expanding FONDEC's activities with the help of grants and donations from other public and private institutions. If as expected the program is successful, it will fall to the board of directors as the repository of the program's institutional memory, to lead the process of consensus building in order to provide continuity of institutions, structures, and mechanisms.

II. THE PROGRAM

A. Program objectives

- 2.1 The program's overall objective is to contribute to sustainable economic growth in the Dominican Republic by improving the business climate and increasing inter-firm associativity. Its specific purposes are to set in motion a participatory consensus-building process focusing on policies and strategies for boosting competitiveness and to undertake associative ventures that will foster competitiveness in firms (including small-scale businesses) in the manufacturing, export processing, agribusiness, and tourism sectors.
- 2.2 These activities are expected to generate measurable improvements in competitiveness indices that focus on the business climate and corporate management⁵ together with tangible increases in the production of goods and services and their sale on international markets by program beneficiaries. Its direct effects will reach an estimated 100-200 firms; its indirect impact, via its demonstration effect and policy changes, will be greater.

B. Program description and components

- 2.3 In order to achieve the proposed objective, the following three components and related activities are planned.

Component 1: Strengthening dialogue and consensus-building with regard to competitiveness policies (US\$1,425,000)

- 2.4 This pilot project will focus on the tourism industry, agribusiness, EPZs, and SMEs. These are all sectors in which there is a broad consensus about the nature of the problems that exist and the need for change. This component will include a series of activities aimed at identifying and removing barriers to competitiveness in these sectors. To this end, the component will finance: (i) baseline studies to identify the structural weaknesses and strengths of Dominican firms and the country's economy as a whole and to determine what kinds of tools and policies can be used to boost sector competitiveness; (ii) workshops focusing on best practices for competitiveness and on strengthening the CNC; (iii) dialogues and consultations with key stakeholders in each sector aimed at reaching agreement on the action to be taken and submitting recommendations to the senior management; and (iv) the use of various media to disseminate information to the public on the PNC and its strategies.

⁵ The Competitiveness Index of the World Economic Forum, for example, includes subindices on private-sector behavior that capture this level of detail.

- 2.5 The component is expected to produce various outputs in connection with the creation of institutional and virtual forums for dialogue and consensus-building by the public and private sectors on competitiveness policies. First, the assessments requested by CNC would be performed. They would examine structural conditions in the Dominican economy, which would provide a basis for analysis of competitive conditions and would constitute inputs for identifying and designing public investment projects that would put in place the conditions for increased productivity. The studies will look at the country's economic structure and its position in the world as well as corporate operating costs. Second, it would consist of preparation, consultation and dissemination of sector competitiveness strategies (SCSs) and their corresponding plans of action based on a participatory effort by stakeholders in the public and private sectors, academia, and civil society. These documents should provide strategic guidelines for public and private action while promoting closer coordination between the two sectors and defining the major strategic lines of medium- and long-term action. Third, to supplement these SCSs in cases where consensus exists as to specific, short-term high-impact activities, competitiveness arrangements will be established by the public and private sectors under the supervision of the CNC. These agreements will set out the responsibilities of each party and the expected outcomes in terms of legal, institutional, and procedural changes and public- and private-sector investments. As part of this component the model for these arrangements will be designed, along with the systems to be used for their review, evaluation, and monitoring by the CNC and the senior management. round-tables will be held periodically in which the CNC, the senior management and private stakeholders can present their strategies, discuss and monitor implementation plans, and promote program activities. One of the indirect outcomes of this program will be a learning process regarding this model of consensus-building on competitiveness policies; the lessons learned in this respect can then be outlined in independent evaluation reports.

Component 2: Formation of clusters and provision of specialized technical assistance (US\$745,000)

- 2.6 This component's objective is to promote the modernization of business enterprises through the use of an associativity (production clusters) model. It will include: (i) technical assistance in identifying, configuring and starting up clusters in the target sectors and the incorporation of smaller-scale businesses into those clusters; (ii) the development of cluster service providers; and (iii) the promotion of social/environmental capital as a key element in business strategies. The formation of approximately 15-20 clusters is planned. By the end of the program, these clusters should be composed of from 5 to 50 firms, private organizations, and public stakeholders. They should be led by the private sector, be located within a clearly-delimited geographical area, operate within a particular business or industry, and be linked together by buyer/vendor or supplier/client relationships or simply by the fact that they share a common group of customers, technologies, distribution channels, or other factors.

a. Technical assistance

- 2.7 The Program will furnish technical assistance to facilitate the formation and development of clusters. In order to expand the supply of cluster services, it will also provide guidance to trainers and consultants in the areas of associativity, strategic planning, and competitiveness. As part of this component, a manual on the formation of clusters will be developed as a means of laying the foundations for their configuration and leadership. Orientation workshops will be held to inform business enterprises about: (i) the conceptual frame of reference for the program and the PNC; (ii) the benefits of associativity; (iii) how to identify cooperation mechanisms; (iv) how to identify cluster leaders; and (v) how to prepare competitive cluster strategies (CCSs) and joint projects under FONDEC eligibility rules. The documentation on these questions will be designed to ensure the quality of the clusters to be formed and of the proposals for submission to the program and will be made available to the public in both print and electronic versions.

b. Corporate social responsibility

- 2.8 Funding will be provided for specialized technical assistance regarding corporate social responsibility as viewed from the perspective of environmental and social competitiveness. This specialized technical assistance will be employed by the program to promote and to cofinance, in partnership with the private sector, projects, processes and/or conceptual approaches relating to: ecoefficiency; corporate social and environmental management systems and tools (i.e., ISO8000, ISO9000, ISO14000, etc.); the identification and integration into the sector of new market opportunities or niches (i.e., organic production, ecotourism, renewable energy, certified forest products, etc.); promotion of environmentally sustainable activities that provide the private sector with greater market access (i.e., the tourism industry's Blue Flag system, cleaner industrial production processes, development of more effective and lower-cost specialized certification services, etc.); modernization and implementation of suitable socio-environmental regulations; and others. By the end of the program, these efforts are expected to result in case specific, documented case studies of projects that not only help firms increase their financial profitability but also yield social and environmental benefits.

Component 3: Competitiveness Fund (FONDEC) (US\$8,562,000)

- 2.9 This component will finance the implementation of the activities outlined in the various strategies and arrangements agreed upon by the public and private sectors, together with measures for improving the clusters' competitiveness at the company level. Matching grants will be used for this purpose. The strategic aim of this component will be to finance specific projects that will augment and/or diversify exports of goods and services. To this end, financing will be provided for government measures designed to improve the business climate and bring about policy and legal changes and institutional reforms. At the cluster level, funding will

be provided for activities aimed at boosting productivity, raising quality standards, and/or increasing the efficiency of peer firms in the cluster within the framework of the CCSs designed as part of the program.

- 2.10 Component 3 will cofinance eligible government and private-sector projects. A progressive scheme for providing cofinancing of up to 50% for firms and other units will provide a means of implementing the projects deriving from the CNC's and the clusters' strategies and plans. Other organizations may also help to fund this component. In addition, consideration will be given to the feasibility of including a mechanism for the reimbursement of preinvestment funds if the corresponding investment is implemented and financed within a given time period.
- 2.11 One of the central activities in this component will be the formation of a team to manage the component and to review and evaluate proposals based on the criteria set forth in the Operating Regulations. Funding will be provided to engage an administrator to manage FONDEC activities. The administrator will be in charge of designing project review and monitoring systems to ensure that the program objectives are met and developing the necessary tools for administering and keeping accounts on the funds to be used.
- 2.12 With a view to expanding the supply of cluster services, this component will establish a database on eligible suppliers for the cluster start-up phase and on specialized consulting services for joint projects. To that end, a directory of service providers will be compiled and maintained to serve as a reliable, handy reference guide for accredited suppliers of cluster services.
- 2.13 In order to ensure the program's effectiveness and incorporate the lessons to be learned, evaluation and monitoring activities will be included in this component. A system for measuring the program's impact in all the areas to be covered will be designed, and a firm will be engaged to implement it. Steps will be taken to closely monitor: (i) the quality of the services provided by consultants and outsourced firms; (ii) how well FONDEC is administered; and (iii) the impact of the goods and service export activities undertaken by firms in the clusters and of changes in the business climate brought about through the financing and assistance provided by the program. All outputs will be published in both print and electronic versions to ensure their broad dissemination, and by the end of the program a conference would be held to discuss the results of the program and its future development.

C. Cost and financing

- 2.14 The cost of the proposed program is estimated at US\$13.5 million. The breakdown of this sum by sources of financing and investment categories is shown in Table 2.1. The Bank will provide US\$9.4 million in Ordinary Capital from the Single Currency Facility. The country will provide US\$4.1 million in counterpart

funds, of which as much as US\$1.05 million will come from private enterprise as part of the project funding supplied by FONDEC.

- 2.15 The loan conditions would be as follows: (i) variable interest rate; (ii) an annual credit fee equivalent to 0.75% of undisbursed balances; (iii) an inspection and supervision fee equivalent to 1% of the loan; (iv) a 36-month disbursement period; (v) a 20-year amortization period; (vi) a 36-month grace period; and (vii) a 30-month execution period.
- 2.16 The proposed program will have the support of the board of directors of the PNC within the State Secretariat for Industry and Commerce (SEIC) for its execution and for the implementation of policies and other activities relating to the work of the CNC. The cost of the board of directors' support activities will amount to US\$966,000 (7.2% of the program's total cost). Direct costs represent 79.5% of the total cost and comprise the financing for the program's three components, and FONDEC's costs (63.4%), including its administration and evaluation. The direct costs will also include support for the CNC, the formulation of strategies and plans and their dissemination (10.6%), and the cost of providing technical assistance to the clusters (5.5%).

Table 2.1
Program for the Development of Competitive Advantages
(US\$000)

	Local IDB/OC contribution			Total	%
	Public	Private			
Administration (SEIC)	690	276	0	966	7.2%
Program's board of directors	690	276	0	966	7.2%
Direct costs	7,081	2,601	1,050	10,732	79.5%
<i>Component 1: Strengthening of dialogue</i>	1,115	310	0	1,425	10.6%
Strengthening of the CNC	25	60	0	85	0.6%
Competitiveness strategies, arrangements and consultations	770	150	0	920	6.8%
Dissemination	320	100	0	420	3.1%
<i>Component 2: Formation of clusters</i>	555	190	0	745	5.5%
Training and technical assistance	415	190	0	605	4.5%
Environmental and social assessments	140	0	0	140	1.0%
<i>Component 3: Competitiveness Fund</i>	5,411	2,101	1,050	8,562	63.4%
FONDEC Administrator	830	351	0	1,181	8.7%
Competitiveness Fund	4,350	1,750	1,050	7,150	53.0%
Measurement of impacts	232	0	0	232	1.7%
Concurrent costs	192	0	0	192	1.4%
Financial audits	100	0	0	100	0.7%
External evaluations (midterm and final)	92	0	0	92	0.7%
Financial costs	787	173	0	960	7.1%
Credit fee	0	173	0	173	1.3%
Interest	693	0	0	693	5.1%
Inspection and supervision	94	0	0	94	0.7%
Contingencies and general funds	650	0	0	650	4.8%
Total	9,400	3,050	1,050	13,500	100.0%
%	69.6%	22.6%	7.8%		

D. Poverty-targeting and social sector classification

- 2.17 This operation does not qualify as a poverty-targeted investment (PTI) program or as a social-equity enhancing project. The program does, however, have the potential to provide benefits in the areas of job creation and higher earnings.

III. EXECUTION OF THE PROGRAM

A. Borrower and executing agency

- 3.1 The Dominican Republic will be the borrower and, as such, will be responsible for servicing the debt and providing local counterpart funds for the program in a timely manner. The executing agency will be the State Secretariat for Industry and Commerce (SEIC), which will work through the board of directors of the PNC. The board will coordinate the program's activities and will serve as the executive arm of the CNC under the supervision of its Director, who will participate as a member of the CNC. The governing body of the PNC will be the CNC, which was created by decree, has nine honorary members designated by the President of the Dominican Republic, is presided over by the Secretary of State for Industry and Commerce, who serves as its Chairperson, and by the President of the Private Enterprise Council [Consejo de la Empresa Privada] (CONEP), who serves as the Deputy Chairperson.⁶
- 3.2 The program's execution will call for independent, smoothly-operating systems for providing support and assistance to the private sector in response to demand for such services. In addition, program activities should be conducted in a way that will promote shared responsibility and joint action. This suggests that the board of directors should take an entrepreneurial approach to its management tasks. A consulting firm will therefore be engaged to help implement the activities of the FONDEC component, prepare the administrative systems and databases, and expedite the procurement process. In order to help improve the business climate, close coordination will also be required between the private sector and the government agencies responsible for implementing institutional and policy changes. This is why the program is based on a scheme that respects each institutional unit's particular level of action and defines the activities appropriate to it: the CNC and the SEIC are given responsibility for the formulation and implementation of competitiveness policies, respectively; the board of directors is entrusted with the design of support instruments, program coordination, program evaluation and monitoring and the FONDEC Administrator in charge of channeling funds to the clusters and to specific projects; and independent bodies, consultants,

⁶ The members of the CNC are: (i) Secretary of State for Industry and Commerce, Chairperson; (ii) President of the Private Enterprise Council; (iii) Technical Secretary of the Office of the President; (iv) Secretary of State for Foreign Affairs; (v) Secretary of State for Finance; (vi) a representative of the private sector; (vii) President of the Dominican Export Association [Asociación Dominicana de Exportación]; (viii) Director of the Investment Promotion Office [Oficina para la Promoción de Inversiones] and of the Export Promotion Center of the Dominican Republic [Centro Dominicana de Promoción de Exportación]; (ix) and Director of the National Institute for Professional Technical Training [Instituto Nacional de Formación Técnica Profesional].

and firms hired for the FONDEC activities, will be responsible for providing business development services.

B. Functions and activities of participating bodies

- 3.3 **National Competitiveness Council (CNC):** As the governing body of the PNC, the CNC will be in charge of proposing projects to improve the business climate, approving competitiveness arrangements, reviewing sector competitiveness strategies (SCSs), and overseeing the board of directors. Its specific duties will include: (i) requesting the strategic analyses and diagnostic studies required to identify constraints on the competitiveness of firms in the target sectors; (ii) defining competitiveness policies, strategies, and priorities; (iii) consulting with the relevant stakeholders in the country about what action is needed and about their plans and strategies; (iv) designing and submitting proposed competitiveness policy tools and reforms to business regulations to the senior management for consideration and processing; (v) submitting the short list of candidates for the post of Director of the board of directors to the senior management; and (vi) monitoring implementation of proposed program actions.
- 3.4 In order to backstop the sector efforts of the CNC, sector action committees will be set up. These committees will be formed by representatives of the relevant sectors and areas to be addressed by the program. Their aim will be to create a forum for cluster leaders, trade union representatives, members of government agencies, and other interested parties. These committees will be directed by a sector adviser selected by the CNC in consultation with the relevant stakeholders. The committees will review the diagnostic studies that are prepared and will provide inputs for the SCSs, will propose sector activities, and will collaborate in the search for solutions to the problems that are identified. The sector advisors, who should be persons of recognized stature and credibility in the private sector, will be able to draw upon the technical and administrative support of the board of directors' facilities and specialists in sector competitiveness, but their fees will be covered by the private sector or by the institutions to which they belong.
- 3.5 **Board of directors of the PNC:** The board of directors will be responsible for coordinating, supervising, and monitoring program activities and will serve as a liaison between the CNC and government ministries and agencies. In providing support for the CNC, the Director of the board of directors will take part in the CNC's deliberations and may take the floor, but may not vote. The Director will also coordinate the necessary studies and diagnostic analyses, be in charge of implementing the specific activities and policies arising out of CNC strategies and plans, and monitor their application. The board of directors should also ensure that program activities are consistent with the other activities of the government, donors, and multilateral institutions. It will therefore seek to bring initiatives into alignment with one another and to maximize synergies via inter-agency agreements designed to enhance the different activities' coordination and complementarity. Interagency

agreements will make it possible to prepare jointly the methodologies and procedures for identifying and supporting clusters on the basis of experiences with other programs, to facilitate dissemination of information on the program to potential beneficiaries.⁷ Evidence that the PNC's board of directors has been created and set up must be provided as a condition precedent to the first disbursement.⁸

- 3.6 It will be the board of directors' job to: (i) conduct the studies requested by the CNC and submit the findings to the CNC and the SEIC for their consideration; (ii) coordinate activities at the sector level with its sector competitiveness specialists with a view to identifying competitiveness constraints and policies, as well as tools for eliminating or mitigating them; (iii) set up administrative, accounting and hiring systems and perform the corresponding functions, as well as managing the program; (iv) engage personnel to evaluate the services being offered and to conduct a midterm review, and monitor the implementation of their recommendations; (v) at the start of the program, engage a consulting firm to develop one or more methodologies for evaluating FONDEC, set baselines, and conduct the program's impact assessments; (vi) provide information on program execution to the CNC and the SEIC and be at the ready to produce reports on execution as required. It will also be responsible for developing an information plan for the program that will allow it to report to and consult with target groups, as well as a promotional campaign to be channeled through a website and other media. As part of its duties, the board will submit this plan to the CNC for approval and will keep it abreast of the progress made in developing and starting up the SCSs and the competitiveness arrangements.

a. The board of directors' team

- 3.7 The board's team will include specialists in the promotion of the sorts of activities planned by the program. It will be the sector competitiveness specialists' job to interact with the clusters as potential users of the FONDEC component throughout the development of the corresponding strategies and projects. They will act as accounts officers and, as such, will be responsible for assisting the clusters and monitoring their activities. The engagement of up to four specialists, depending on demand, is planned. These specialists should have experience in project management (preferably in projects focusing on innovation and competitiveness) and be familiar with the business world. A specialist in competitiveness policies will help to identify institutional, legal, regulatory and other factors hindering the

⁷ In late June 2003, there were expressions of interest in participating from the Asociación Nacional de Joven Empresarios [National Association of Young Entrepreneurs], Proempresa, and the Centro de Estrategia [Strategy Center] (USAID program contractor). In addition, the project team has held meetings with the MIF for coordination with the latter's activities in the country.

⁸ See letter dated 30 July 2003 from the State Secretariat for Trade and Industry to the Bank's Representative (number 4148).

smooth operation of private-sector activities and to develop reform and policy recommendations for improving business conditions in specific economic sectors. A specialist in socio-environmental affairs will advise the CNC on environmental and social policies and strategies and on the promotion of the clusters' environmental and social competitiveness in an effort to incorporate greater value added to the project proposals to be submitted to FONDEC.

b. The FONDEC Administrator

- 3.8 At an operational level, the Administrator of FONDEC will report directly to and work closely with the Executive Director from the board of directors' offices. The FONDEC Administrator is to be recruited by means of an international competitive bidding process in order to ensure the quality of service and a degree of independence in the evaluation of proposed projects to improve the business climate and cluster activities. The FONDEC Administrator will be responsible for management of project funds under the supervision of the Executive Directors. His tasks will entail: (i) maintaining the necessary staff or outsourcing the services required to evaluate proposals for financing; (ii) receiving program funds, keeping accounts, and making payments, and monitoring the activities for which funding is provided; (iii) compiling and maintaining a directory of consultants so that accredited consultancy service providers for the clusters can be rapidly identified (a service providers directory); (iv) coordinating and contracting cluster services and compiling the necessary data on the clusters to measure the program's impacts; (v) outsourcing the necessary specialist services, at the request of the Director of the board of directors, to provide technical assistance to the clusters in the areas of productive development, cluster formation, environmental protection, and corporate social responsibility; and (vi) providing a financial accounting to the appropriate authorities. As a condition precedent to disbursement of the financing for the FONDEC component, it must be demonstrated that a consulting firm has been engaged to take charge of its administration.
- 3.9 **FONDEC Operating Regulations:** The FONDEC will receive US\$7 million in funding. On a provisional basis, half of this sum will be earmarked for projects aimed at changing the business climate and the other half for cluster projects. The projects will have private- or public-sector counterparts, depending on the executing agency, to ensure their level of commitment. FONDEC will provide up to 50% of the funding for each project up to a maximum of US\$500,000 per project (including counterpart funds). FONDEC funds for cluster projects may be used to reimburse eligible expenditures made by firms in the clusters or to enable FONDEC to engage consulting services, at the request of clusters, in accordance with the program's Operating Regulations.
- 3.10 The program will establish criteria for the distribution of FONDEC resources to the clusters. The corresponding categories will be based on an ascending scale of funding and counterpart resources, with a floor of US\$10,000 per project and a

ceiling of US\$500,000 per project per cluster. The Operating Regulations will set limits for the number of projects in each category and their application to the various stages in the clusters' strategy development cycle. For example, the use of the Fund for preparatory activities for a strategy's formulation will be limited to Category I in order to make sure that most of the funding is used to implement the competitive cluster strategy (CCS). The lower levels of counterpart funds called for in Category I will open up access to smaller business groups in a cluster that have projects provided for in the CCS plan of action. The Operating Regulations will also set deadlines for the use of funds. If funds allocated, but not disbursed, to a cluster have not been used within 10 months from the commencement of the cluster's activities, the resources will revert to the Fund for distribution to other Fund clusters or activities.

Table 3.1
PRELIMINARY CLUSTER SCALE FOR USE BY FONDEC

Amount per project/category	I	II	III
Range (thousands of US\$)	$>10 \leq 50$	$>50 \leq 150$	$>150 \leq 500$
Marginal private-sector counterpart (<i>in cash</i>)	20% of the first US\$50,000	40% of the next US\$100,000 plus amounts stipulated in Category I	50% of amounts over US\$150,000 plus amounts stipulated in Categories I and II
Number of projects per category per cluster	2	2	3

- 3.11 As the coordinating body for efforts to improve the business climate, the CNC will define priority projects to be conducted on the basis of the strategies and projects outlined in its National Competitiveness Plan and/or the SCSs and/or the competitiveness arrangements. Examples of the types of activities that the Fund will cofinance with the public sector include the preparation of preliminary drafts for legal reforms and preinvestment studies for public projects or other activities that qualify as initiatives that will help to boost the Dominican economy's competitiveness by increasing and/or diversifying exports. It will also serve as a tool for financing projects that are developed by the clusters for expanding or starting up export activities, such as preinvestment studies, market analysis, and the design of activities for improving joint production, procurement, and/or quality-control systems.
- 3.12 In order to qualify for FONDEC financing, clusters must apply a common methodology and be registered with the FONDEC Administrator. Projects can be submitted for financing by any cluster registered with FONDEC in accordance with the regulations and standards of the program, which will, as a minimum, require

- that: (i) the cluster is composed of five or more firms; (ii) the cluster leader has been identified; (iii) a competitive strategy for the cluster has been submitted which outlines its mission statement for its business; and (iv) a project profile has been prepared that includes estimates of project benefits and measurable indicators of those outcomes. For instance, cofinancing will be provided for (i) preparing the ECC and preliminary activities for implementing and formulating the cluster action plans; (ii) expenses in connection with product and services benchmarking; (iii) travel or trade missions; (iv) promotion materials; (v) studies on enhancing the production process that increase operational effectiveness of the cluster; (vi) studies on new methods of distribution and cluster marketing; (vii) market studies; (viii) investment project feasibility studies; (ix) feasibility studies of joint initiatives having a demonstration effect; (x) design of activities to improve joint production systems, procurement and/or quality control of products and services. In making use of FONDEC resources, the program will abide by Bank procedures for the procurement of goods and services.
- 3.13 To ensure that the projects meet quality standards, a small project review committee will be established. The members of the committee will be a representative from the CNC, the Executive Director, the coordinator of the FONTEC administrator, and two representatives from the private sector appointed by the CNC, one of whom will be a financial expert. The FONDEC Administrator's team will draw up project screening criteria and minimum eligibility standards. These criteria will cover three areas: technical quality, strategic coherence, and expected impact. Within the category of technical quality, consideration will be given to the quality of the project's design and an analysis of the proposal. Criteria to be used in the strategic coherence and expected impact categories include the project's correlation with the cluster's strategic plan (as set forth in its CCS), the project's impact on the firm or cluster, generation of products or services, process efficiency gains, and expected increases in profitability. The overall criteria for projects designed to improve the business climate should include: impact, viability, and cost/benefit relationship, along with a simpler procedure for validating and establishing the technical rationale for CNC decisions regarding the need for a given project. An evaluation of each project's social and environmental impacts will be prepared using environmental and social guidelines drawn up by the specialist in social and environmental affairs. In cases where environmental or social issues arise, the FONDEC Administrator will engage an expert to prepare an evaluation in which the social and environmental impacts of proposed projects are reviewed and assessed.
- 3.14 In order to ensure that the FONDEC resources provided by the Bank are disbursed during the course of the program, the Operating Regulations will stipulate that FONDEC shall cease to undertake new commitments in advance of the program's completion and that the approved projects' deadlines fall within the time allotted for the program's execution. Any additional commitment extending beyond the

program's completion date may be approved only if FONDEC can provide assurance that enough fresh resources to ensure its continuity will be forthcoming.

C. Procurement of goods and services

- 3.15 The procurement of related goods and services and the selection and engagement of consulting services for the program will be conducted in accordance with relevant Bank procedures and policies. Contracts for the procurement of goods for sums of US\$250,000 or more and the engagement of services at a price of US\$200,000 or more will be awarded by means of international competitive bidding. The procurement of related goods or services costing less than those amounts shall be governed by national laws provided that they are in accordance with Bank policies.

D. Execution period and disbursement schedule

- 3.16 The program will have an execution period of 30 months and a disbursement schedule of 36 months in duration. The approval of cofinancing for projects whose lifetime exceeds the duration of this IDB program may be considered only if sufficient additional financing is obtained to maintain program activities and the CNC gives its approval.
- 3.17 A maximum of US\$500,000 in expenses incurred prior to 15 September 2002 may be recognized retroactively. Such expenses, which will be charged to the local counterpart contribution, relate to (i) preparation of the guidelines for the CNC institutional design; (ii) formulation of the competitiveness strategy; (iii) dissemination of the national competitiveness program; and (iv) technical assistance and training for promoting exports for small and medium-sized businesses provided that conditions substantially similar to those in the prospective loan contract have been satisfied.

Table 3.2
Disbursement schedule (US\$000s)

Source	Year 1		Year 2		Year 3	Total
	1st half	2nd half	1st half	2nd half	1st half	
IDB	1,579	582	1,652	3,063	2,524	9,400
Local contribution: Public	500 ^{1/}	638	638	638	636	3,050
Local contribution: Private	0	0	350	350	350	1,050
Total	2,079	1,220	2,640	4,051	3,510	13,500

^{1/} Retroactive recognition of local counterpart spending.

E. Monitoring and evaluation

- 3.18 Under the program, funding will be provided for analysis to determine the effectiveness of initiatives through project impact assessments, midterm and final evaluations, and surveys of the beneficiaries. As part of the responsibilities devolving on the board of directors will the task of serving as a repository of the program's institutional memory through electronic and physical registration of documents and relevant databases, and their wide dissemination. To ensure that this objective is fulfilled satisfactorily and promptly, the expected interim and final targets are set out in the logical framework so that the principal participants have a basis for making necessary adjustments to the program and its institutional aspects during implementation.
- 3.19 Program funds will be used to engage outside consultants to carry out a midterm review and a final evaluation. The terms of reference for these evaluations will be drawn up by the board of directors for the Bank's no objection. The midterm review should be carried out when 50% of the financing to be provided by the Bank has been disbursed or 12 months after the loan contract enters into effect, whichever comes first. The final evaluation will be prepared when 90% of the financing to be provided by the Bank has been disbursed or after 24 months have elapsed. The outside consultants will report on the program's performance and on the possibility of replicating or expanding upon this experience through other Bank programs. To this end, consideration will be given to the lessons learned and program impact data will be analyzed.
- 3.20 The monitoring of the program will include the periodic calculation of the indicators included in the Logical Framework (see Annex I). The board of directors will also evaluate the work of the FONDEC Administrator during the course of the program. To this end, members of the clusters will be surveyed in order to gauge how satisfied they are with the services provided by FONDEC and by the consultants and firms recruited for this purpose. This information will permit adjustments to be made in the program's management as it proceeds.

F. Audits and transparency

- 3.21 The board of directors will maintain separate accounts and financial records on the program that will provide the necessary information to: (i) identify financial transactions made using program funds as distinct from the resources handled by the CNC and FONDEC; and (ii) prepare the program's financial statements.
- 3.22 Within 120 days following the close of each fiscal year, the board of directors will submit to the Bank, via the SEIC, annual financial statements for the program that have been audited by an independent public accounting firm acceptable to the Bank. Audits will be paid for with IDB loan proceeds. To ensure transparency in

the use of FONDEC resources, the program will provide for the publication of the FONDEC user list in the media and on the program's website.

IV. BENEFITS, RISKS, AND VIABILITY

A. Benefits

- 4.1 The program will seek to have a measurable impact at its various levels. The cluster-related activities are expected to have an impact on exports by increasing output and/or value added by bringing about changes in the marketing and/or production of goods and services. Examples of success stories will be used to encourage the adoption of this and other forms of associativity in the private sector, which will benefit other sectors and business clusters as well. These mechanisms are expected to have indirect impacts in the form of job creation and the expansion of more sustainable forms of production capable of meeting the challenges posed by global markets.
- 4.2 By fostering a dialogue and consensus-building between the public and private sectors, one of the program's direct effects will be the creation of new mechanisms for the achievement of consensus and the collaborative development of competitiveness policies. As a result, the program will generate an increase in social capital through the formation of a common vision of the challenges of competitiveness and the identification of concrete action that can be taken in response to problems and opportunities. As a consequence of the processes that will be launched and the formation of an effective institutional structure, the program may also become a tool for policy-making and consensus-building in other sectors, thereby permitting the identification of new projects and further structural reforms that will enjoy broad public and private support.

B. Risks

- 4.3 The program's prospects for success are based on the assumption that macroeconomic stability will be maintained, thereby allowing its outputs in terms of specific reforms and increased competitiveness on the part of business clusters to have a sustainable impact. Clearly, current conditions in the Dominican economy jeopardize such an outcome. Slower economic growth, higher inflation and mounting volatility in capital flows deter private-sector decision-making regarding new investments, while the government's need to adopt fiscal restrictions limit the public sector's response to slack economic growth.
- 4.4 For the purposes of this program, three key aspects of the current situation should be considered. First, an economic contraction has already begun. Prompt assistance from the international financial community could help to make it short-lived and less severe, thus permitting economic activity to stage a recovery in the short term. Second, confidence between the public and private sectors regarding the direction of economic policy needs to be restored through dialogue and consensus-building, which is precisely what the program is intended to accomplish. Third, a lasting

recovery will call for increased exports and productivity gains by Dominican firms, and these are areas in which the program can send out positive signals via its cluster-related activities in key sectors.

- 4.5 There are also a number of risk factors that may have a bearing on some of the program's components and activities and that therefore warrant consideration.
- 4.6 The proposed program will make use of various mechanisms to build consensus regarding the country's strategic approach to achieving competitiveness and to formulate plans of action. These activities will call for political will on the part of the government and the private sector to undertake concerted action to boost competitiveness and share responsibilities. In order to ensure that such political will is forthcoming, the program provides for the participation of both public and private stakeholders at all levels of action, from the CNC to the clusters themselves. Through the design and implementation of new tools for establishing common objectives and shared responsibilities for the public and private sectors, the program will also reinforce the stakeholders' commitment to the PNC and its success.
- 4.7 The success of FONDEC's activities will, to a great extent, hinge upon the existence of sufficient demand from its potential beneficiaries for the implementation of cluster-related activities and policy reforms. The program will be designed to have the necessary flexibility to modify the sums assigned to these areas of activity so that the allocations for cluster-related activities or changes in the business climate can be aligned with the actual demand for them. In addition, a wide array of technical and financial inputs are available in order to stimulate the clusters' demand for program resources. The use of these funds will be facilitated not only by providing technical support to assist clusters in formulating and developing their CCSs, but also through the differentiation of the levels of counterpart funds required at the various levels of program action. For example, a lower level of counterpart funding will be required for small projects as a way of encouraging small-scale initiatives that can lead to shared action in specific areas by stakeholders and thus serve as a basis for the initiation of future projects on a larger scale.
- 4.8 The provision of technical assistance to the clusters could create a bottleneck unless there are sufficient service providers to meet demand. To mitigate this risk, the program will train independent consultants in areas relating to the program's activities, entrepreneurial associativity, and participatory strategic planning. In addition, it will list qualified suppliers in a directory of service providers. The board of directors will establish inter-agency agreements with other programs serving business clusters with a view to the incorporation of common cluster support methodologies and similar standards for the preparation of joint projects. This will help to ensure that a greater demand will exist for the resources assigned to FONDEC, as well as helping to uphold project quality standards.

C. Environmental and social management program

- 4.9 This program is a highly innovative initiative in environmental and social terms, and the concepts of socio-corporate and environmental promotion, sustainability and responsibility form an integral part of it. Given the nature of the program, it will have no direct environmental and/or social impacts, but it may have some indirect effects in these areas. To prevent and/or mitigate such indirect impacts, environmental and social variables have been incorporated into all aspects of the entire program cycle to create the Dominican Republic's first "green" competitiveness program.
- 4.10 Environmental and social elements are involved in the following specific activities: (i) high-level environmental and social advisory services will be provided as a means of furnishing ongoing support for efforts to strengthen dialogue and consensus-building with regard to competitiveness policies (see Component 1); (ii) advisory assistance in the area of environmental and social competitiveness will be provided to clusters in the target sectors on a continuing basis; (iii) an ongoing environmental and social review mechanism will be set up for FONDEC, which will seek to reward and give priority to projects and/or outputs that add value through environmental and social activities; and (iv) environmental and social audits will be performed throughout the program in order to make sure that these variables are included and/or implemented in the various projects proposed for future execution.

D. Institutional viability of the program

- 4.11 The program is structured in such a way as to delimit the roles and functions of each institution, and an attempt has been made to delegate each function to the institution that is the best suited to perform it. With the establishment of the CNC, an institutional platform has been created for the program. This platform will be reinforced by the creation of the board of directors and its endowment with a smoothly-running, flexible institutional structure capable of responding to the participating sectors' and clusters' demand for technical assistance and financial support.
- 4.12 As a pilot activity, the program does not envisage creating a permanent institutional structure for providing technical assistance to clusters. Nonetheless, FONDEC's work as a financial instrument for attracting other sources of financing may convert it into a more lasting structure for meeting the private sector's demand for preinvestment projects and for stimulating the development of Dominican business service providers in the areas of competitiveness and corporate social responsibility. On the basis of different impact assessments and studies prepared during the program, board of directors and CNC will make a recommendation to senior management before completion of the program as to whether it should be terminated or extended. The CNC operations will also need to be continued in order

to monitor the National Competitiveness Plan and other program actions. The conversion of the program into a more permanent institutional structure would, however, require the private sector's engagement and commitment in both the institutional and financial aspects of this area of endeavor.

EXPORT COMPETITIVENESS ARRANGEMENTS

During the 1990s, the Dominican economy underwent an internationalization process involving the opening of the economy to international markets, deregulation, and a scaling back of State intervention. As part of these efforts, the authorities experimented with the use of an entrepreneurial associativity model to assist in the formulation of competitiveness policies. As one component of the Strategic Export Plan, joint public/private export competitiveness arrangements were negotiated. These arrangements included strategies for integrating the links of the various production chains and orienting them toward external markets. The model facilitated the definition of joint commitments regarding the removal of sectoral barriers to competitiveness.

The working methodology typically used for these arrangements has been as follows:

- Meeting of businesspeople from each production chain and representatives of public-sector agencies.
- Formation of a private-sector coordinating committee to be responsible for presenting a diagnostic examination and analysis of the chain's competitiveness and to identify specific steps to be taken in order to eliminate obstacles to competitiveness and to strengthen and consolidate the chain.
- Preparation of a matrix outlining the commitments deriving from the consensus reached by the committees (formed by production chain managers in each of the relevant public-sector agencies) and the private sector.
- Presentation of the matrix for consideration by private-sector stakeholders and the relevant public-sector agencies so that all parties can reaffirm their commitments.
- Signing of the agreements by the government and the private sector.

Source: Evaluación de Convenios de Competitividad Exportadora [Evaluation of Export Competitiveness Agreements], CAF.

HELADOS BON AND THE SIERRA PLAN

The Dominican firm Helados Bon became interested in using macadamia nuts, which are considered to be the finest nut in the world, as a new production option for their black-label premium line of ice cream. In addition to having a delicious flavor and being very nutritious, the macadamia nut, of Australian origin, grows at altitudes of over 500 meters and can be cultivated in fairly poor soil, which makes it ideal for use in reforestation and soil conservation projects. Helados Bon is also known for its social work, and its directors therefore decided to launch this new project as a profitable corporate venture that would contribute to the country's ecology at the same time.

Helados Bon reached an agreement with the Sierra Plan, a community organization working in the mountainous San José de las Matas area which covers a number of different communities. Taking into account the natural conditions required for this initiative, the Sierra Plan entered into an agreement with the community of Los Montones to start up the Bon-Macadamia project. The firm contributes one peso to the Sierra Plan for every double-scoop cone of macadamia ice cream it sells using prepaid tickets; the Sierra Plan uses these funds to promote the cultivation of macadamia trees and operate a community-run tree nursery. This initiative has allowed the company to lock in a supply of the raw material it needs for this product, has enabled the community to organize itself more successfully, has provided producers with more capital by enabling them to use the funds obtained from the prepaid tickets to construct a tree nursery, and has increased the job opportunities and incomes of members of the community.

PNC OUTPUTS AND INSTITUTIONS

Stakeholder	Outputs
CNC/ Executive Board	<ul style="list-style-type: none"> • Sectoral competitiveness strategies • Competitiveness arrangements
FONDEC	<ul style="list-style-type: none"> • Evaluation and recommendations concerning cluster projects
EXECUTIVE BOARD	<ul style="list-style-type: none"> • Evaluation of FONDEC • Program impact assessment
Clusters	<ul style="list-style-type: none"> • Competitive cluster strategy • Project profiles • Project performance report

LESSONS LEARNED

The program has been designed in such a way as to incorporate the lessons learned in other similar initiatives in the region and particularly the experience gained from the execution of national competitiveness programs and matching-grant arrangements.

Lessons learned regarding the institutional structure of a national program for increasing competitiveness include the following: (i) The program should be based on an agreement between the public and private sectors under which the private sector will be the main driving force of the initiative and the public sector will act as a strategic partner; (ii) It is important to agree upon a shared approach in order to consolidate the support required from public and private stakeholders; (iii) A participatory strategic planning process (“from the bottom up”) is required; (iv) It is important to have the services of an agency with sufficient stature and leadership capacity to guide the process and to match up goals and achievements; (v) Policy-making should be kept separate from service delivery; (vi) The legitimacy and representativity of the parties is essential in order to facilitate the formulation of viable public policies; and (vii) It is important to engage the media and make the relevant information readily available.

Past experience with initiatives involving matching grants indicates that: (i) It is important to develop a basic idea of what the Fund is supposed to do before making decisions regarding its design; (ii) The operational structure should be fairly autonomous and flexible with respect to the provision of technical assistance, the recruitment of consultants on a short-term basis, and the use of the Fund; (iii) Demand, not supply, is what drives projects and makes programs sustainable; (iv) The strategy will be more consistent and successful if the focus is on a limited number of areas in which the Fund has a genuine possibility of having a discernible impact within a reasonable period of time; (v) Generally speaking, projects tend to be more successful when counterpart funds are required; and (vi) It is advisable to use a logical framework to identify projected impacts and measures to be used in evaluating the progress made toward the established goals.

**PROGRAM FOR THE DEVELOPMENT OF COMPETITIVE ADVANTAGES
LOGICAL FRAMEWORK**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
To contribute to sustainable economic growth by improving the business climate and increasing inter-firm associativity.			1. Macroeconomic stability is maintained.
PURPOSE			
To set in motion a participatory consensus-building process with respect to policies and strategies for boosting competitiveness and associative ventures that will foster competitiveness in firms (including small-scale businesses) in the manufacturing, export-processing, agribusiness, and tourism sectors.	<ol style="list-style-type: none"> 1. A 5% average annual increase in the competitiveness subindex for the Dominican Republic from the first year of the program on. 2. An increase in competitiveness (added value, sales, output, quality, delivery time, productivity) in 50% of the clusters served by the program. (Base year data and goals will be defined when execution begins.) 	<ol style="list-style-type: none"> 1.1 Report of the World Economic Forum. 2.1 Program impact assessment of the firms' production (SEIC). 	<ol style="list-style-type: none"> 1. The public and private sectors are able to engage in a dialogue on competitiveness. 2. The clusters can produce results within a fairly short time period (30 months). 3. The stakeholders and appropriate institutions endorse and carry out the recommended changes.
COMPONENTS			
Component 1: Coordination between public and private sectors regarding competitiveness policy.	<ol style="list-style-type: none"> 1.1 Four (4) competitiveness arrangements signed and implemented by the end of the program. 1.2 Five (5) sector competitiveness strategies agreed upon and published by the end of the first year. 	<ol style="list-style-type: none"> 1.1 Publication of the terms of the competitiveness arrangements on the program's website and distribution of hard-copy versions and monitoring reports on their implementation prepared by the board of directors. 1.2 Publication of the sector strategies corresponding to the competitiveness arrangements on the program's website and distribution of hard-copy versions and monitoring reports on their implementation prepared by the sector coordinators. 	<ol style="list-style-type: none"> 1. The sector competitiveness strategies receive support from most stakeholders (policy-makers, entrepreneurs, civil society groups). 2. Demand for FONDEC resources exists among potential beneficiaries.

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component 2: Stronger associativity within the private sector.</p> <p>Component 3: Implementation of measures to create competitive advantages.</p>	<p>2.1 Between 5 and 10 clusters registered and functioning by month 10 of the project.</p> <p>2.2 Between 10 and 15 clusters registered and operating with competitive cluster strategies and production activities by the end of the program.</p> <p>3.1 Five inter-agency agreements signed by month 4 of the project.</p> <p>3.1 Establishment of the Competitiveness Fund (FONDEC) within six months of program's start-up date.</p> <p>3.3 Commitments for 50% of FONDEC's financial resources within 15 months of the program's starting date and disbursement of 75% of the funds within 24.</p>	<p>2.1 Master list of the members of each cluster, updated on a quarterly basis, and submission of their competitive cluster strategies (board of directors)</p>	<p>3. The clusters prepare eligible projects within the agreed time period. Businesses share sufficient data to permit the project's impact to be assessed.</p> <p>4. There are sufficient service providers for the clusters and the agreed methodologies are applied.</p>
ACTIVITIES			
<p>Component 1: Institutional strengthening and coordination of the public and private sectors</p> <p>1.1 Background studies: Diagnostic analyses of the structural weaknesses and strengths of the firms and of the Dominican economy; identification of tools and policies for improving sector competitiveness.</p> <p>1.2 Strategic missions by members of the National Competitiveness Council to countries where best practices in competitiveness and the development of clusters can be observed.</p> <p>1.3 Design of framework for sector competitiveness arrangements and benchmarking with other programs.</p>	<p>See Table 2.1 of the report.</p>	<p>1. The Bank's accounting records</p> <p>2. Auditors' reports.</p> <p>3. Midterm review.</p>	<p>1. The government will supply the local contribution as scheduled.</p> <p>2. Members of the CNC and the clusters are active and continue working throughout the life of the project.</p> <p>3. The recommendations set forth in the midterm review are implemented in a timely manner.</p>

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>1.4 Forums and workshops for the development of sector competitiveness arrangements.</p> <p>1.5 Preparation of sector competitiveness strategies with members of the National Competitiveness Council (CNC), sector coordinators, sector action committees, and civil society.</p> <p>1.6 Publication of the sector competitiveness strategies and the corresponding plans of action and commitments.</p> <p>1.7 Development of a website to disseminate information on the project.</p> <p>1.8 Information plan and promotional campaign.</p> <p>1.9 Ongoing monitoring of the entry into effect of the strategies and arrangements.</p> <p>1.10 Analysis of the effectiveness of consensus-building mechanisms as part of the project midterm evaluation.</p> <p>Component (2): Strong associativity within the private sector.</p> <p>2.1 Design and dissemination of a general manual on inter-firm associativity and the organization of orientation and sensitization workshops.</p> <p>2.2 Creation of a database on sources of financial and non-financial resources, the regional economy, and businesses.</p> <p>2.3 Workshops at the company level for the purpose of selecting clusters in the designated sectors, establishing and integrating leaders in each cluster, raising awareness about related problems and forms of intervention.</p>			

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>2.4 Creation of materials and activities for promoting social/environmental capital as a business strategy.</p> <p>2.5 Orientation of trainers and consultants regarding associativity, strategic planning, and competitiveness.</p> <p>2.6 Certification of clusters' eligibility for the Competitiveness Fund.</p> <p>2.7 Technical advisory services regarding environmental and social aspects of cluster projects and activities.</p> <p>2.8 Development of environmental and social guidelines for projects in target sectors.</p> <p>2.9 Review, evaluation, and enhancement of the proposed projects' social and environmental impact, and design of guidelines for projects in selected sectors.</p> <p>2.10 Case studies of projects that bring social and environmental benefits, and boost the business's financial return.</p> <p>Component (3): Competitiveness Fund: Implementation of measures for creating competitive advantages</p> <p>3.1 Establishment of the Competitiveness Fund along with its bylaws and institutional structure.</p> <p>3.2 Constitution of the FONDEC Administrator under a management contract as part of the program's board of directors.</p> <p>3.3 Establishment of strategies for disseminating information about the program and FONDEC (forums, news, articles).</p> <p>3.4 Design of a system for evaluating the services that FONDEC provides to business enterprises.</p>			

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>3.5 Design of a system for measuring the projects' impact on businesses' competitiveness.</p> <p>3.6 Compilation of information needed to determine baselines and develop databases from the outset.</p> <p>3.7 Cofinancing of activities identified as priorities by the CNC and sector competitiveness strategies.</p> <p>3.8 Cofinancing of preinvestments for production activities provided for in the approved plans of action.</p> <p>3.9 Preparation of monthly progress reports and news summaries.</p> <p>3.10 Measurement and analysis of project impact and physical and electronic publication of results.</p> <p>3.11 Conference to discuss the results of the project and future actions before project completion.</p>			

**PROGRAM FOR THE DEVELOPMENT OF COMPETITIVE ADVANTAGES
PROCUREMENT PLAN**

Major Procurement Items	Total Amount (US\$000)	Source of Financing		Procurement Method ^{1/}	Pre- qualification (Yes/No)	Specific notice of procurement (tentative date)	Status
		IDB %	Local/Other %				
A. Administrator							
1. Program administrator contract	667.8	100		ICB	YES	IV-2003	in progress
B. Competitiveness Fund	7000.0	60	40			IV-2003	in progress
C. Consulting services							
1. Specialist in sector competitiveness (4)	480.0	100		LCB	NO	IV-2003	in progress
2. Specialist in environmental and social affairs	270.0	100		ICB	YES	IV-2003	in progress
3. Specialist in policy matters	138.0	100		LCB	NO	IV-2003	in progress
4. Consultants to gauge impact	231.9	100		ICB	NO	IV-2003	in progress
5. Midterm and final evaluation	91.5	100		LCB	NO	III-2004	in progress
6. Financial audits	100.0	100		LCB	NO	III-2004	in progress
7. Environmental and social studies	130.5	100		LCB	NO	IV-2003	in progress
8. Environmental and social project evaluation	150.0	100		LCB	NO	IV-2003	in progress
D. Services							
1. Dissemination	320.0	100		LCB	NO	IV-2003	in progress
^{1/}	ICB: International competitive bidding; LCB: Local competitive bidding; LB: Limited bidding						
bidding							