

DOMINICAN REPUBLIC

PROGRAM TO SUPPORT COMPETITIVENESS POLICY II

(DR-L1046)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Martin Chrisney (ICF/CMF) Project Team Leader; Joaquin Domínguez (CMF/CDR) Alternate Team Leader; Carlo Pietrobelli (ICF/CMF); Juan Carlos Navarro (SCL/SCT); Rafael Rodríguez-Balza (CID/CID); Valerie Mercer-Blackman (CID/CID); Mario Umaña (INT/INT); Marco Varea (ICF/PRODEV); Luis César Acosta (PDP/CDR); Bernadete Buchsbaum (LEG/SGO); and Annabella Gaggero (ICF/CMF).

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ELECTRONIC LINKS
<p>MANDATORY</p> <ol style="list-style-type: none"> Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35380499 Means of Verification http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35321453 Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35321469 Independent Macroeconomic Evaluation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35326674 <p>OPTIONAL</p> <ol style="list-style-type: none"> Bibliography for DR-L1046 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35323314 Donor Coordination Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35343446 Matrix of Related Bank Projects http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35343473 Loan Proposal DR-L1014 (first loan of the programmatic series) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1903185 Original Triggers and Actual Policy Conditions for the Second Operation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35374605 PEP for the TC Loan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35326158 Monitoring and Evaluation Arrangements for the TC Loan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35343884 Procurement Plan for the TC Loan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35362278 Fiduciary Arrangements and Risk Matrix for the TC Loan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35362234

ABBREVIATIONS

BCRD	Banco Central de la República Dominicana
BNV	<i>Banco Nacional de Vivienda</i>
CAF	Common Assessment Framework (<i>Marco Comun de Evaluación</i>)
CAFTA-DR	Central American Free Trade Agreement-Dominican Republic
CEI-RD	Center for Export and Investment – Dominican Republic
CNC	National Competitiveness Council (<i>Consejo Nacional de Competitividad</i>)
CCI	Center for Technology Training (<i>Centros de Capacitación en Informática</i>)
DGCP	Unit for Public Credit (<i>Dirección General de Crédito Público</i>)
DICOEX	Office of External Trade (<i>Dirección de Comercio Exterior</i>)
DIGENOR	National Commission on Standards (<i>Dirección General de Normas y Sistemas de Calidad</i>)
DIGEPRES	Dirección General de Presupuesto
DGA	Customs Office (<i>Dirección General de Aduanas</i>)
DGII	General Direction for Internal Taxation (<i>Dirección General de Impuestos Internos</i>)
DUA	Documento Único de Aduana
FDI	Foreign Direct Investment
FONDEC	Competitiveness Fund
FEDOCAMARAS	Dominican Federation of Chambers of Commerce and Production (<i>Federación Dominicana de Cámaras de Comercio y Producción</i>)
FONDOCYT	Dominican Fund for Scientific and Technological Research (<i>Fondo Dominicano de Investigación Científica y Tecnológica</i>)
FTZ	Free Trade Zone
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IIBI	Innovation Institute for Biotechnology and Industry
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INDOTEL	Dominican Telecommunications Institute (<i>Instituto Dominicano de las Telecomunicaciones</i>)
MAP	Ministry for Public Administration (<i>Ministerio de Administración Pública</i>)
MH	Ministry of Finance (<i>Ministerio de Hacienda Pública</i>)
MESCyT	Ministry for Higher Education, Science and Technology (<i>Ministerio de Educación Superior, Ciencia y Tecnología</i>)
MEPyD	Ministry of Economy, Planning and Development (<i>Ministerio de Economía, Planificación y Desarrollo</i>)
MFA	Multi-Fibre Agreement
MSMEs	Micro, Small and Medium Enterprises
NDS	National Development Strategy (<i>Estrategia Nacional de Desarrollo</i>)
NGOs	Non-governmental Organizations

NQS	National Quality System
OC	Ordinary Capital
OECD	Organization for Economic Co-operation and Development
ONAPI	National Office for Industrial Property
OPTIC	Presidential Office for Information and Communication Technology (<i>Oficina Presidencial de Tecnologías de la Información y la Comunicación</i>)
PBP	Programatic Policy-Based Loan
PDP	Productive Development Policy
PECyT+I	Strategic Plan for Science, Technology and Innovation (<i>Plan Estratégico de Ciencia, Tecnología e Innovación</i>)
POD	Proposal for Operation Development
PNCS	National Plan for Systemic Competitiveness (<i>Plan Nacional de Competitividad Sistémica</i>)
Proconsumidor	Institute for the Protection of Consumer Rights (<i>Instituto de Protección de los Derechos del Consumidor</i>)
Proindustria	<i>Centro de Desarrollo y Competitividad Industrial</i>
PROMIPYME	<i>Consejo de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa</i>
R&D+i	Research, Development and Innovation
SASP	System for Administration and Personnel Services (<i>Sistema de Administración y Servicios de Personal</i>)
SDC	National Quality System
SIAFE	Government Integrated Financial Administration System (<i>Sistema Integrado de Administración Financiera del Estado</i>)
SIDOCAL	Dominican Quality System (<i>Sistema Dominicana para la Calidad</i>)
SIGA	Integrated Customs Management System (<i>Sistema Integrado de Gestión Aduanera</i>)
SIGEF	Integrated System for Financial Management (<i>Sistema Integrado de Gestión Financiera</i>)
SIVUCEX	One-Stop Window for Trade (<i>Sistema Integrado de Ventanilla Única de Comercio Exterior</i>)
SMEs	Small and Medium Enterprises
SNIP	National Public Investment System
STP	Secretariat of the Presidency (<i>Secretariado Técnico de la Presidencia</i>)
WEF	World Economic Forum
WTO	World Trade Organization

PROJECT SUMMARY
DOMINICAN REPUBLIC
PROGRAM TO SUPPORT COMPETITIVENESS POLICY II
(DR-L1046)

(BR 21016)

Financial Terms and Conditions				
Borrower: Dominican Republic Executing Agency for the PBP: Ministry of Finance (MH) Executing Agency for Component VI (TC Loan): The Executive Office of the National Competitiveness Council (CNC)		Amortization Period:	PBP 20 years	TC 15 years
		Grace Period:	5 years	5 years
Source	Amount (US\$ millions)	Disbursement Period:	12 months	5 years
IDB (OC) PBP	110.0	Supervision and Inspection Fee:	*	*
IDB (OC) Technical Cooperation Loan	10.0			
Local	4.0	Interest Rate:	Libor-based	Libor-based
Total	124.0	Credit Fee:	*	*
		Currency:	US dollars from the SCF	US dollars from the SCF
Project at a Glance				
Program Objective/Description: The objective of the Program is to improve competitiveness policies in the Dominican Republic. To this end, the activities support improved macroeconomic stability in combination with institutional and legal reforms that improve the productive efficiency of the real sectors of the economy, while improving the design and implementation of competitiveness policy. This operation is the second of three single-tranche PBPs from Ordinary Capital resources for a total of US\$200 million. In addition, the authorities have requested a technical cooperation loan of US\$10 million to support activities aligned with the program’s goals and for the implementation of specific policies linked to the third operation (Paragraph 2.1). The Program has six components that cover macroeconomic, legal and institutional reforms, namely: (i) macroeconomic conditions; (ii) fiscal management, development planning, and public administration; (iii) strengthening institutions for competitiveness and trade; (iv) innovation, technological development, and quality control; (v) business climate reforms for private sector development; and (vi) technical support for productive development and innovation activities (a technical cooperation loan) (Paragraph 1.11).				
Special contractual clauses: Disbursement of the resources of the PBP will be subject to submission by the Borrower of evidence of compliance with the conditions set forth in the Policy Matrix (Annex II). Disbursement of the resources of the technical cooperation loan: the first disbursement of the resources of the Financing will be subject to submission by the Borrower of evidence that it has: (i) approved the FONDEC Operating Regulations for windows 1 and 2 in accordance with the terms previously agreed with the Bank; and (ii) an Agreement with the Executive Office of the CNC for the execution of the Project (see Annex III, ¶3.4). The first disbursement of the resources of the Financing for the activities under window 3 of FONDEC is subject to evidence that the Borrower has approved the Operating Regulations for such window (See Annex III, ¶3.4).				
Exceptions to Bank policies: None				
Project qualifies for: SEQ [] PTI [] Sector [] Geographic[] Headcount []				
Procurement: see Annex III, ¶2.5 – 2.8 and Procurement Plan .				

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background and Problems Addressed, Justification¹

- 1.1 The Board approved the first operation of three Programmatic Policy-Based Loans (PBP) on March 20, 2009 (2126/OC-DR). After verification of full compliance with the conditions in the Policy Matrix, US\$ 60 million was disbursed on July 6, 2009. That operation established a timeline for the subsequent reforms as detailed in the policy triggers in the areas of fiscal management, institutions for trade and competitiveness, innovation policy, and business climate reform. The present operation is the second in the PBP series and reflects the results of the Bank's ongoing dialogue with the authorities on the size and structure of the operation, which now includes a technical cooperation loan to strengthen competitiveness policy implementation and additional financing for the overall program.
- 1.2 **Structural Features of the Dominican Economy.** The Dominican Republic has an open economy based on free trade agreements, sector policies favoring free trade zones (FTZ) and tourism, attraction of Foreign Direct Investment (FDI), and large remittance inflows. The service sector accounts for over 55% of GDP, while exports from activities in the FTZ and tourism are the main sources of foreign exchange, employment, and investment. In particular, the tradable service sector has spurred growth rates above the regional average since 1990. In the 5 years to 2008, the economy grew 8% annually on average. A sharp rebound from the global crisis in mid-2009 led to GDP growth of 3.5% in 2009 and 7.5% in the first semester of 2010. While tourism, telecommunications, and manufacturing in the FTZ continue to be the engines of growth, traditional tourism has become less competitive. Moreover, textile *maquilas* have suffered from increased competition in the U.S. market. There is evidence of a “syndrome of declining competitiveness” as traditional sources of growth wane.²
- 1.3 The FTZ and tourism have benefited from favorable tax treatment, subsidies, and other policies that have been active for more than 20 years. While this induced investment and employment in these areas during their infancy, many of these privileges cannot be as easily justified now. Other sectors, such as agriculture and industry, were less dynamic and saw their shares of output stagnate or decline. As a consequence, there has been limited export diversification both in terms of products and destination markets.
- 1.4 Today, the economic and trade incentives that contributed to the development of this growth model have changed. The end of the Multi-Fiber Agreement (MFA)

¹ The issues described in this and subsequent sections are based on various background papers that diagnose the situation when the first PBP operation was prepared. These documents detail the macroeconomic situation, growth patterns, competitiveness policies, and fiscal conditions in the Dominican Republic circa 2008 and are described more fully in the first PBP loan (2126/OC-DR) and its accompanying annexes.

² Fanelli and Guzman, 2008 (Complete references are in the [bibliography](#)).

and the rise of lower-cost competitors in China and elsewhere, have undercut export market shares, while World Trade Organization (WTO) rules will require an end to differential taxation or subsidization on goods' exports. At the same time, far-reaching trade agreements under CAFTA-DR have created opportunities for greater market access. To adapt to economic conditions, policies are needed to promote the development of factor and product markets, to overcome barriers to productive private sector activity, and to facilitate the transfer of resources to new, dynamic sectors.

- 1.5 **Competitiveness Policy.** As described in the first loan, the Dominican Republic's low ranking in various measures of competitiveness and business climate results from a range of barriers to private sector-led development.³ At the macro level, sustainable fiscal policies are hampered by distortionary tax policies (many providing tax benefits to export sectors); poor budgeting and debt management policies; and weak investment planning and result-based budgeting. In addition, the policies and institutions to promote productive development -- a critical part of a competitiveness policy -- are fragmented and, therefore, less effective. Further, the level of investment in research and development by firms is low, and the institutional framework for quality and certification of business products and processes is weak. Measured against international benchmarks, there are high transactions costs to open and close firms, and time-consuming customs procedures.
- 1.6 A major impediment to a successful competitiveness policy is the presence of coordination failures in the public and private sector.⁴ Greater public-private collaboration is needed to make public policies more effective by maximizing the information available to decision makers and reducing rent-seeking behavior.⁵ As well, inter-firm linkages are not fully exploited resulting in lower levels of investment, fewer positive externalities, and more limited economies of scale and scope. Initial efforts to overcome coordination failures are being formulated by institutions like the National Competitiveness Council (CNC), a public-private entity, that has a mandate to recommend policies and strategies to improve the business climate, advance productivity and increase exports in key sectors.
- 1.7 **Problems Addressed, Justification, Main Results.** Table 1 below outlines the areas of intervention as identified with the government based on the diagnoses presented in the first operation, their justification, and expected results.

³ These issues and their impact on growth are described more fully in the first operation (2126/OC-DR) and its annexes. Examples of these indices are the Global Competitiveness Index (WEF) and Doing Business (World Bank).

⁴ Coordination failures occur when market forces do not provide incentives for actors to jointly provide public goods/services and private goods/services, resulting in unexploited opportunities to expand economic activity at the sector level. This equilibrium is sub-optimal when compared to a one where there is joint provision. (Rodrik, 1996; Rodriguez-Clare, Rodriguez, and Fischer, 2005).

⁵ Schneider 2009.

Table 1. Framework for Competitiveness Policy in the Dominican Republic

Policy Area	Problems Addressed	Justification for Policy or Institutional Reform	Main Results of PBP series
I. Macroeconomic Sustainability. A macroeconomic environment consistent with increased private investment, expanded foreign trade, and enhanced productivity and competitiveness.	In 2007-2008, slowing growth and rising inflation were combined with continued large quasi-fiscal deficits. These required policies to narrow the deficit, achieve sustainable debt levels, and improve resource mobilization.	Better fiscal policies will contribute to a stable policy environment that is conducive to increased private sector investment.	Sound fiscal policy, better debt management, and transparency of tax expenditures and subsidies (Component II); Required macroeconomic monitoring with IDB Independent Macroeconomic Assessment and IMF evaluations.
II. Fiscal management, planning and public administration Improved fiscal management through a budget system that ensures macroeconomic consistency, public investment planning, an adequate system of internal controls, and strengthened public administration.	Structural problems with fiscal and public sector management were common. Tax and subsidy policies created large distortions in resources allocation in the real sectors of the economy and a drain on fiscal resources needed for pressing social and capital expenditures. Fragmented budgeting and planning functions with ill-defined public sector debt management. Low level of development effectiveness with absence of a planning framework and management for results. Limited use of common standards for civil service performance and grading.	Improved accountability and transparency in financial management and investment policy will create a more stable policy environment with greater credibility for government action. This, in turn, will create a better environment for private sector investment and productive activity.	Implementation of multi-year budgeting with consolidated revenue and expenditures; integrated financial management for all non-financial public entities; improved fiscal and macroeconomic policymaking ; improved public debt oversight; and more transparent reporting of tax exemptions (MH). Planning capabilities will be improved with new planning units, development of a planning and investment system (SNIP); use of results-based management, and more effective use of tools to analyze outcomes and impacts of investment projects (MEPyD).

Table 1. Framework for Competitiveness Policy in the Dominican Republic

Policy Area	Problems Addressed	Justification for Policy or Institutional Reform	Main Results of PBP series
III. Institutions for Competitiveness and Trade: Promoting competitiveness by facilitating foreign trade through changes to the legal framework arising from international commitments; streamlining trade-related administrative procedures; and developing the key institutions to direct the policies and strategies for productive development.	Weakness in the export-oriented growth model, evidenced by falling share of exports to GDP (from 28% in 1990 to 17.5% in 2007) and limits of “all-inclusive” tourism model. New opportunities from CAFTA-DR required updating customs policies to lower the time and cost for trade, especially in time-sensitive products. Absent were institutions to guarantee competition and safeguard consumers. Further, institutions to support productive development policies were incipient and did not meet strong performance and impact criteria to effectively overcome market barriers, limited economies of scale, lack of product innovation, limited inter-firm cooperation, and weak supply chains.	Improvements in the institutional framework will lower transactions costs for trade; enhance coordination among market actors; create stable rules for market competition and ease their enforcement; strengthen property rights; and result in better formulation and implementation of productive development policies.	Customs procedures improved with new electronic import registry. A competition authority established and made operational and a consumer protection agency created (Proconsumidor). The institutions responsible for productive development policies created and/or strengthened with productive development policies that minimize distortions in the economy while addressing issues of externalities (Proindustria and CNC). Amendments to copyright protections made to protect intellectual property and a regulatory commission to oversee trade practices.
IV. Innovation, Technology Development, and Quality Control. Development of a national science, technology, and innovation system and its institutional basis; development of higher education; promotion of information and communications technology; and use of technical and quality standards to raise productivity.	The industrial base is characterized by service exports and low-technology exports, which results in low investment in R&D+i (0.25% compared to 0.5% in LAC and 2.0% in OECD). Further, limited innovation effort by private firms is combined with a lack of qualified engineers due to poor educational quality and low demand by firms. There is a low penetration of information and communication technologies, while firms’ demand for technological services, like quality control is largely unmet. A lack of a strategic framework for science and technology that combine government, university, and enterprise efforts within a coherent framework.	Targeted policies will overcome the limitations imposed by market failures and poor coordination in the provision of public goods by creating a regulatory structure to accredit laboratories and set standards to encourage the supply of quality and metrology services; boosting the use of technology through training in ICT; improving educational standards for engineering; and creating a common strategic vision for public private collaboration.	Creation of Technology Innovation and Development Board with public and private actors. Establishment of a national strategy (PECyT+i) that sets priorities and benchmarks for performance. Development and use of a national fund for innovation to encourage private sector and university collaboration, and the creation of a network of university-based incubators for firms. Improvements to the engineering curriculum using international standards and accreditation and certification. Design and approval of a national quality system to improve the quality of Dominican goods and services.

Table 1. Framework for Competitiveness Policy in the Dominican Republic

Policy Area	Problems Addressed	Justification for Policy or Institutional Reform	Main Results of PBP series
<p>V. Improved Business Climate. Creation of the legal, institutional, administrative, and strategic framework to promote private sector economic activity.</p>	<p>International benchmarks indicate weakness in the business climate such as the high transactions costs related to business opening and closing.</p>	<p>Unnecessary barriers to firms hinder the functioning of markets and the efficiency of resource allocation and utilization. Public policies that eliminate such barriers will stimulate increased economic activity. Moreover, administrative and regulatory barriers are most burdensome for smaller firms and may be a disincentive to their formalization.</p>	<p>One-stop shop for firm registration available nationwide (Crea Tu Empresa); new legal codes for firm incorporation and restructuring; new legal structure for guarantees to support SME access to finance; improve data and monitoring capabilities to assist policies for SMEs (Observatorio Mipyme).</p>
<p>VI. Technical Support for Productive Development and Innovation Activities. Greater inter-institutional policy coordination to help guide strategy and policy design for competitiveness and to reduce distortionary policies.</p>	<p>Competitiveness strategies and policies tend to be fragmented and do not take advantage of synergies among institutions owing to government "coordination failures". Further, pilot experiences to support productive development are not fully evaluated and scaled up where feasible. While institutional performance measures are not widespread and international benchmarks are not used to identify weaknesses and overlaps in programs. Finally, policies often use fiscal incentives without any demonstrated benefit to competitiveness.</p>	<p>Interventions will reduce information asymmetries that hamper development of new products/markets and greater inter-firm cooperation. Funding for public-private collaboration in PDP formulation, evaluation and impact measurement, combined with institutional evaluations will help overcome "government failures" in the formulation and implementation of productive development policies.</p>	<p>Expanded use of matching grants to support firm-level product innovation and access to new markets; improved methodologies for identifying and measuring the impact of clusters activities. Creation of mechanisms for public-private collaboration to define PDPs and their use, while reducing fiscal incentives that imply unwarranted costs.</p>

B. Program Justification

- 1.8 **Financing Requirement.** Fiscal consolidation in 2010 and 2011, aided by reforms of the electricity sector, will be critical to ensuring future financing. The deficit of the non-financial public sector is expected to reach 2.5% of GDP in 2010 (3.9% for the consolidated public sector, including the quasi-deficit of the BCRD). Additionally, the current account deficit is expected to remain around 6% of GDP, similar to its levels in 2009 and somewhat lower than the double-digit figures from previous years (reflecting the still-sluggish import demand). Partially offsetting a continuously large trade deficit will be a services surplus from tourism and remittances. In terms of financing, FDI is a major component, which given current instability in global markets, is less predictable. The IMF is projecting FDI will reach about 4% of GDP in 2010. External financing needs will be mostly met by the issuance of bonds in international markets, and multilateral funds (assuming that the fiscal program continues as planned). The present operation will provide about 5% of the total NFPS financing requirement, while it supports continued improvements in fiscal management and competitiveness policy that will contribute to sustainable macroeconomic outcomes in the medium term.
- 1.9 **Policy Reform Process.** In recent years, the authorities have developed a more sophisticated competitiveness policy. This policy is not part of a fixed recipe, but rather is a dynamic set of interventions that are selected because they are viable, effective, and promise sustainable results in terms of productivity gains and macroeconomic stability. The current operation supports this effort based on international best practices and experience.⁶ Importantly, the program's design takes into account the dynamic nature of the policy and institutional reform process. The PBP provides the maximum flexibility to adjust to the administrative and political capacity of local institutions, while maintaining the momentum for reforms by means of the triggers in the various operations (see Policy Matrix in Annex II). Further, as a result of discussions with the authorities, the amount of the present operation has been increased, while the amount of the overall programmatic series has been raised by \$20 million to \$200 million. The accompanying technical cooperation loan will support inter-institutional policy coordination, finance productive development interventions at the firm-level, and offer technical support for compliance with triggers of the third PBP operation. The operation is aligned with the Bank's country strategy (in preparation) which includes among its goals improving the efficiency of public expenditure and greater institutional coordination in productive development policy. As well, it supports the specific targets for cluster development and university-firm collaboration in R&D+i.

⁶ These types of productivity-enhancing policies are discussed extensively in "The Age of Productivity: Transforming Economies from the Bottom Up" (IDB 2010).

C. Objective and Components

- 1.10 **Objective.** The objective of the Program is to improve competitiveness policy in the Dominican Republic. To this end, the actions support greater macroeconomic stability in combination with institutional and legal reforms that improve the productive efficiency of the real sectors of the economy, while improving the design and implementation of competitiveness policy.
- 1.11 **Components.** The Program has six components namely: (i) macroeconomic conditions; (ii) fiscal management, development planning and public administration; (iii) institutions for competitiveness and trade; (iv) innovation, technological development, and quality control; (v) business climate reforms; and (vi) technical support for productive development and innovation activities (a technical cooperation loan). The objectives and justification of these components are presented in Table 1. The means of verification for the PBP (Components I through V) are presented in Annex II (Policy Matrix), as are the policy triggers for the final PBP. The expected outcomes and outputs of the technical assistance operation (Component VI) are detailed in Annex III.
- 1.12 **Component I: Macroeconomic Conditions.** The government will undertake measures aimed to create a stable macroeconomic environment that is consistent with increased private investment, expanded foreign trade, and increased productivity and competitiveness.
- 1.13 **Policy Actions.** The government has outlined in its [Policy Letter](#) the measures to maintain a macroeconomic framework consistent with the Program's goals of enhancing competitiveness policy. Furthermore, the Bank has undertaken an [Independent Macroeconomic Assessment](#) to evaluate the current economic conditions and prospects. The authorities also signed a Stand-by Agreement with the IMF in November 2009 and are subject to periodic reviews, the most recent is planned to be completed in the third quarter of 2010.
- 1.14 **Component II: Fiscal Management, Development Planning and Public Administration.** The Program supports several ministries that are collectively responsible for the policies and processes for fiscal management, development planning, and public sector administration. These institutions have been recently established with their new functions and the policy conditions for this operation are triggered by measurable progress in their respective areas.
- 1.15 **Fiscal Management.** The Program supports the Ministry of Finance (MH) to strengthen overall fiscal management, including the creation of a fiscal policy unit; application of multi-year budgeting for the non-financial public sector; better fiduciary management integrating the budget for the central government and decentralized institutions, and Social Security; limits on the discretionary use of funds; application of accrual accounting; and better and more transparent public debt management. Further, the annual budget presentations will include estimates of tax expenditures and their incidence on the budget, while the Government

Integrated Financial Administration System (SIAFE) will be deployed throughout non-financial public sector institutions.

- 1.16 As a **condition for disbursement** the Borrower will present evidence of the: (i) creation of the fiscal policy unit in the Ministry of Finance; (ii) application of multi-year budgeting for the non-financial public sector; (ii) preparation of an integrated budget based on accrual accounting; (iii) improved management of public sector debt operations; (iv) improvement in internal auditing in public institutions; and (v) documentation of tax expenditures to evaluate their fiscal impact. Owing to the pace of implementation, the conditions for the SIAFE will be incorporated in the third operation.⁷ The third operation will highlight continued improvements in fiscal management; the incorporation of a code of ethics for "front" and "middle" office personnel that participate in the market issuance of public debt; and the creation of a public dissemination policy for debt reporting by the Unit for Public Credit (*Dirección General de Crédito Público – DGCP*).
- 1.17 **Development Planning.** In terms of development planning, the Ministry of Economy, Planning and Development (MEPyD) is the lead institution for national planning activities. Among its responsibilities are those of applying a multi-year planning framework; deploying a National Public Investment System (SNIP); and preparing a National Development Strategy (NDS). The NDS is a foundation document that needs to be consulted with different stakeholders in the government, civil society, NGOs, and academia, as it will set the government's long-term development policies. The improved planning is further supported by greater planning capacity in other government ministries, better tools for project selection, and greater accountability through a management-for-results model.
- 1.18 As a **condition for disbursement**, the Borrower will provide evidence that: (i) the NDS has been prepared and is being consulted with relevant actors prior to its submission to the Congress for approval (the original trigger for this operation was presentation to Congress, but the consultation process was launched in mid-2010 and so this trigger will now be included in the third operation); (ii) planning capacity is being improved in at least 4 ministries with the strengthening of the functions of the planning units; (iii) a management framework (performance contracts) is being developed with the implementation of agreements for the progressive application of a results-based framework in 4 ministries; (iv) technical standards for the SNIP are prepared and disseminated; (v) decentralized institutions are incorporated into the SNIP with detailed project information; (vi) new management approaches are being applied for annual planning, institutional planning and management for results; (vii) improved training plans are integrated in the project cycle of public sector budgets; and (viii) preparation of instructions on the use of evaluation tools.

⁷ The implementation of the SIAFE is being supported by the IDB through technical and financial support from PAFI II (1809/OC-DR), which will incorporate the broader use of the tool among decentralized agencies and the greater use of electronic signatures to facilitate transactions.

- 1.19 **Public Administration.** The Program also supports the use of common standards for a career civil service, improved institutional management, and better administrative evaluation of government entities. The implementation of the *Sistema de Administración y Servicios de Personal* (SASP) is being carried out in two phases. The first phase is already completed and covers 20 central government institutions and approximately 70,000 public sector employees. The second phase is being rolled out in the next 12 months to incorporate the remaining institutions. The Ministry for Public Administration (MAP) has evaluated 26 central government institutions during the period 2006-2010 using the Common Assessment Framework (CAF).
- 1.20 As a **condition for disbursement**, the Borrower will present evidence of (i) the implementation of the SASP; and (ii) the application of an evaluation tool for public administration development (CAF). In the final operation, the authorities will report on the coverage levels of career civil service in the central government and its decentralized and autonomous institutions. Further, a target has been set for the coverage of a uniform salary scale in the public sector.
- 1.21 **Component III: Institutions for Competitiveness and Trade.** Specific actions are proposed in the PBP including: (i) the creation of the legal framework for trade that facilitates greater commercial activity and provide safeguards against unfair practices; and (ii) the establishment of institutions to implement productive development policies; facilitate public-private dialogue; and foster greater market competition and consumer protection. Many of these actions are linked to the National Plan for Systemic Competitiveness (PNCS) and are being closely monitored by the CNC. The authorities have already made significant legal improvements to ensure compliance with their free trade agreements, like CAFTA-DR, and other international legal standards.
- 1.22 **Legal framework for trade.** In the present PBP, the legal framework for unfair trade practices and safeguards will be implemented in accordance with WTO standards. As well, the DGA will set up a one-stop shop for customs procedures that uses electronic media (SIVUCEX) and a single customs document for imports (*Documento Único de Aduana* -- DUA). These actions support the development of modern and efficient customs procedures that reduce time and cost for processing goods in customs.
- 1.23 As a **condition for disbursement** the Borrower will present evidence of the operation of the Commission for the Unfair Trade Practices and Safeguards. Further, the use of the DUA will also be documented with the provision of a user's manual and evidence of the increased use of on-line reporting for imports. In the final operation, the Commission will provide evidence that it is exercising its functions to investigate dumping, provide compensatory measures, and apply safeguards according to the rules of the WTO; while improvements in the technical capacity of customs personnel to implement the Integrated Customs Management System (SIGA) will be made. The Bank intends to support this latter effort with technical assistance under Component VI.

- 1.24 **Institutions for Productivity and Competitiveness.** The Program supports various institutions that formulate and implement productive development policies (PDP). The authorities have created Proindustria to support the development of industrial parks and other productive activities. The CNC has been operational since 2006 supporting policy initiatives that improve the business climate and regulatory framework for competitiveness, as well as managing a financing mechanism (FONDEC) to support cluster-based initiatives among firms. This latter activity will be supported in this Program through a Technical Cooperation Loan (Component VI). Finally, the law to create a Competition Authority was approved and the council members named for the Institute for the Protection of Consumer Rights (Proconsumidor).
- 1.25 As a **condition for disbursement** the Borrower will present evidence that the CNC has a budget for its operations. Further, the operating rules for the CNC will be presented establishing it as a decentralized public institution with public and private sector membership empowered to develop a national competitiveness strategy and formulate the necessary policies for its implementation. The authorities will submit for congressional approval the list of candidates for the Council of Directors of the Competition Authority. As part of the final operation, institutional evaluations will be made of Proindustria and the CNC to create baseline data on their performance and enable further refinements in their design and to improve their overall impact. In the case of Proindustria, the approval of its operating rules, originally a trigger for this operation, has been postponed to the final operation to allow a more detailed examination of the institution and its strategic role in formulating and implementing productive development policies. As a trigger of the third operation, the Competition Authority will function according to its legal mandate with operating rules approved by its Board.
- 1.26 **Component IV: Innovation, Technology Development and Quality Control.** Many of the policy recommendations are based on the Strategic Plan for Science, Technology and Innovation (PECYT+I) which aims to strengthen the national science, technology and innovation system. Specific strategy areas include: (i) development, adoption and mainstreaming of a comprehensive national strategy in the sector; (ii) implementation of improved institutional coordination; (iii) deployment of funding for innovation and scientific and technology development; (iv) improvement in the national engineering curricula; (v) closing the digital divide; and (vi) establishing technical standards and quality control.
- 1.27 **National Innovation System.** The authorities have strengthened the main elements of a National Innovation System. Under the first operation, the Government established a Technology Development and Innovation Board with membership from the private sector and academia. A consolidated strategic vision was prepared in the PECyT+I, while updated operational rules were prepared for the Dominican Fund for Scientific and Technological Research (FONDOCYT).
- 1.28 As a **condition for disbursement**, the Borrower will disseminate the strategy and develop baseline indicators for its evaluation. Further the Technology

Development and Innovation Board will be operational, and the technical and administrative regulations for FONDOCYT will be approved. In the subsequent operation, MESCyT will evaluate the first phase of implementation of the strategy and its effectiveness.

- 1.29 **Post-Secondary Education and R&D+i.** To strengthening educational programs in critical areas, such as engineering, greater coordination is needed between the productive sectors and post-secondary institutions. Under the first operation, the authorities created a National Network for Incubators and Entrepreneurship (*Dominicana Incuba*) to encourage technology-based innovation, while launching an assessment of engineering curriculum based on international standards of accreditation and certification.
- 1.30 As a **condition for disbursement**, the Borrower will demonstrate that *Dominicana Incuba* is operational and is fulfilling its mandate. As part of the review of the engineering curriculum, the advance in the diagnostic work on educational institutions and the needs assessment of private sector demand will be presented. In the subsequent operation, a new engineering curriculum will be created based on the diagnostic work, incorporating international benchmarks, and will include an implementation plan. In addition, at least six incubators will be launched as a pilot for engineering students, and the corresponding evaluation will be carried out after six months of operation.
- 1.31 **Narrowing the Digital Divide.** To develop a knowledge-based economy the authorities have improved access and usage of information and communication technology. Through the creation of Training Centers in Information Technology (CCI), the authorities are seeking to broaden access to increase productivity. As part of the first operation, the authorities presented evidence of the creation of the CCI using a community-based model developed by INDOTEL. Presently, there are 860 CCI operational to support access to information technology and training to persons in rural and outlying urban areas; however, many of these lack access to Internet.
- 1.32 As a **condition for disbursement**, the Borrower will provide evidence that 59% of the CCI in operation have access to Internet. While this is below the target of 75% set initially for this operation, the authorities have provided a plan to expand access further through broadband access and WiFi as a means to increase Internet coverage. In the subsequent operation, the number of centers will be expanded, and the Program will measure their access to Internet coverage as a measure of improved services to beneficiaries, as well as the development and application of software to monitor and evaluate their usage. In the final operation, an initial evaluation of the CCIs will be conducted based, in part, on the data gathered from the software developed by INDOTEL.
- 1.33 **Quality Control and Technical Standards.** The authorities have drafted a law to create a National Quality System (NQS) including roles for oversight, norm setting, accreditation, and creation of a standards and measurements institution.

The system is compliant with WTO agreements. The use of certified technical and quality standards for products and services will facilitate the entry of domestic products and services in international markets.

- 1.34 As a **condition for disbursement**, the Borrower will show that the new law for the NQS was presented to the Congress for approval. In the subsequent operation, the regulations for the new law will be presented and approved, and the Group of Experts to advise the oversight council will be established. The advisory group will have among its responsibilities the preparation of a National Quality Plan.
- 1.35 **Component V: Business Climate Reforms.** The areas identified in this operation form part of the PNCS, and as such have been developed by the CNC in collaboration with private sector actors and government agencies. These actions include: (i) developing and implementing a strategic and institutional framework to support productive development policies for SMEs and access to information relevant to policymaking; and (ii) implementing legal changes that lower transaction costs for firms.
- 1.36 **Institutional and Strategic Framework for MSMEs.** A strategic plan for SMEs with public and private participation has been prepared and a new legal framework for PROMIPYME submitted to the Congress that permits second tier credit operations and defines new modalities for technical assistance for technology upgrading and entrepreneurial development. Furthermore, steps have been taken to design new modalities that facilitate access to credit by SMEs through mechanisms to provide guarantees that can help secure access to private financing.
- 1.37 As a **condition for disbursement**, the Borrower will present evidence that as part of its strategic plan an MSME observatory (a web portal for dissemination) is being developed to assist policy formulation by making readily available statistical data, legal information, and strategy monitoring. A legal framework will be proposed for a credit guarantee system to expand credit access for SMEs. The subsequent operation includes evidence that the MSME observatory is operational. Also the operating rules for PROMIPYME -- originally a trigger of the second operation -- will be approved in the final operation, defining its role to support private provision of credit and business development services, while assuming an oversight and regulatory role for SME policy. An institutional performance evaluation of PROMIPYME will be completed to identify strengths and weaknesses in its operational activities. Finally, the use of a guarantee mechanism will be approved and operational.
- 1.38 **Lower Transaction Costs for Firms.** To lower the transaction costs of registering new firms, the government established an on-line system for business registration (*Crea tu Empresa*) in Santo Domingo. Further, the Congress updated the legal structures for incorporation to improve governance and offer greater investor protection. The new rules allow new forms of incorporation, update merger rules, facilitate changes in capital and the dissolution of firms. These new

legal forms of incorporation require modifications to the on-line registration system. Furthermore, an updated framework for bankruptcy law has been presented to Congress as part of the conditions of the first operation and is pending final approval.

- 1.39 As a **condition for disbursement**, the Borrower will present evidence that the on-line system for business registration is being updated to reflect the new forms of incorporation. Moreover, FEDOCAMARAS will present the results for both, the conversion of existing firms and the creation of new firms under the new legal framework of the Corporations and Individual Limited Liability Companies Act. Additionally, the CNC will document its outreach efforts to disseminate information on the new legislation for incorporation and firm restructuring in order to promote greater understanding of these laws. In the subsequent operation, the on-line business registry will be expanded to a nationwide system (supported in part with a FOMIN operation). As well, once the operating rules for the new bankruptcy law are promulgated, the authorities will establish new Centers for Firm Restructuring in at least 2 major cities.
- 1.40 **Component VI: Technical Support for Productive Development and Innovation Activities.** This component supports policies that improve productive sector activity. Specifically, technical assistance will be used to: (i) provide matching grants for cluster development and enterprise innovation; and (ii) catalyze greater inter-institutional coordination among those entities involved in the formulation of productive development policy (CNC, Proindustria PROMIPYME, and MESCyT), while offering technical assistance to ensure compliance with the triggers of the third operation of the PBP. These activities are described in greater detail in Annex III.

D. Key Results Indicators

- 1.41 The program results are reflected in the policy and institutional reform commitments of the authorities (Annex II) and the means of verification provided. The results of these activities will be measured, by and large, through the evidence of successful compliance with these conditions, but will be supplemented with publicly available data that measure variables consistent with the outcomes and expected impacts of the program as indicated in the [Results Matrix](#). In addition, a results framework for the technical cooperation loan component is described in Annex III.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 This second of three PBPs is for US\$110 million. In addition, the authorities have requested a technical cooperation loan of US\$10 million to support activities aligned with the program's goals and for the implementation of specific policies

linked to the third operation. The latter operation has US\$4 million in counterpart financing. The total amount for the operations is US\$124 million.

B. Environmental and Social Safeguard Risks

- 2.2 The policies contemplated in the present operation will not have adverse direct environmental impacts. According to the rules for Environmental and Safeguard Compliance (OP-703), the operation does not require classification.

C. Other Key Issues and Risks

- 2.3 There are two main risks. First, deterioration in macroeconomic conditions could lower business investment and slow the pace of structural reform. Given the presence of an IMF Stand-by Agreement, the macroeconomic situation will be closely monitored and necessary adjustments can be made early on. Second, if the policy reform process were to stall this could jeopardize achieving the expected outcomes. The commitment expressed by the government to its reform agenda demonstrates ownership of the program and gives assurances that implementation will continue. Furthermore, the technical cooperation loan of the present operation strengthens inter-institutional cooperation in furtherance of improving the country's competitiveness policy. The majority of conditions for disbursement of this loan have been complied with prior to Board presentation.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary Implementation Arrangements

- 3.1 The executing agency is the MH which will provide the needed evidence for compliance with the conditions of the Policy Matrix of the PBP and for the subsequent, and final, operation. The other agencies involved will include MEPyD, which will coordinate the activities of Component II, excluding those that pertain to MH. For the implementation of Components III, IV, and V oversight will be provided by the CNC, which will coordinate the delivery of compliance information with the relevant agencies as signaled in the Policy Matrix. Finally, Component VI (Technical Cooperation Loan) will be executed by the CNC and will have its own loan resolution and contract.

B. Summary of Arrangements for Monitoring Results

- 3.2 Following approval, the Bank, the executing agency, MEPyD, and the CNC will carry out a continuing policy dialogue to monitor compliance with the triggers for the subsequent operation and to update the indicators highlighted in the Results Matrix.

Development Effectiveness Matrix
Summary

Indicator	Score	Maximum Score
I. Strategic Relevance	Low-High	
1. IDB Strategic Development Objectives	2.0	10
Country Diversification	2.0	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.0	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	7.8	10
Country Strategy Sector Diagnosis	4.2	6
Country Strategy sector objective & indicator	3.6	4
II. Development Outcomes - Evaluability	Partially Satisfactory	
3. Evidence-based Assessment & Solution	6.5	10
4. Evaluation & Monitoring Plan	5.3	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
III. IDB's Role - Additionality		
7. Additionality	7.0	10
Technical Assistance provided prior the project	3.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	0.0	3

I. Strategic Relevance: This operation will be executed in the Dominican Republic, through a PBL. The operation is not related to current corporate initiatives; there is no evidence of use of country systems. The project is however linked to the current country strategy as well as to the new one forthcoming.

II. Evaluability: The program has a diagnosis which identifies deficiencies but not their magnitude. Indicators are SMART. The project will use a reflexive methodology for its evaluation; however, the evaluation plan lacks specificity. The project lacks an economic analysis. It has a risk classification of C. Potential risks have been identified together with mitigation measures; however, there are no metrics to monitor their implementation.

III. Additionality: a TC loan to conduct an evaluation supports this operation.

Policy Matrix

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
I. MACROECONOMIC SUSTAINABILITY: <i>A macroeconomic environment consistent with increased private investment, expanded foreign trade, and enhanced productivity and competitiveness.</i>			
Contribute to macroeconomic sustainability through appropriate fiscal and monetary policies.	The macroeconomic policy framework is consistent with the objectives of the programmatic loan and the guidelines set out in the sector policy letter.	The macroeconomic policy framework is consistent with the objectives of the programmatic loan and the guidelines set out in the sector policy letter.	The macroeconomic policy framework is consistent with the objectives of the programmatic loan and the guidelines set out in the sector policy letter.
II. FISCAL MANAGEMENT, PLANNING, AND PUBLIC ADMINISTRATION: <i>Improved fiscal management through a budget system that ensures macroeconomic consistency, public investment planning, an adequate system of internal controls, and strengthened public administration.</i>			
Develop public fiscal management capacity by consolidating the institutional framework of fiscal management; improving planning functions; and developing public administration mechanisms.	1.a. Creation of the Ministry of Finance (MH) ¹ as the entity responsible for: (i) overall fiscal policy and its macroeconomic consistency; (ii) preparing a multiyear financial framework with a multiyear nonfinancial public sector budget; (iii) establishing measures to improve budget management and the allocation of responsibilities; and (iv) establishing the use of a Treasury Master Account system.	1.a. (i) Creation of a unit in the MH to review all fiscal-policy-related issues and ensure consistency of action with macroeconomic and fiscal policy; and (ii) MH preparation of a methodology for drafting a multiyear budget for the nonfinancial public sector.	1.a. (i) Multiyear budget is prepared and presented to Congress.

¹ The Secretariats of State were renamed Ministries in 2010 as a result of the changes with the passage of the new Dominican constitution; therefore, the names have been changed to maintain consistency with the current designations.

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	1.b. Establishment of a national general budget and associated regulations on: (i) the use of a consolidated revenue and expenditure budget for the central government, decentralized institutions, autonomous nonfinancial institutions and social security institutions; (ii) limits to the use of discretionary budgetary funds; (iii) reporting on the tax exemption amounts that impact revenue collection; and (iv) the application of accrual accounting.	1.b. (i) MH development and approval of the methodology, standards and technical instructions for drafting the consolidated revenue and expenditure budget for the central government, decentralized institutions, autonomous financial institutions and social security institutions; (ii) elimination of the use of the budget reserve in the executed budget ; (iii) use of accrual accounting-based budgeting in 2010; and (iv) incorporation of the tax expenses in the 2010 budget accounting and development of a methodology to identify the cost of tax subsidies.	1.b. (i) Preparation and presentation to Congress of a consolidated revenue and expenditure budget for the central government, decentralized institutions, autonomous nonfinancial institutions and social security institutions; (ii) the use of accrual accounting-based budgeting; and (iii) development of a plan (with targets and implementation timeframes) to identify policies and measures that increase revenue collection efficiency; make tax expenditure and subsidy use more transparent; set fiscal deficit and contingent debt targets; and establish public sector staffing levels.

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	<p>1.c. Strengthening of public debt management by: (i) establishing a strategic public debt strategy plan that complies with debt management guidelines and policies; (ii) creating a public debt oversight body responsible for the rules governing procedures, recording of operations, and control of resources received; and (iii) requiring prior approval of external borrowing by nonfinancial public institutions be approved in advance and consistency with the budget for public finance transactions.</p>	<p>1.c. (i) Debt Council preparation and approval of a public debt strategy plan; (ii) MH preparation of the Public Finance Department (DGCP) internal operating rules; and (iii) implementation of the requirements for prior approval of external borrowing.</p>	<p>1.c. (i) Approval and implementation of DGCP internal operating rules; (ii) preparation of a code of ethics in line with the principles established by the Ministry of Public Administration for DGCP officials who participate in market negotiations relating to public debt placements; (iii) establishment of a policy for disseminating the debt reports produced by the DGCP (financing plan, medium-term management strategy, and others) on the institution's portal; and (iv) registration of all public debt transactions.</p>

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	1.d. Improved financial management under a legal framework that: (i) applies and uses the Government Consolidated Financial Management System (SIAFE) in all central government entities, decentralized institutions, autonomous nonfinancial institutions and social security institutions; (ii) assigns responsibility to a MH central unit in charge of directing and coordinating the SIAFE and maintaining and updating the system; and (iii) uses electronic media and digital signatures for documents prepared in the SIAFE.		1.d. Financial Management: (i) Evidence that SIAFE is up and running in the decentralized institutions; and (ii) performance, and subsequent evaluation, of a survey of SIAFE users.
	1.e. Establishment of a legal framework for internal control through the creation of a system in the internal audit units to ensure the quality and uniformity of internal controls in public entities.	1.e. Audit and internal control: preparation of a plan for implementation of the basic standards for internal control.	1.e Evidence of implementation of the national internal control system in public entities.

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	<p>2.a. Creation of the Ministry of Economy, Planning and Development (MEPYD) as an entity responsible for: (i) oversight and regulation of the national planning system and investment project guidelines and standards; (ii) preparation of the National Development Strategy; and (iii) development of multiyear plans for public sector policies, programs, projects and investment.</p>	<p>2.a. (i) Preparation of the National Development Strategy in consultation with public institutions, political and social organizations and the citizenry; (ii) establishment of planning units in at least 4 Ministries; and (iii) signing of agreements between the regulatory bodies (MEPYD and MAP) and 4 entities to implement annual programming and institutional planning in the context of results-based management.</p>	<p>2.a. (i) A National Development Strategy is presented to Congress; (ii) evidence that planning units are operating in the Ministries and that training programs for the personnel assigned to these units are in place; (iii) evidence of the implementation of results-based management in 4 entities.</p>
	<p>2.b. Legal framework to improve the planning and public investment system through: (i) the establishment of standards, principles and bodies for the planning and investment system; (ii) prioritization of projects, including targets, costs and impact; and (iii) an analysis of outcomes and impacts of investment projects, administrative reform policies, and policies promoting the private sector.</p>	<p>2.b. (i) National Public Investment System (SNIP) standards and procedures are prepared and disseminated within the government; (ii) decentralized entities are integrated into the SNIP with detailed project information; (iii) training in the SNIP is given in the public entities; and (iv) terms of reference are presented for preparation of a manual for evaluating the outcomes and impacts of public investment projects, including the creation of baselines, monitoring systems and dissemination.</p>	<p>2.b. (i) The following National Planning System tools are up and running: (1) multiyear public sector plan; (2) multiyear national investment plan; (3) regional plans; (4) sector strategy plans; and (5) institutional plans; (ii) Presentation of a progress report on the use of impact assessment mechanisms; (iii) Manual approved by the MEPYD for impact assessment methods incorporating baselines, monitoring and tracking systems, and the dissemination of results.</p>

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	3.a. Creation of the Ministry of Public Administration as the entity responsible for: (i) institutional strengthening of public administration; and (ii) institutional management processes.	3.a. (i) Implementation of the Personnel Services and Administration System (SASP); and (ii) use in public institutions of a tool for evaluating institutional management processes.	3.a. (i) A civil service career path is being used for at least 30% of public sector employees (central government, decentralized institutions and social security institutions); and (ii) a uniform salary scale is developed and implemented for at least 30% of public employees.
III. INSTITUTIONS FOR COMPETITIVENESS AND TRADE: <i>Promoting competitiveness by facilitating foreign trade through changes to the legal framework arising from institutional commitments, streamlining trade-related administrative procedures, and developing the key institutions to direct the policies and strategies required for productive development.</i>			
i. Legal framework for trade			
Facilitate increased foreign trade by means of a legal framework to satisfy commitments under free trade agreements; an appropriate institutional framework for facilitating trade-related processes; a more efficient customs system employing fast and modern systems; and an institutional strategy to promote and finance exports and investment.	1.a. The legal framework to protect intellectual property is amended by updating intellectual property legislation to comply with free trade agreements.	1.a. (i) Regulatory Commission on Unfair Trade Practices and Safeguards is set up and running.	1.a. (i) Regulatory Commission on Unfair Trade Practices and Safeguards is set up and running.
	1.b. Comprehensive foreign trade assistance system is implemented to accommodate electronic forms and payments.		1.b (i) DGA personnel trained in the use of the Integrated Customs Management System (SIGA); and (ii) implementation of the concept of authorized economic operator.
	1.c. An online reporting system using a Single Customs Document (DUA) is developed and initially introduced for imports.	1. Increased use of the online reporting system through use of DUA for imports and operating manuals (DGA).	

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
ii. Institutions for productivity and competitiveness			
Improve competitiveness by creating an institutional framework to promote productive development policies; facilitate public-private dialogue on strategic planning to improve competitiveness; and foster market competition and consumer protection.	1.a. Establishment of an institutional framework to develop and implement productive development policies, including creation of a public-private institution to coordinate sector policies.		1.a. (i) Approval of Proindustria operating regulations that are consistent with its role as third-tier provider of financing to the productive sector; (ii) Proindustria operation and budgetary allocation for its activities; and (iii) presentation of the results of an institutional performance evaluation identifying the institution's strengths and areas of improvement. (Proindustria)
	1.b. 2008 budget allocation for the CNC (National Competitiveness Council) and the Competitiveness Fund (FONDEC) to strengthen the CNC, implement the National Systemic Competitiveness Plan (PNCS), and promote productive partnership-building.	1.b. (i) Approval of CNC regulations; and (ii) budget allocation of at least US\$3.1 million for 2009 activities and execution and budgeting for 2010 (MH/MEPYD/CNC).	1.b. (i) CNC operation and budget allocation of at least US\$3.1 million for 2010 activities and execution; and (ii) presentation of the results of an institutional performance evaluation identifying the institution's strengths and areas of improvement (MH/MEPYD/CNC).
	1.c. Establishment of a legal framework to regulate local competition and strengthen market efficiency.	1.c. Presentation of draft regulations for the Competition Protection Act and appointment of the Commission, and allocation of budget resources. (MIC)	1.c. (i) National Competition Protection Commission up and running with personnel and allocated budget; and (ii) Board of Directors approval of the operating regulations for Law 42-08.

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
	1.d. Appointment of members of the Proconsumidor board of directors as part of the institutional consumer protection framework.	1.d. Proconsumidor up and running, allocation of budget resources, and approval of its regulations and operating manuals.	1.d. Dissemination of product price and quality information to the public and establishment of a system and procedures for expeditious handling of consumer claims. (MIC)
IV. INNOVATION, TECHNOLOGY DEVELOPMENT AND QUALITY CONTROL: <i>Development of a national science, technology and innovation system and its institutional basis; fostering of higher education; promotion of information and communication technology; and use of technical and quality standards to raise productivity.</i>			
i. Creation of a national innovation system			
Strengthen the national science, technology and innovation system by developing a national strategy to implement appropriate policies, coordinate the activities of various stakeholders, and develop financial tools to meet the needs of enterprises and other actors in the system.	1.a. Creation of the Council for Innovation and Technological Development with public and private sector representatives.	1.a. Council for Innovation and Technological Development up and running.	1.a. Presentation of the agenda and minutes evidencing the activities of the Council for Innovation and Technological Development in the most recent year. (MESCYT)
	1.b. Development and approval of a strategic science, technology and innovation plan that identifies technology, innovation and development priorities and mechanisms to finance the improved productivity of enterprises and priority sectors.	1.b. (i) Dissemination of the Science, Technology and Innovation Strategy Plan (PECYT+I) in the communications media and institutions of the Science and Technology Higher Education System.	1.b. Evaluation of phase one of the PECYT+I.
	1.c. Presentation of the draft technical-administrative regulations of the National Fund for Innovation and Scientific and Technological Development (FONDOCYT).	1.c. Approval of FONDOCYT technical and administrative regulations.	1.c. Report on the results of the FONDOCYT. (MESCYT)

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
ii. Post-secondary education programs adapted to the needs of innovation and technological development			
Develop educational programs with strengthened coordination between the productive sectors and post secondary institutions for technological innovation; apply international standards of excellence in academic programs in science, technology and engineering; and promote entrepreneurial culture and capacity in engineering and technology training.	1.a. Creation of the Dominican Network of Business and Enterprise Incubators through the founding and registration of a nonprofit entity.	1.a. Nonprofit Dominican Network of Business and Enterprise Incubators up and running. (MESCYT)	1.a (i) Creation of at least 6 university incubation centers; and (ii) an evaluation of their performance 6 months after the first center goes into operation (MECYT).
	1.b. Presentation of the terms of reference for a diagnostic assessment and a proposed new engineering curriculum that incorporates international standards of accreditation and certification.	1.b. Assess the needs for a new engineering curriculum that incorporates international accreditation and certification standards. (MESCYT)	1.b.(i) Presentation of a proposed new engineering curriculum based on the diagnostic assessment; and (ii) an implementation plan for the new engineering curriculum. (MECYT)
iii. Narrowing the digital divide			
Promote the development of a knowledge-based economy through the use of information and communications technology to raise productivity.	1.a. Establishment of at least 750 community technology centers (CTCs) offering computer and Internet access to the public. (INDOTEL)	1.a .(i) Expansion of Internet access to at least 50% of the CTCs nationwide; and (ii) plan for the development of a system to improve CTC customer service that would make it possible to monitor and evaluate the centers. (INDOTEL)	1.a.(i) Expansion of Internet access to 100% of the CCTs nationwide; (ii) application of the electronic tool to produce reliable data on the use of the CCTs. (INDOTEL)
iv. Quality control and technical standards			
Promote the use of technical and quality standards as tools to raise business productivity for enterprises by means of an appropriate institutional framework and necessary tools for certification, metrology and development of testing laboratories.	1.a. Drafting of a bill providing for a national quality system that incorporates metrology and certification institutions, and implementation of training programs in these areas.	1.a. The bill for the National Quality System Act is introduced to Congress. (SIDOCAL). (DIGENOR/CNC)	1.a.(i) Passage of the law's associated regulations; and (ii) appointment of a group of experts and consultants by the Dominican Quality Board (CODCA) to prepare a national quality plan and develop projects and programs to improve the quality of Dominican goods and services. (CODCA/CNC)

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
V. IMPROVED BUSINESS CLIMATE: <i>Creation of the legal, institutional, administrative and strategic framework to promote private sector economic activity.</i>			
i. Institutional and strategic framework for MSMEs			
Development of an institutional framework for MSME productive development, including: a strategic vision based on consensus between the various actors; definition of the government's oversight role and NGO and private-sector participation in providing productive development services for international markets; and developing mechanisms to expand access to financing.	1.a. Approval of a strategic plan, based on consensus between public and private actors, associations and NGOs, to formulate policies and actions for the productive development of MSMEs.	1.a. Design of an MSME observatory to monitor the agreed strategy and disseminate statistical information. (CNC/PROMIPYME)	1.a. An online MSME observatory, to publicize and monitor the agreed strategy and disseminate statistical information on MSMEs, up and running.
	1.b. Presentation of a legal and institutional framework for the oversight entity to promote MSME competitive development through well-defined, transparent policies; access to financial markets; and assistance for business and technology development.		1.b. (i) Drafting of regulations for the law establishing a system that promotes private sector participation in the provision of business development services and financing; defines the public sector's normative and regulatory role; and requires the evaluation of public policies for MSME development. (PROMIPYME/ CNC); and (ii) presentation of the results of an institutional performance evaluation identifying the institution's strengths and areas of improvement. (PROMIPYME/CNC)
	1.c. Evaluation of the options for expanding financing to MSMEs through reliable, financially sustainable tools (guarantee system).	1.c. Design of the legal and institutional framework for a financially sustainable Guarantee Fund. (BNV/CNC)	1.c. Approval of the Guarantee Fund with its operating regulations. (BNV/CNC)

OBJECTIVES OF PROGRAMMATIC LOAN	FIRST PROGRAMMATIC LOAN (DR-L1014)	POLICY MEASURES FOR THE SECOND PROGRAMMATIC LOAN	TRIGGERS FOR THIRD LOAN
ii. Reduction of transaction costs for enterprises			
Establish a legal and regulatory framework to facilitate the creation and restructuring of enterprises through lower transaction costs.	1.a. Expanding the mandate of the committee responsible for implementing the Comprehensive Business Formation Assistance System (SAIUFE) with a view toward creating tools to streamline the process of setting up a business through a portal.		
	1.b. Implementation of a portal providing secure, simplified, expedited online registration of businesses, integrating registration of commercial names with the National Industrial Property Office (ONAPI), taxpayer registration with the Internal Revenue Service (DGII), and mercantile registration with the relevant Chambers of Commerce.	1.b. Update of the electronic registration system through the <i>Crea Tu Empresa</i> portal (SAIUFE) to make it consistent with the new Corporations and Individual Limited Liability Companies Act (Law No. 479-08). (CNC)	1.b. <i>Crea tu Empresa</i> set up and running throughout the country. (CNC)
	1.c. Introduction to Congress of the following bills: (i) Corporations and Individual Limited Liability Companies Act; and (ii) Corporate Reorganization and Liquidation Act.	1.c. (i) Implementation of the Corporations and Limited Liability Companies Act; and (ii) organization of a least 3 national workshops on the new law. (FEDOCAMARAS/CNC)	1.c. (i) Passage of the regulations for the Corporate Reorganization Act; (ii) creation of a business reorganization center within the Santo Domingo and Santiago Chambers of Commerce and Production; and (iii) approval of the implementation plan for the Corporate Reorganization and Liquidation Act, based on best international practices.

DOMINICAN REPUBLIC

PROGRAM TO SUPPORT COMPETITIVENESS POLICY II

**COMPONENT VI. TECHNICAL ASSISTANCE FOR PRODUCTIVE
DEVELOPMENT AND INNOVATION
(TECHNICAL COOPERATION LOAN)**

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ANNEX IIIA Summary Procurement Plan

ABBREVIATIONS

AWP	Annual Work Plan
CMF/CDR	Capital Markets and Financial Institutions Division, Dominican Republic
CNC	Consejo Nacional de Competitividad [National Competitiveness Council]
DGCP	Dirección General de Crédito Público [Unit for Public Credit]
ESS	Environmental and social strategy
FONDEC	Fondo de Competitividad [Competitiveness Fund]
MESCyT	Ministry of Higher Education, Science and Technology
PBL	Programmatic Policy-Based Loan
PDPs	Productive Development Policies
PEP	Project Execution Plan
PEU	Project Execution Unit
PNCS	Plan Nacional de Competitividad Sistémica [National Plan for Systemic Competitiveness]
SIGA	Sistema Integral de Gestión Aduanera [Integrated Customs Management System]

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed and rationale

1. The evolution of competitiveness in the Dominican Republic

- 1.1 The Dominican economy performed well in 2006 and 2007, with growth rates (10.7% and 8.5%, respectively) in keeping with the trend in the region. However, economic growth slowed down in 2009 (2.5%), indicating that, despite the successful reforms implemented by the government,¹ structural challenges still stand in the way of achieving sustainable and diversified growth both in international and local markets.
- 1.2 In addition to the above, and even though inter-firm linkages has begun under the clusters concept, no progress has been made in constructing a business model different from the current one, which has significant sustainability limitations. This model includes: (i) a textile sector facing the end of the Multi-Fiber agreement and the low labor costs of other economies competing in its target market; and (ii) a tourism sector limited to the “all-inclusive” model and finding it difficult to diversify and integrate other sectors of the economy. Also included in this model are the Free Trade Zones, which still represent a significant, but shrinking, share of total exports, affected by the WTO-mandated elimination of associated tax incentives, which for the Dominican Republic are to be implemented by 2015. These symptoms given evidence of a “declining competitiveness syndrome” (Fanelli and Guzmán, 2008).
- 1.3 In line with the above, and despite the improvement achieved in formulating Competitiveness Policies (or Productive Development Policies (PDPs)), challenges still remain in order to achieve effective coordination among the actors (including Proindustria, the MESCyT, and the CNC itself) that maximize the available resources and take advantage of synergies.

2. The problem to be addressed

- 1.4 Installing a sustainable competitiveness requires: (i) deepening the cluster model to foster private investment in the country; (ii) installing the concept of innovation to effectively increase the productivity of various sectors and the diversification of markets; and (iii) implementing an effective coordination mechanism that validates and deepens the joint action of the actors and instruments within the framework of the PDPs.

¹ In the World Bank’s Ease of Doing Business index, the Dominican Republic climbed from 102nd place in 2009 to 86th place in 2010 (WB, 2010), while in the World Economic Forum’s Global Competitiveness Index it went from 98th place in 2008-9 to 95th place in 2009-10 (WEF 2010).

- 1.5 Deepening the cluster concept requires private investments in sectors complementary to those of existing clusters as well as in new sectors (markets), in recognition of the benefits this business model provides for firms. Achieving this deepening requires an efficient and flexible intervention mechanism.
- 1.6 It has been shown that innovation is one of the keys to increasing the productivity of a country's resources, and that understanding and developing innovation requires the effective and coordinated participation of public and private actors.² This collaboration is critical to improving the dynamics of the sectors benefitted by PDPs, by identifying existing or new products and capacities that enable firms to reach new markets.³
- 1.7 In terms of coordinating the actors, those participating in the preparation and implementation of PDPs require measurement tools allowing them to: (i) validate their own interventions and identify duplicative programs and policies; (ii) strengthen their analytical capacity for studying clusters and value chains and quantifying the barriers to their development; and (iii) create a basis for subsequent evaluation and improvement of the interventions, strengthening their technical and financial sustainability over time.

B. Objectives, components and cost

- 1.8 The project will help improve competitiveness policy in the Dominican Republic. Specifically, the purpose of the project is to create conditions allowing the productive sector to develop sustainable competitive advantages in the medium and long term by providing technical support for productive development activities and innovation. This support takes the form of a technical cooperation loan (as an integral part of the PBL), which will be financed from the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the financial conditions for investment loans.
- 1.9 The activities to be financed include: (i) expanding the existing base for cluster development (deepening of "inter-firm linkages"); (ii) installing an effective mechanism for coordination between the public and private actors, to enhance the results of PDPs aimed at strengthening productivity; and (iii) specific contributions for fulfilling the conditions of the programmatic PBL's third operation. These interventions are designed to overcome: (i) the asymmetric information and develop projects with sustainable competitive advantages for new products-markets based on inter-firm linkages; and (ii) the limitations of government actions by improving inter-institutional coordination and consistency between PPDs, which in turn will have a positive impact on efficiency in the allocation of the associated public spending. The project has the following components:

² Based on the reflections and development of: the Dominican Republic. A review of science, technology and innovation. Technical Note IDB-TN-128. Juan Carlos Navarro. (November 2009).

³ See César A. Hidalgo and Ricardo Hausmann. Center for International Development and Harvard Kennedy School, Harvard University, Cambridge. (May 2009)

**1. Component 1: Expansion of the base for developing clusters
(US\$9,329,000)**

- 1.10 **Subcomponent 1.1. Expanding the strategic focus of the Fondo de Competitividad [Competitiveness Fund] (FONDEC).** This subcomponent will enhance FONDEC as a rapid-response and flexible instrument for helping to implement the Plan Nacional de Competitividad Sistémica [National Plan for Systemic Competitiveness] (PNCS), while supporting the aims of this project.
- 1.11 The services to be contracted and goods procured in this component will have the following objectives: (i) to foster the creation of formal inter-firm linkages to consolidate and strengthen existing clusters, seeking to augment their management and decision-making structures⁴ (Window 1); (ii) to foster inter-firm linkages for new complementary clusters that contribute to the creation and development of a more sophisticated economic structure (Window 2); and (iii) to incorporate technological and organizational innovations that support diversification and competition through inter-firm linkages (preferably clusters) that have potential positive demonstration effects. These latter approaches will be evaluated and will serve as reference points for the design of future PDPs (Window 3).
- 1.12 The specific activities financed will support the preparation and execution of projects submitted to FONDEC under each of its windows. The projects could, on a limited basis⁵ and for use within the cluster, include certain goods or non-consulting services (holding workshops or outreach and knowledge transfer events) that are relevant for achieving defined objectives.
- 1.13 **Subcomponent 1.2. Technical Assistance in Methodologies.** The expansion of FONDEC's strategic requires the development of a number of technical tools to guide its interventions in accordance with its new resources and to ensure their connection with the expected outcomes.
- 1.14 This subcomponent involves deploying a system to measure and evaluate the "value added" of clusters. A mechanism will be developed to provide objective quantitative and qualitative data on the enterprises participating in clusters, enabling comparison with those firms that do not participate. The executing agency will contract consulting services to establish the baseline, identify and define indicators, and develop the measurement and evaluation methodology.⁶ The executing agency will also contract consulting services to prepare a system for identifying and creating complementary clusters, geared toward developing and implementing a methodology for identifying, forming and determining the necessary interaction

⁴ Following the successful scheme developed by existing clusters in the Basque country.

⁵ No more than 10% of the total for the project. The eligibility criteria will be set forth in the operating regulations.

⁶ This system will make it possible to validate and complement the outcomes of the first operation, which were essentially based on the participants' perception. (See Project Completion Report for Operation DR-0152 –Loan contract 1474/OC-DR).

between clusters or business associations that are complementary to those already in existence. The aim will be to increase exports.⁷ The project will also provide technical support to incorporate technology and product innovation in pilot cases, with a view toward effective implementation of the country's innovation strategy.⁸

2. Component 2: Inter-institutional coordination for developing clusters (US\$400,500)

- 1.15 **Subcomponent 2.1. Dissemination and outreach to facilitate institutional interaction.** This subcomponent is aimed at ensuring that the various institutional actors (public and private) included in the competitiveness-building process interact and generate synergy based on existing or future PDPs. This includes interaction between the main entities, such as the MESCyT, the CNC, Proindustria and Promipyme. With the resources allocated to this component, the Executing Agency will contract consulting services to: (i) identify or incorporate new capacities and products into those already in existence in order to offer them in international or local markets; and (ii) develop, disseminate and establish the concept of innovation (associated with technological development) as one of the keys to increasing productivity and generating the capacity needed to diversify the Dominican products and services.
- 1.16 The resources from this subcomponent will also finance consulting services to support the actions to be taken in Component I. In particular, the implementation of demonstration projects incorporating innovation for development is one of the core actions that will lead to a true interaction and coordination between the various actors (public and private) that are directly and indirectly responsible PDPs.
- 1.17 In addition, the resources allocated to this subcomponent will finance integrating and building interdisciplinary networks. Outreach and dissemination activities will be developed through workshops and meetings where participants will discuss both the strategic concepts associated with the development of clusters and the advances made by the projects financed. This will offer an important means to achieve effective feedback.
- 1.18 **Subcomponent 2.2. Technical assistance for enhancing the outcomes of the PBL.** With the resources allocated to this component, the executing agency will contract the following activities, in support of the PBL operation: (i) application of a tool (methodology) allowing a more objective evaluation of the performance of the institutions involved in PDPs and their efficiency⁹ (leading to recommendations for institutional improvement and better complementarity among these institutions); (ii) development of the implementing regulations for the Corporate Reorganization

⁷ Based on the "Product Space" concept of Hausmann and Klinger (2006).

⁸ Plan Estratégico Nacional de Ciencia, Tecnología e Innovación [National Strategic Plan for Science, Technology and Innovation] (PECYT+i).

⁹ PDP Index. Methodology for measuring institutional arrangements and programs to support productive development in Latin America and the Caribbean. (IDB: ICF/CMF July 2010 vs.4.1)

Law,¹⁰ (iii) support for training in and use of the Integrated Customs Management System (SIGA) in the Customs Administration; and (iv) preparation of a code of ethics for Unit for Public Credit (DGCP) employees who take part in market negotiations for bond issues.

C. Key results indicators

- 1.19 The expected outcomes of the project's components are: (i) increase in the use of matching grant funds to support companies in the areas of innovation and access to new markets; (ii) improved methodologies for identifying and measuring the impact of clusters; and (iii) creation of mechanisms for public-private collaboration.
- 1.20 To measure the attainment of these outcomes, the following World Economic Forum indicators will be used: (i) cluster development (measured by the prevalence of well-developed clusters); and (ii) industry-university collaboration in research and development (R&D) (measured by the extent to which businesses and universities collaborate in R&D). In addition, the project will include the application of methodologies for assessing the value added of clusters and for measuring the performance of the institutions designing and coordinating PDPs, providing additional outcome indicators to evaluate the project.

¹⁰ Currently pending approval in the Dominican Congress.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing structure

- 1.21 The project will be financed with a loan from the Single Currency Facility of the Bank's Ordinary Capital. Loan proceeds will be used to finance services to provide technical assistance and support for outreach, training, and dissemination activities. The total cost of the operation is an amount equivalent to US\$14 million, of which the Bank will finance US\$10 million, while the Dominican Republic will provide US\$4 million as the local counterpart.
- 1.22 The local counterpart will finance the project's management and coordination team, which constitutes the executing unit, as well as the expenses and investments associated with the operation and equipping of that unit. In addition, FONDEC management will be financed with resources from the local counterpart. The following chart contains a summary of the costs of each component, according to the source of financing. Resources will be disbursed in the form of advances, as provided for in the General Conditions of the loan contract.

Table 1. Project costs (in thousands of U.S. dollars)

	IDB	Counterpart	Total	%
Component 1: Expansion of the base for developing clusters	9,329.0	2,741.0	12,070.0	86.21
Window 1: Cluster consolidation	4,126.5	895.8	5,022.3	
Window 2: Cluster expansion	3,667.9	796.2	4,464.1	
Window 3: Pilot projects for technology and innovation	1,375.5	298.6	1,674.1	
FONDEC administration	0.0	698.4	698.4	
Technical assistance	159.1	53.0	212.1	
Component 2: Institutional coordination for developing clusters	400.5	133.0	533.5	3.81
Management and supervision	153.0	1,079.0	1,232.0	8.80
Evaluation and monitoring	50.0		50.0	0.36
Contingencies	67.5	47.0	114.5	0.82
Totals	10,000.0	4,000.0	14,000.0	100.0

B. Environmental and social risks

- 1.23 The project promotes efficient and better use of productive resources, equitable social treatment, and the care and promotion of the environment as part of its competitiveness strategy.
- 1.24 The project will promote activities that help mitigate and reduce negative environmental effects, while increasing productivity and competitiveness. In its operating regulations, FONDEC will give priority to projects and business plans that include "eco-efficiency" and "green seal" variables, among others.

C. Fiduciary risks

- 1.25 The CNC's experience as executing agency of operation 1474/OC-DR and its satisfactory performance¹¹ suggest that the project's fiduciary, financing and procurement risks are limited. Nevertheless, certain fiduciary risks have been identified that could have an impact on the operation. These risks, along with the mitigation measures conducive to their proper management, are included in the operation's Risk Matrix.
- 1.26 The procurement fiduciary risk, identified as medium, is related to the allocation and use of funds by FONDEC to finance consultancies, goods and services for the projects it funds. In the rest of the planned procurement processes, based on the CNC's experience, the fiduciary procurement risk has been classified as low and supports the ex post review contained in the project's Procurement Plan.
- 1.27 The loan amortization period is 15 years from the signing date of the loan contract. The Project Execution Plan (PEP) covers a five-year disbursement period and there is a five-year grace period, both from the effective date of the loan contract. The Procurement Plan, a summary of which is found in Annex IIIa, provides for application of the Bank's policies for procurement and the contracting of consultants (documents GN-2349-7 and GN-2350-7).
- 1.28 Both the Procurement Plan and the PEP will be updated at least every six months, or with greater frequency if so required, to adjust the pace of the project. Any change in the Procurement Plan or the PEP must be previously approved by the Bank. The group of activities planned for each will be included in the Annual Work Plan (AWP).

D. Additional risks

- 1.29 The project's success in achieving its objectives depends on a stable macroeconomic framework that encourages investment, because improving the institutional aspect of the business climate is a necessary, but not sufficient condition. Also essential is public and private inter-institutional coordination which, although one of the project's goals, must also count on political support in order to achieve positive results.
- 1.30 Evidence that the needed consensus exists to support this operation, include: (i) the outcomes attained by the first project (1474/OC-DR); (ii) the progress made in the public policies component of operation 2126/OC-DR (first PBL in this series); (iii) the favorable political environment from the legislative standpoint achieved by the current government; and (iv) the perception of the need to join forces to bring about policy changes and improvement in the productive sectors evident at meetings with the institutional actors who are the potential beneficiaries of the project.

¹¹ See Project Completion Report DR-L1052 (1474/OC-DR).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 1.31 **Borrower and executing agency:** The borrower will be the Dominican Republic, and the executing agency will be the Executive Office of the National Competitiveness Council (Executive Office of the CNC). The Executive Office of the CNC has successfully acted as the executing agency for loan 1474/OC-DR. A Project Execution Unit (PEU) will be set up in the Executive Office of the CNC for project monitoring.
- 1.32 Through the PEU, the executing agency will: (i) coordinate the project's activities with the various private sector initiatives related to expanding business and exports and seek additional funds for purposes consistent with the PNCS and this project; and (ii) support the development of the project's activities and coordinate interaction with the various government institutions as required for cross-cutting actions, primarily in connection with the construction of complementary products and the incorporation of technological innovation.
- 1.33 From the standpoint of FONDEC management, the Executive Office of the CNC has indicated that the model implemented in the previous operation was adequate and allowed it to intervene efficiently and flexibly to the needs of the clusters. In this regard, the operating mechanics of FONDEC management will remain the same, but will be adapted based on the expanded scope of actions in this operation. CMF/CDR will be responsible for project supervision.
- 1.34 The condition precedent to the first disbursement of the loan proceeds is: (i) presentation of evidence that FONDEC's Operating Regulations for Windows 1 and 2 have been approved; and (ii) the signature of an agreement between the borrower and the executing agency by means of which the latter undertakes to comply with the obligations that pertain to it as executing agency, pursuant to the terms and conditions set out in the contract. Prior to disbursement of the resources of the financing for FONDEC's Window 3, the borrower will submit evidence that the executing agency has approved the Operating Regulations for that window and that these have entered into force, pursuant to terms previously agreed upon with the Bank.

B. Summary of the arrangements for results monitoring, evaluation and fiduciary supervision of the operation

- 1.35 The executing agency will hire a consulting firm for project monitoring and supervision. For this purpose, based on the initial PEP, the executing agency will prepare Annual Work Plans (AWPs) that will include the advances related to the Results Matrix and its indicators. The consultant hired to perform the monitoring and evaluation will evaluate the potential risks for achieving the operation's objectives, eventually outlining the mitigation plans and actions and their associated

costs. The midterm evaluation of the project will take place when 50% of the funds have been disbursed and the final evaluation when 95% of the loan proceeds have been disbursed.¹²

- 1.36 **Financial audits:** An auditing firm acceptable to the Bank and contracted by the executing agency, based on terms of reference previously agreed with the Bank, will prepare an annual audit of the project's financial statements as established in the General Conditions of the loan contract.¹³
- 1.37 The executing agency will also be required to submit a preliminary six-month progress report to the Bank, the purpose of which will be to verify the operation's accounting/financial performance and to detect inconsistencies, weaknesses or differences that could be corrected before the end of the fiscal year. In order to expand the supervision and monitoring of the operation to provide the PEU with feedback on its advances, a fiduciary review of procurement has been included that will also cover the projects submitted to the FONDEC for financing.

Procurement. The project does not include the contracting of works. The procurement of goods and contracting of consulting and other services will be carried out by the executing agency in accordance with Bank policies GN-2349-7 and GN-2350-7. Project procurement will be reviewed ex post based on the thresholds shown in the following table and as established in the Procurement Plan.

Thresholds for ex post review (in thousands of U.S. dollars)			
Works	Goods	Consulting Services	Individual Consultants
The project does not include works.	<250	<200	<50

- 1.38 In this regard, it is considered appropriate to hire an independent consultant to perform this evaluation, consisting of: (i) validation of the process followed to carry out the contracting applicable to both the operation and the projects to be financed by the FONDEC; and (ii) verification of execution and validation of the quality of the products as part of contract fulfillment.
- 1.39 The details for contracting this consulting service will be determined and agreed upon between the executing agency and the Bank prior to the start of program execution. In addition, the program's Operating Regulations will address the issue of coordination between the executing agency and the Bank to implement the fiduciary evaluation of procurement.

¹² The midterm report will be prepared at 24 months of execution (or when 50% of the loan proceeds have been disbursed) and the final report at 48 months (or when 95% of the loan proceeds have been disbursed).

¹³ According to policy OP-273-1 (Financial Management Policy for Projects).

Project: Program for the Development of Competitive Advantages
Project Number: DR-L1046
Period covered by this Procurement Plan: 52 months December 2010 - April 2015

Ref No. ¹	Category and description of procurement contract	Estimated procurement cost (US\$)	Procurement method ²	Review (ex ante or ex post)	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated dates				Status ⁴ (Pending, in progress, awarded, cancelled)	Comments
					IDB %	Local / Other %		AEA Publication		End of contract			
								Qtr	Year	Qtr	Year		
1	GOODS							Qtr	Year	Qtr	Year		
1	ICT and related equipment	25,000	N/A	N/A	0%	100%	No	1	2011	2	2011	Pending	
2	Complementary office furnishings and equipment	25,000	N/A	N/A	0%	100%	No	1	2011	2	2011	Pending	
3	Mobility logistics	120,000	N/A	N/A	0%	100%	No	1	2011	2	2011	Pending	
	Subtotal goods	170,000											
2	WORKS												
	N/A	0											
	Subtotal works	0											
3	NONCONSULTING SERVICES												
4	Office supplies	26,000	N/A	N/A	0%	100%	No	1	2011	1	2015	Pending	Periodic requirements
5	Transportation	52,000	N/A	N/A	0%	100%	No	1	2011	1	2015	Pending	Periodic requirements
6	Communication	52,000	N/A	N/A	0%	100%	No	1	2011	1	2015	Pending	Periodic requirements
7	Travel and per diem expenses, dissemination and awareness raising activities	24,000	N/A	N/A	0%	100%	No	1	2011	1	2015	Pending	Periodic requirements
	General workshops												
8	Program launch and general monitoring workshops	30,000	S	Ex ante	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
9	Competitiveness forums	80,000	S	Ex ante	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
10	Business climate improvement	21,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Specific workshops												
	Cluster consolidation												
11	National	20,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
12	Regional	14,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
13	Hubs	28,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Cluster expansion												
14	National	20,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
15	Regional	14,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
16	Hubs	28,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Pilot plan, technology, and innovation												
17	Global	25,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
18	Hubs	22,400	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Coordination of institutions, PDP												
19	Global	25,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
20	Hubs	22,400	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Evaluation of institutions, PDP												
21	Global	18,000	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
22	Hubs	11,200	S	Ex post	75%	25%	No	1	2011	1	2015	Pending	Periodic requirements
	Subtotal nonconsulting services	533,000											
4	CONSULTING SERVICES												
	Technical assistance												
	Design of methodology to determine cluster benefits	94,725	NICQ	Ex ante	75%	25%	No	1	2011	1	2012	Pending	2 individual consultants
	Design of methodology to identify complementary clusters	117,375	NICQ	Ex ante	75%	25%	No	1	2011	1	2012	Pending	2 individual consultants

Ref No. ¹	Category and description of procurement contract	Estimated procurement cost (US\$)	Procurement method ²	Review (ex ante or ex post)	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated dates				Status ⁴ (Pending, in progress, awarded, cancelled)	Comments
					IDB %	Local / Other %		AEA Publication		End of contract			
Technical assistance													
	Implementation and measurement index, PDP	108,750	NICQ	Ex post	75%	25%	No	1	2011	1	2014	Pending	2 individual consultants
	Training and use, SIGA	11,250	NICQ	Ex post	75%	25%	No	1	2011	2	2011	Pending	1 individual consultant
	Code of ethics, DGCP	15,000	NICQ	Ex post	75%	25%	No	1	2011	2	2011	Pending	1 individual consultant
	Regulations, Corporate Reorganization Law	20,000	NICQ	Ex post	75%	25%	No	1	2011	2	2011	Pending	1 individual consultant
PEU (Technical Counterpart)													
	General Coordinator	364,000	SSS	N/A	0%	100%	No	1	2011	1	2015	Pending	1 individual consultant
	Coordination Assistant	156,000	SSS	N/A	0%	100%	No	1	2011	1	2015	Pending	1 individual consultant
	Accounting and financial specialist	156,000	SSS	N/A	0%	100%	No	1	2011	1	2015	Pending	1 individual consultant
	Project Assistant	78,000	SSS	N/A	0%	100%	No	1	2011	1	2015	Pending	1 individual consultant
	Midterm and final evaluation and baseline	44,000	NICQ	Ex ante	100%	0%	No	1	2011	2	2014	Pending	1 individual consultant
	Subtotal individual consulting services	1,165,100											
	Program auditing	92,816	QCBS	Ex ante	100%	0%	No	1	2011	1	2015	Pending	
	Fiduciary evaluation of procurement	66,297	QCBS	Ex ante	100%	0%	No	1	2011	1	2015	Pending	
	FONDEC management	698,400	SSS	N/A	0%	100%	No	1	2011	2	2014	Pending	
	Subtotal consulting services	857,513											
	Total	2,725,613											
		0											

¹ If there are groups of individual contracts that are to be executed at different locations or times, they can be grouped under a single item with an explanation in the comments column indicating the individual average value and period in which they will be executed.

² **Works and Goods:** **ICB:** International Competitive Bidding; **LIB:** Limited international bidding; **NCB:** National Competitive Bidding; **PC:** Price comparison; **DC:** Direct contracting; **FA:** Force account; **PSA:** Procurement through specialized agencies; **PA:** Procurement agents; **IA:** Inspection agents; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate / Build, operate, transfer / Build, own, operate, transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **CPP:** Community participation procurement. **Consulting firms:** **QCBS:** Quality- and cost-based selection; **QBS:** Quality-based selection; **FBS:** Fixed budget selection; **LCS:** Least-cost selection; **CQS:** Selection based on the consultants' qualifications; **SSS:** Single-source selection.

Individual consultants: **NICQ:** Selection based on the national consultants' qualifications; **IICQ:** Selection based on the international consultants' qualifications.

³ Applicable to works and goods only under the new policies. Under the old policies, applicable to goods, works, and consulting services.

⁴ The "Status" column will be used for retroactive procurement and updates of the procurement plan.