

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

PRODUCTIVE DEVELOPMENT AND COMPETITIVENESS OF THE PROVINCE OF SAN JUAN

(DR-L1068)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual Work Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062956
2.	Monitoring and Evaluation Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062954
3.	Procurement Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062955
4.	Environmental and Social Management Report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38182548
OPTIONAL	
1.	Detailed budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062763
2.	Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38070366
3.	Analysis of production chains and demand for technical assistance and credit http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38067218
4.	Technical survey and costing of roads http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38069236
5.	Irrigation assessment and proposal for intervention http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38069245
6.	Institutional Capacity Assessment System http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062958
7.	Draft sector note on productive development http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38062959
8.	Draft Credit Regulations http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38153107
9.	Safeguard Policy Filter and Safeguard Screening Form http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38069509

ABBREVIATIONS

BCRD	Central Bank of the Dominican Republic
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
ESMR	Environmental and Social Management Report
ESMS	Environmental and Social Management System
IFIs	Intermediary financial institutions
INDRHI	Instituto Nacional de Recursos Hidráulicos [National Institute of Water Resources]
MOPC	Ministry of Public Works and Communications
MSMEs	Micro, small, and medium-sized enterprises
OCGP	Oficina Coordinadora General de Proyectos con Recursos Externos [General Coordinating Office for Externally-financed Projects]
OEP	Oficina de Ejecución de Proyectos [Project Execution Office]
SCC	Strategic Coordination Council
SIGEF	Sistema de Información de la Gestión Financiera [Financial Management Information System]
UEPEX	Unidades Ejecutoras de Proyectos con Fondos Externos [Executing Units for Externally-financed Projects] (SIGEF subsystem)

PROJECT SUMMARY

PRODUCTIVE DEVELOPMENT AND COMPETITIVENESS OF THE PROVINCE OF SAN JUAN (DR-L1068)

Financial Terms and Conditions					
Borrower: Dominican Republic Executing Agency: Ministry of Agriculture and Ministry of Public Works and Communications			Flexible Financing Facility*		
			Amortization period:	18.5 years	
			Original WAL:	15.25 years**	
			Disbursement period:	5 years	
			Grace period:	12 years	
Source	Amount (US\$)	%	Inspection and supervision fee:	***	
IDB (OC)	35,000,000	91.4	Interest rate:	LIBOR-based	
Local	3,300,000	8.6	Credit fee:	***	
Total	38,300,000	100	Currency:	U.S. dollars from the Ordinary Capital	
Project at a Glance					
Project objective: The program’s goal is to support the productive development and export capacity of the province of San Juan. Its specific objectives are to: (i) improve credit access for producers and firms; (ii) improve market accessibility and reduce transportation costs on the provincial road network; and (iii) optimize the use of available water resources.					
Special contractual conditions precedent to the first disbursement: (i) that the Ministry of Agriculture has selected and hired the program’s general coordinator, based on terms of reference and selection procedures previously agreed upon with the Bank; and (ii) that the program’s Operating Regulations, previously agreed upon with the Bank, have entered into force, including an environmental and social management system and credit regulations (paragraph 3.4).					
Special contractual conditions for the start of execution under (a) Component 1: (i) the signature and entry into force of an agreement between the Ministry of Finance, the Central Bank of the Dominican Republic, and the Ministry of Agriculture, setting out the obligations of each party in the implementation of this component; and (ii) the Ministry of Agriculture has selected and hired the technical coordinator for this component; (b) Subcomponent 2.1: (i) the signature and entry into force of an agreement between the Ministry of Agriculture and the Ministry of Public Works and Communications (MOPC), setting out the obligations of each party in the implementation of this subcomponent and Subcomponent 2.3; and (ii) the MOPC has selected and hired the technical coordinator for this subcomponent; (c) Subcomponent 2.2: (i) the signature and entry into force of an agreement between the Ministry of Agriculture, the National Institute of Water Resources, and the two irrigator’s associations in the Province of San Juan, setting out the obligations of each party in the implementation of this subcomponent; and (ii) the Ministry of Agriculture has selected and hired the technical coordinator for this subcomponent; and (d) Subcomponent 2.2 works: presentation of evidence of a rates structure proposal that yields, among other things, revenue that is sufficient to cover regular expenses related to operating the specific irrigation systems connected to this loan, in accordance with terms agreed upon with the Bank (paragraph 3.8).					
Special aspect: This loan may be part of the Automatic Redirection List of the Contingent Loan for Natural Disaster Emergencies (DR-X1003) (paragraph 2.1).					
Special disbursement: Once the conditions precedent to the first disbursement contained in subsections (a), (b), and (e) of Article 4.01 of the general conditions of the loan contract have been met to the Bank’s satisfaction, the borrower may ask for a special disbursement at the request of the respective executing agency for a total of US\$120,000 equivalent to finance, among other things, the selection and hiring of staff for the Project Execution Office and the General Coordinating Office for Externally-financed Projects, required as a special condition precedent to the program’s initial disbursements, to the Bank’s satisfaction (paragraph 3.5).					
Exceptions to Bank policies: None					
Project qualifies as:					
SEO [X]		PTI [X]		Sector []	Geographic [X]
					Headcount []

* Under the Flexible Financing Facility (document FN-655-1 the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

** The final original weighted average life will be calculated on the basis of the date of signature of the loan contract.

*** 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 relevant policies.

I. DESCRIPTION AND MONITORING OF PROGRAM OUTCOMES

A. Background, problem addressed, and rationale

- 1.1 Despite the positive performance of the Dominican economy over the last decade, there are still significant challenges related to high levels of poverty and regional development gaps. Such is the case of the province of San Juan, which is located in the southwestern part of the Dominican Republic, close to the border with Haiti. The province has a population of 232,333 and a surface area of 3,361 square kilometers. In recent years, the pace of economic growth in the southern region to which San Juan belongs has been insufficient to close regional inequality gaps with the rest of the country and to absorb the influx of Haitian immigrants into the province.¹ Although progress has been made over the last decade, 48.4% of the province's population remains below the poverty line, compared with 32.5% for the country as a whole. Levels of human development remain below the national average.²
- 1.2 Production in the province is mostly agricultural,³ involving mainly traditional crops such as beans (which account for 49% of cultivated land in San Juan, and 51% of national black bean output), rice (5% of national output), corn (26%), pigeon peas (27%), and onions (17%), most of which are intended for the local market. The province's production structure and low crop yields make its productive fabric very vulnerable.⁴ There are an estimated 30,000 producers in the province, of which 90% have an average parcel size of three hectares. There are substantial gaps in yields between large- and small-scale producers. For example, in the case of beans, average yields of large-scale producers are 1.81 tons per hectare, compared with 1.0 ton per hectare for small-scale producers.
- 1.3 The decision of San Juan producers to invest in these crops is partly the result of a high level of trade protection and the existence of price-based subsidies. This has created significant distortions in local prices for these products,⁵ as well as a lower relative level of development of alternative crops with greater comparative advantages on international markets, and negative environmental impacts stemming

¹ Given the lack of subnational GDP data, macro-regional employment data were used as a proxy for trends in economic activity. These indicate that employment growth in the southern region that includes San Juan has fallen below the national average over the last four years (2%, compared with 2.3%), and below the average for the fastest-growing regions (East, 2.6%; North, 2.9%). Source: Central Bank of the Dominican Republic, 2012 *National Labor Force Survey*.

² Morillo, Antonio (2011). *Evolución, determinantes agregados y dimensión espacial de la pobreza monetaria en la República Dominicana, 2000-2011*; Human Development Index, Province of San Juan (United Nations Development Programme, 2013).

³ One third of the economically active population is engaged in agricultural, livestock, hunting, or forestry activities. National Population and Housing Census, 2010.

⁴ See [optional link 3](#).

⁵ As an example of the impact of this protection, Isa-Contreras (2006) highlights differences between local prices and those in other Central American countries of up to 35% in the case of rice and 60% in the case of beans.

from poor practices in the cultivation of crops such as rice. Economic prospects for these producers have deteriorated further following the recent announcement that rice supports will be gradually reduced, and with the end of the tax exemption period for sensitive commodities included in the World Trade Organization technical rectification (by virtue of the Dominican Republic-Central America-United States Free Trade Agreement, or CAFTA-DR). This complex interaction of structural factors and recent developments means that comprehensive intervention is required to promote a transition away from a strategy based on products with marginal economic returns, intended for the local market, towards a gradual process of integration into global value chains, with higher value-added products. Such intervention should tackle the main obstacles hindering this transition, which include: (i) a lack of access to the credit necessary to finance the adoption of technologies and innovation; (ii) deficiencies in road infrastructure; and (iii) inefficiencies in the management of water resources. These factors are described in greater detail below.

- 1.4 **Innovation and credit.** The supply of credit in San Juan has shown sustained growth in recent years, reaching approximately US\$90 million in the June 2012-June 2013 period. However, only 13% went to the agriculture sector⁶—an amount that is insufficient to meet sector needs. Access to credit for small-scale producers is limited by imperfections in the credit market, such as information asymmetries, and the perception of risk associated with agriculture. On the demand side, a lack of land titles⁷ means that producers are unable to offer collateral (only 15% of smallholders, or *parceleros*, have property titles), while weak administrative and managerial capacities also make it difficult for them to comply with the formal requirements of financial institutions (financial statements, business plans, investment projects etc.). Small-scale producers therefore fund themselves mainly through informal sector loans or short-term commercial credit for working capital provided by client companies. Such credit comes at high interest rates and has no impact on producers' use of bank services. As a result, levels of investment in technology and innovation by the province's producers are extremely low,^{8,9} limiting opportunities for investments to improve production and meet the volume and quality requirements of international markets.

⁶ Over the same period, 24% of the commercial multisector loan portfolio had a maturity of less than 1 year, with 22.6% at 1 to 3 years, 20.8% at 3 to 5 years, 32% at 5 to 15 years, and 0.4% for terms greater than 15 years.

⁷ See “*Los Pequeños Productores, su Desarrollo Productivo y su Inserción a los Mercados* información del Ministerio de Agricultura” (2012). Currently, the Dominican Agricultural Institute is preparing an intervention of national scope to support land titling, which is expected to have a positive impact on access to property titles and their use as collateral for loans.

⁸ Manzano, O, and S. Auguste. *¿Tiempo de Cosecha?* (IDB, 2008).

⁹ For example, recent studies indicate that less than 1% of producers in San Juan use highly mechanized forms of irrigation in areas with permanent access to water (G. Reynoso, 2011).

- 1.5 Although the supply of credit is expected to increase even without an intervention, it is estimated that credit needs may increase considerably as the process of productive restructuring deepens,¹⁰ particularly for investment in technology (irrigation, controlled-environment production, etc.). This will widen the existing gap in access to financing.
- 1.6 **Enabling infrastructure.** A number of weaknesses have been identified in the provision of the following public goods, which are critical for facilitating productive restructuring and improving production profitability and market access. **Roads.** The province of San Juan enjoys good access by road to the country's main cities, ports, airports, and the border. However, the poor condition of rural access roads serving production areas raises the costs and times involved in accessing markets and logistics centers. Analyses by the Ministry of Agriculture and the Ministry of Public Works and Communications (MOPC) indicate that 63% of the province's 521 kilometers of roads are in poor or very poor condition. In the case of some communities (particularly in Hatico), travel times are as much as three times longer than if roads were in good condition. Other communities interviewed report frequent interruptions due to natural phenomena (mainly rains), lasting as long as 24 hours. The surveys carried out indicate that this poor performance can be explained by the significant routine and preventive maintenance backlog, and, in the case of rural access roads, by a lack of investment in improved engineering standards (particularly aimed at resolving transversal and longitudinal drainage problems). Immediate investment needs for rehabilitation and maintenance over a four-year period are estimated at US\$4.5 million for 75 kilometers of roads.¹¹ However, it is estimated that additional road improvements over up to 200 kilometers are needed in the selected intervention areas.
- 1.7 **Irrigation.**¹² Access to sufficient water resources on a timely basis is a basic requirement for productive restructuring in San Juan. The irrigated area is equivalent to 24.5% of arable land in the province, and gravity-fed systems are the most common method used (95%). Water is sourced either from rivers or the Sabaneta dam. The use of more sophisticated pressurized irrigation systems is recent and is limited to the fruit and vegetable subsector. San Juan's two irrigation associations have approximately 8,000 members and are financed through a system of water use charges. The associations are responsible for the operation and maintenance of secondary drainage and irrigation networks, while the National Institute of Water Resources (INDRHI) is responsible for the primary network and headworks. The main irrigation problems currently faced by the province are related to: (i) weaknesses in institutional capacity for irrigation management on the part of the irrigation associations and the INDRHI; (ii) inefficiencies in water use (only 25% to 35% of total available water is used), which affect the equality of water distribution both in terms of opportunity and quantity, and have negative

¹⁰ See [optional link 3](#) for credit demand analysis data.

¹¹ See [optional link 4](#) for the analysis of the costed sample of 75 kilometers.

¹² See [optional link 5](#).

environmental impacts such as waterlogging and salinity; (iii) inadequate cost recovery for operation and maintenance, resulting from an inappropriate rate structure¹³ and low collection levels (only 40% of all irrigated areas and 60% of users pay the charges); and (iv) deteriorating infrastructure as a result of the weak operation and maintenance of systems.

B. Previous experiences

- 1.8 Since 2003, the country has been implementing Bank-supported interventions to encourage the adoption of new technologies in the agriculture sector, with direct support to companies under successive phases of the program to provide support for the transition to competitive agriculture. To date, these have had a positive impact on productivity.¹⁴ In the case of credit support, a national-level operation to facilitate access to credit for micro, small, and medium-sized enterprises (MSMEs) is currently in the design phase (DR-L1065). However, evaluations of similar interventions with a territorial focus in other countries (AR-L1022, for the province of San Juan in Argentina) have already shown significant positive impacts on the sales, productivity, and profitability of beneficiary firms.¹⁵ In terms of interventions to improve productive infrastructure, the Bank has contributed consistently to the development of irrigation in San Juan and the Dominican Republic in recent decades, through several operations that have shown positive results (903/SF-DR; 345/IF-DR; 905/OC-DR¹⁶). Its current program to rehabilitate rural access roads has also yielded positive results to date, particularly with respect to the sustainability of maintenance services for targeted roads (1939/OC-DR).¹⁷ Despite the efforts made under the programs currently being executed, San Juan's production chains have requirements that cannot be met by these programs, such as credit and local-level public investments (the latter requiring a coordinated and complementary intervention on account of their scale).

C. Project strategy

- 1.9 The recent announcement of changes to protectionist policies represents a significant change in the context for productive development in the province. However, the ability of the province's agents to move towards productive

¹³ Ibid. The rates are relatively low and are levied based on surface area and crop type instead of use; this results in the deferral of system maintenance.

¹⁴ González, V., P. Ibararán, A. Maffioli, et al (2009), [*El impacto de la adopción tecnológica sobre la productividad agrícola: El caso de República Dominicana*](#).

¹⁵ See "Economic Analysis for the Lending Program for Productive Development in the Province of San Juan (AR-L1130)".

¹⁶ The [Project Completion Report](#) for the operation shows positive outcomes in terms of efficiency, reduced public spending on operation and maintenance, and an increase in the rate of land use.

¹⁷ The arrangements involved the signing of multiyear maintenance contracts with microentrepreneurs, with payments based on results obtained (measured on a monthly basis). Over the last two years, performance has improved throughout all 750 kilometers of roads targeted in the country, irrespective of terrain and situation, and even in cases of significant climatic phenomena. The outcome evaluation for the intervention is currently being prepared.

restructuring with new crops, improved levels of productivity, and linkages with fast-growing markets is currently hindered by obstacles at the level of the producers as well as their environment. The strategy for program implementation rests on a combination of direct and indirect incentives aimed at overcoming market imperfections (information asymmetries, externalities, and public goods) and fostering productive restructuring. Direct incentives are aimed at facilitating producers' access to credit on suitable terms, thus allowing the introduction of new products, processes, and technologies, as well as linkages with global value chains. Indirect incentives include financing for enabling public investments (mainly in the irrigation and road sectors) that can trigger increased productivity and improve market access conditions.

- 1.10 The program will seek to coordinate with Bank operations that are currently under execution in the province of San Juan, in order to take advantage of lessons learned and existing institutional capacity, avoiding the duplication of efforts. In particular, close coordination will be maintained with the following national-level operations: 2443/OC-DR, 2551/OC-DR, and 2837/OC-DR (all executed by the Ministry of Agriculture's Project Execution Office), with which support will be coordinated in the areas of technology adoption, food safety, and research and development; 1939/OC-DR (executed by the MOPC), with which activities in the area of road rehabilitation will be coordinated; and 2433/OC-DR, with which lessons learned on projects to support productive linkages will be shared.
- 1.11 **Strategic alignment.** This operation is aligned with the Country Strategy with the Dominican Republic for 2010-2013 (document GN-2581), and specifically with the strategic objective of "improving productivity in the agriculture sector." This is a priority for the government, and it is expected to be included in the new strategy that is currently being prepared. It is similarly aligned with the Sector Framework Document on Agriculture and Natural Resources Management, which prioritizes interventions to boost credit access and the development of public infrastructure in rural areas. It is also supported by objective 3.5.3 of the National Development Strategy, which seeks to "raise the productivity, competitiveness, and environmental and financial sustainability of agricultural production chains, with a view to enhancing food security, exploiting export potential, and generating employment and income for the rural population." Within the framework of the Ninth General Capital Increase (GCI-9) (document AB-2764), the operation contributes to regional development targets through: (i) support for the development of small and vulnerable countries; (ii) reduced poverty, through investments to enhance the productivity of small-scale producers in a geographically defined area with high relative poverty rates; and (iii) support for sustainable environmental and climate change initiatives, such as improvements in the efficiency of water use, measurement of the environmental impact of water use, and support for productive restructuring toward environmentally friendly crops.
- 1.12 **Coordination with multilateral institutions.** The project team has met and coordinated actions with the International Fund for Agricultural Development

(IFAD), which is developing the PRORURAL OESTE project in 11 of the country's provinces, including San Juan. The project, which aims to strengthen second- and third-level producer organizations, is being implemented by the same executing unit as this operation.

D. Objectives, components, and cost

- 1.13 The program's goal is to support the productive development and export capacity of the province of San Juan. Its specific objectives are to: (i) improve access to credit for producers and firms; (ii) improve market accessibility and reduce transportation costs on the provincial road network; and (iii) optimize the use of available water resources. Based on this, the program will include the following components:
- 1.14 **Component 1: Access to credit (US\$19 million).** The objective of the component is to improve credit access among micro, small and medium-sized enterprises (MSMEs)¹⁸ with potential to improve production, thus facilitating the introduction of new products, processes, and technology adoption, as well as linkages with global value chains. To attain this objective, the program will establish a second-tier fund to facilitate credit access on terms that are compatible with the needs of MSMEs that are either based in San Juan or planning to invest in the province. It will finance both investment projects and working capital that supports the creation of production chains. The fund will be established through the Central Bank of the Dominican Republic (BCRD),¹⁹ and it will allocate funds to intermediary financial institutions (IFIs) using an auction mechanism (see paragraph 3.6 for details on the operation of this mechanism).
- 1.15 Complementary technical assistance activities will also be financed with a view to mitigating information asymmetries, improving the quality of information regarding projects eligible for financing, and reducing perceived risk among creditors. These activities will consist mainly of (i) the preparation of executive reports aimed particularly at facilitating the credit decision-making processes of banks and potential investors; (ii) preparation of investment projects and loan applications that meet the requirements of IFIs; (iii) structuring, establishment, and operation of financial clusterization vehicles; and (iv) the costs of structuring guarantees, including those necessary for land titling; and (v) awareness raising and communication activities aimed at boosting the participation of MSMEs and IFIs in the program. Details of the intervention methodology, as well as eligible expenditures, will be included in the program's Operating Regulations.

¹⁸ MSMEs will be defined as entities that fulfill two or more of the criteria in each of the following categories. Microenterprise: (a) between 1 and 10 employees; (b) maximum assets of RD\$2 million; and (c) maximum annual gross revenues or sales of RD\$6 million. Small enterprise: (a) between 11 and 50 employees; (b) maximum assets of RD\$10 million; and (c) maximum annual gross revenues or sales of RD\$50 million. Medium-sized enterprise: (a) between 51 and 150 employees; (b) maximum assets of RD\$50 million; and (c) maximum annual gross revenues or sales of RD\$150 million.

¹⁹ Given the lack of alternative second-tier financing arrangements in the country, the BCRD performs the function of onlending financial resources to IFIs.

- 1.16 **Component 2: Enabling investments for production improvements (US\$15.9 million).** The objective of this component is to provide public goods that improve the environment for production and trigger production improvement processes in San Juan. It will finance a series of priority interventions in the areas of roads and irrigation, as described below. These interventions were identified during the preparatory stage of the operation together with the Ministry of Agriculture, the MOPC, the INDRHI, the province's productive sector, and irrigators' associations. These include investment requirements for the rehabilitation of roads and irrigation canals, institutional strengthening of agents responsible for irrigation management, and additional investments to be identified during program execution.
- 1.17 **Subcomponent 2.1. Improvement, upgrading, and maintenance of road infrastructure.** Financing will be provided for the preinvestment studies and investments necessary to repair or rehabilitate rural access roads in the province, as well as subsequent routine maintenance activities. Maintenance will be carried out using the same type of service-level contracts used by the MOPC under loan 1939/OC-DR, i.e. two-year contracts with microentrepreneurs. At the end of the first two-year period, the contracts may be renewed for a further two years, or the required works may be put out to tender again. The first 75 kilometers of roads were selected based on the following criteria: (i) the existence, in their area of influence, of a geographical concentration and critical mass of producers with the potential to restructure; (ii) the ability to contribute to the completion of continuous routes providing access to markets; and (iii) that the intervention should not favor or facilitate any negative impacts on environmentally and socially sensitive areas, archaeological sites, or communities with special characteristics. Interventions for the construction of new roads will not be eligible. Road repair or rehabilitation will consist of interventions to improve the structure and/or functionality of the road, including primarily the stabilization of embankments and slopes, the replacement or construction of transversal and longitudinal drainage structures, and the placement of signage and safety features.
- 1.18 **Subcomponent 2.2. Optimization of the use of available water resources.** Program support will focus on the following activities: (i) strengthening of the management capacity of the irrigation associations and the INDRHI for the more efficient use of available water resources. Consultancies, technical assistance, and training will be used to enhance their ability to administer the system, make improvements in system operation and maintenance, analyze and propose reforms to rate structures, develop performance indicators, etc.; (ii) improvement of infrastructure at critical points of the network, with a view to creating a minimum level of functionality of irrigation works that will make it possible to coordinate the delegated management of these resources by the irrigators' associations. Based on prioritization criteria defined by the INDRHI and the irrigator's associations,²⁰ the

²⁰ In the selection of the initial 55 km of canals to be rehabilitated (already costed and mapped out), the criteria used included the following: (i) the level of deterioration; (ii) importance within the network; (iii) the area served; (iv) the impact on water distribution; and (v) the presence of a critical mass of producers.

works or sections of works to be targeted will be those in which the functionality of irrigation services is affected by the level of deterioration. This will include works to rehabilitate primary and secondary distributor canals; the replacement or repair of floodgates, axels, and pumps; the repair of canal stretches that are in an advanced state of deterioration, with high seepage losses; the installation of small measurement structures in the secondary and tertiary canal network; and the procurement of measuring equipment; and (iii) prefeasibility and feasibility studies for a comprehensive project to modernize irrigation in the San Juan Valley.

- 1.19 **Subcomponent 2.3. Other enabling investments and complementary studies.** This component will finance planning studies for local investments and multisector preinvestment studies and investments for the rehabilitation and repair of high-impact road infrastructure. The investments to be financed will be selected during program execution by the Technical Committee and approved by the program's Strategic Coordination Council, with the Bank's no objection. The selection criteria will be consistent with those used for road investments, and will be set out in the program's Operating Regulations.
- 1.20 **Administration, evaluation, and audit (US\$3 million).** The program will include a component to finance program administration and audits, a baseline survey, and midterm and final evaluations.

E. Main indicators in the results matrix

- 1.21 **Impact and expected outcomes.**²¹ The program is expected to contribute to regional productive development and boost export capacity in San Juan. This will be evaluated in terms of the increase in total factor productivity and the level of exports generated by program beneficiaries. In relation to outcomes under the first component, the average increase in sales and the level of innovation of beneficiary producers and/or companies will be measured, together with the amount of land dedicated to non-traditional crops and the difference in credit terms on offer. Calculations will be based on a survey of program beneficiaries and non-beneficiaries. For the second component, the following outcomes will be measured: the increase in user satisfaction with the irrigation service; improvements in rate collection arrangements; and reductions in travel costs and times following completion of the targeted road works. In calculating the results indicators under the second component, records of direct measurements by the Ministry of Agriculture's Project Execution Office (OEP) will be used, together with data from the aforementioned survey. [Required electronic link 1.](#)

²¹ According to the economic analysis presented in [optional link 2](#), the net present value of the operation is US\$5,784,179 (using a 12% discount rate), and the resulting internal rate of return is 18%.

II. FINANCIAL STRUCTURE AND RISKS

A. Financing instrument

- 2.1 The program uses the investment loan modality, with Component 2 structured as a multiple-works operation,²² and will be executed over five years. The total cost is estimated at US\$38.3 million, of which US\$35 million (91.4%) will be financed by the Bank from its Ordinary Capital under the terms of the Flexible Financing Facility, and US\$3.3 million (8.6%) from local counterpart funds (see Table 1). This loan may be part of the Automatic Redirection List of the Contingent Loan for Natural Disaster Emergencies (DR-X1003).

Table 1: General Budget

Investment Category	IDB	Local Contribution	Total	%
Component 1: Access to credit	18,000,000	1,000,000	19,000,000	49.6%
Credit fund and technical assistance	18,000,000	1,000,000	19,000,000	49.6%
Component 2: Enabling investments for production improvements	14,000,000	1,900,000	15,900,000	41.5%
Subcomponent 2.1. Improvement, upgrading, and maintenance of road infrastructure	4,000,000	1,400,000	5,400,000	14.0%
Subcomponent 2.2. Optimization of the use of available water resources	4,500,000	500,000	5,000,000	13.1%
Subcomponent 2.3. Other enabling investments and complementary studies	5,500,000	-	5,500,000	14.4%
Administration, evaluation, and audit	2,824,600	400,000	3,224,600	8.4%
Administration	2,324,600	400,000	2,724,600	7.1%
Monitoring and midterm and final evaluations	250,000	0	250,000	0.7%
External audit	250,000	0	250,000	0.7%
Contingencies	175,400	0	175,400	0.5%
TOTAL	35,000,000	3,300,000	38,300,000	100.0

B. Environmental and social safeguard risks

- 2.2 Based on directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), and given that the main component is in the area of financial intermediation, this operation does not require an environmental classification. In general, the program will have positive impacts in terms of improving productivity in the province through financing for new technology, improved roads, and the modernization of irrigation management. Some of the works, although small in scale, may have a negative impact ranging from low to moderate, and, in a few rare cases, significant. Indirect negative impacts may be significant in the case of the

²² For Component 2 works, a sample of 75 km of roads was selected, for US\$4.5 million. The sample is representative of total specific road works of US\$10.9 million included in the program. The selection criteria for this sample are described in paragraph 1.17. In the case of irrigation works, a sample of 55 km of canals was selected, for a total value of US\$2.7 million (see footnote 20 for the selection criteria).

credit access component, as financing will be provided to sectors in which environmental risks may be produced, as is the case in the agriculture and industrial sector. Projects in the areas of road rehabilitation and irrigation under Component 2 may have temporary and reversible effects, including air pollution, the production of solid and liquid waste, pollution of watercourses, noise and vibration, impact on the population in the target area, etc. Impacts from agricultural and industrial activities may include the accumulation of pollutants in water and soil, agricultural waste, over-exploitation of water resources, resistance to pesticides, air emissions, production of hazardous materials, health risks, etc.

- 2.3 The program will contribute to strengthening the capacity of the OEP and the General Coordinating Office for Externally-financed Projects (OCGPRE) to develop, implement, and monitor compliance with the Bank's environmental and social safeguards. The IFIs in the credit component have not yet been identified, and it is therefore not possible to determine their environmental performance. It has been agreed that an Environmental and Social Management System (ESMS) will be developed as part of the program's Operating Regulations. The ESMS will also include the tools, procedures, and requirements necessary to ensure that final recipients adopt and implement effective environmental measures to ensure compliance with national standards and the Bank's safeguards policy. Additional information regarding environmental and social aspects may be found in the optional link for the Environmental and Social Management Report (ESMR). **As a special contractual clause prior to disbursement, the borrower will adopt the ESMS as part of the program's Operating Regulations, in accordance with the provisions of the ESMR, and with form and content satisfactory to the Bank.** During the execution phase, the following will be required: the application of the ESMS to all public and private operations financed by the program; monitoring and other measures necessary to ensure compliance with the ESMS; allocation of sufficient resources for the effective functioning of the ESMS; and attention to the social and environmental aspects of Components 1 and 2, in accordance with the provisions of the ESMR. (See [required link 4.](#))

C. Technical and fiduciary risks

- 2.4 The following risks of medium and high severity were identified: (i) public management risks relating to possible program implementation delays stemming from the OEP's lack of experience in executing local-level multisector projects, as well as possible lack of focus of the OEP resulting from the introduction of new instruments; (ii) medium-term changes in the macroeconomic environment that could have a negative impact on external demand for San Juan's output or on credit demand; (iii) changes in the sector's incentives framework, which could curtail credit demand; and (iv) environmental and social risks stemming from the possibility that producers may be affected by natural disasters or health contingencies. To mitigate these risks, planned actions include the hiring of technical staff with training and experience consistent with the needs of the program; the preparation of a work plan with the majority of activities concentrated

in the initial years of execution, as well as a communication plan to stimulate demand for the program's credit lines; and the development of training in production methods that aim to reduce possible environmental risks. Other possible risks are linked to weaknesses in financial administration and environmental safeguards monitoring and compliance, as well as interagency coordination and delays in procurement. Mitigation actions include the hiring of new staff in the areas of administration and environmental and social management; the creation of the Strategic Coordination Council (SCC) with representatives of the organizations involved; and the timely preparation of bidding documents for the works.

III. EXECUTION AND ACTION PLAN

A. Summary of execution arrangements

- 3.1 The borrower will be the Dominican Republic. There will be two executing agencies: (i) the Ministry of Agriculture through the OEP,²³ with cooperation agreements with the BCRD for Component 1, and with the INDRHI and the irrigators' associations for Subcomponent 2.2; and (ii) the MOPC through the OCGPRE for Subcomponent 2.1 and road investments under Subcomponent 2.3, if any. Program governance and interagency coordination will be supported by a strategic committee and a technical committee.
- 3.2 The main functions of the executing agencies include (i) ensuring compliance with contractual conditions; (ii) undertaking procurement and contracting, and processing program-related payments; (iii) submitting disbursement requests to the Bank; (iv) planning and preparing annual work plans and coordinating, implementing, and monitoring program activities; (v) monitoring and evaluating program output, outcome, and impact indicators, and preparing the reports required by the Bank and the Government of the Dominican Republic. The SCC will consist of the Minister of Agriculture (who will chair it) and representatives of the MOPC (1), INDRHI (1), and the private sector (2). Its main functions will include: (i) providing a vision and strategic guidance for program implementation; (ii) facilitating coordination within and across institutions; (iii) ensuring the annual allocation of sufficient funds for the program and the fulfillment of its strategic objectives; and (iv) approving the destination of Subcomponent 2.3 resources. The Technical Committee will consist of the general program coordinator, the coordinators for Component 1 and the Subcomponents (2), and external advisors. It will be responsible for the technical evaluation of projects and initiatives to be financed with program resources, as well as for supporting their supervision.
- 3.3 The current OEP structure will be strengthened through the addition of a general coordinator, two technical coordinators (one for Component 1 and one for Subcomponent 2.2), a credit specialist, two field supervisors, a senior accountant, a

²³ The OEP and the OCGPRE have executed several Bank programs satisfactorily. The OEP has executed agricultural development programs 1379/OC-DR (completed), 2443/OC-DR, and 2551/OC-DR, and the OCGPRE has executed a road rehabilitation program (1939/OC-DR).

- procurement specialist, a planning and management specialist, and two administrative officers. Existing fiduciary and administrative capacities in the OEP will be used, and part of the costs of this team may be covered using loan proceeds. For the execution of Subcomponent 2.1, the OCGPRE's current structure will be strengthened through the addition of a technical coordinator; existing fiduciary and administrative capacities will be used. Details of the responsibilities and relationships between program actors are included in the program's Operating Regulations, which will include (i) credit regulations (which will develop in detail the elements outlined in paragraph 3.6); (ii) eligibility and prioritization criteria for productive infrastructure rehabilitation projects to be supported by the program (including the technical, social, environmental, and economic requirements that must be met); (iii) operational and contractual relationships between the parties involved in the program; (iv) the measures to ensure coordination between the program executing agencies and the actors; (v) environmental safeguards; and (vi) program-eligible expenditures.
- 3.4 **Special contractual clauses precedent to the first disbursement will include: (i) that the Ministry of Agriculture has selected and hired the program's general coordinator, based on terms of reference and selection procedures agreed upon with the Bank; and (ii) that the program's Operating Regulations, previously agreed upon with the Bank, have entered into force, including an Environmental and Social Management System and Credit Regulations.**
- 3.5 **Special disbursement:** Once the conditions precedent to the first disbursement contained in subsections (a), (b), and (e) of Article 4.01 of the general conditions of the loan contract have been met, the borrower may request a special disbursement at the request of the respective executing agency for a total of up to US\$120,000 equivalent to finance, among other things, the selection and hiring of OEP and OCGPRE staff required as a special condition precedent to the initial disbursements of the program, based on the terms of reference and selection procedures agreed upon with the Bank.
- 3.6 The Credit Fund, financed under Component 1 and administered by the BCRD, will operate according to the following conditions: (i) eligibility to participate in the program will be limited to IFIs constituted in accordance with the Monetary and Financial Law, and that at the time of the program's launch are qualified on the basis of the ratings system implemented by the Banking Superintendency; (ii) the program will hold accounts at the BCRD from which eligible IFIs can fund loans granted in accordance with the terms and conditions established in the credit regulations; (iii) the OEP will allocate quotas to eligible IFIs, allowing them to access program funds through the BCRD by means of an auction process, and based on the rates offered by the IFIs. The objective of this process is to discover the market rate that balances supply and demand for program funds; and (iv) the IFIs will decide whether or not to provide financing to the final subborrower, in accordance with the conditions established in the credit regulations.

- 3.7 In the case of Subcomponent 2.1, the MOPC will be responsible for the administrative, financial, and technical aspects of execution, in coordination with the Ministry of Agriculture. In the case of Subcomponent 2.2, the Ministry of Agriculture will be responsible for the administrative and financial aspects of execution, and it will coordinate technical execution with the INDRHI and the two irrigators' associations in San Juan. The execution of Subcomponent 2.3, once the SCC has approved the destination of the resources, will be carried out by the MOPC's OCGPRE in the case of road investments, and by the Ministry of Agriculture's OEP in the case of studies. Regarding the sustainability of the rehabilitation of public infrastructure supported under the operation, the program will ensure a minimum of four years of maintenance during the execution period, with the aim of creating a demonstration effect. During this period, the executing agencies will develop coordination mechanisms to ensure the sustainability of this maintenance. Interagency agreements will contain reference to responsibility for the maintenance of program works. In the case of irrigation works under the responsibility of the irrigators' associations, the latter will assume responsibility for maintenance.
- 3.8 **Special contractual conditions of execution of:** (a) **Component 1:** (i) the signature and entry into force of an agreement between the Ministry of Finance, the BCRD, and the Ministry of Agriculture, setting out the obligations of each party in the implementation of this component; and (ii) the Ministry of Agriculture has selected and hired the technical coordinator for this component; (b) **Subcomponent 2.1:** (i) the signature and entry into force of an agreement between the Ministry of Agriculture and the Ministry of Public Works and Communications, setting out the obligations of each party in the implementation of this subcomponent and Subcomponent 2.3; and (ii) the MOPC has selected and hired the technical coordinator for this subcomponent; (c) **Subcomponent 2.2:** (i) the signature and entry into force of an agreement between the Ministry of Agriculture, the National Institute of Water Resources, and the two irrigator's associations in the province of San Juan, setting out the obligations of each party in the implementation of this subcomponent; and (ii) the Ministry of Agriculture has selected and hired the technical coordinator for this subcomponent; and (d) **Subcomponent 2.2 works:** presentation of evidence of a rates structure proposal that yields, among other things, revenue that is sufficient to cover regular expenses related to operating the specific irrigation systems connected to this loan, in accordance with terms agreed upon with the Bank.
- 3.9 **Recognition of expenditures.** As part of counterpart funding, the Bank may recognize eligible operational expenditures of up to a maximum of US\$165,000 made by the borrower prior to the date of loan approval, as long as requirements substantially similar to those set out in the loan contract have been followed. Such expenditures must have been made after 6 August 2013 (when the project profile was approved), and up to 18 months prior to the loan approval date.

- 3.10 **Procurement.** The procurement of goods and works and the selection and contracting of consulting services will be carried out in accordance with the Policies for the procurement of goods and works and the selection and contracting of consultants financed by the Bank (documents GN-2349-9 and GN-2350-9). Where the beneficiary entity belongs to the private sector, procurement under Component 1 may be carried out using private sector market practices, as set out in Appendix 4 of the aforementioned policies.
- 3.11 **Audits.** In accordance with the Financial Management Policy for Bank-financed Projects (document OP-273-2), the executing agencies will annually submit separate audited program financial statements to the Bank within 120 days of the end of the fiscal year. The statements will be prepared by a firm of independent external auditors acceptable to the Bank. The external auditors will also be required to prepare preliminary semiannual audit reports, which should be forwarded to the Bank by each executing agency.

B. Summary of results-monitoring agreements

- 3.12 Program execution will be supervised by means of monitoring reports prepared by the OEP and the MOPC, which will be submitted to the Bank. These reports will include: (i) semiannual reports regarding the status of activities and outputs, the problems and risks identified, and proposed actions to overcome them; (ii) annual work plans setting out the program of activities, disbursements, and procurement (submitted together with the final semiannual report for the previous year); (iii) the results of the planned intermediate and final evaluations (the first once 30 months of the execution period have passed, or 50% of funds have been disbursed, and the last once 90% of funds have been executed), together with those of an impact evaluation to be carried out at project completion; as well as other reports included in the Monitoring and Evaluation Plan (see [required link 2](#)).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending to small and vulnerable countries, ii) Lending for poverty reduction and equity enhancement, iii) Lending to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	i) Paved road coverage (Km/Km ²), ii) Percent of firms using Banks to finance investments, iii) Trade openness (trade as percent of GDP), and iv) Annual growth rate of agricultural GDP (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Km of inter-urban roads build or maintained/upgraded, ii) Micro/small/medium productive enterprises financed, and iii) Farmers given access to improved agricultural services and investments.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2581	To increase productivity in the agricultural sector.	
Country Program Results Matrix	GN-2696	The intervention is not included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.8		10
3. Evidence-based Assessment & Solution	7.0	33.33%	10
4. Ex ante Economic Analysis	8.5	33.33%	10
5. Monitoring and Evaluation	7.9	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and reporting, and iv) External control. Procurement: i) Information system, ii) Shopping method.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment	Yes	The project will promote improvements in environmental practices, water and land management.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	A series of specific studies were financed in order to support the design of the interventions proposed under this program and maximize their impact.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The ex-post evaluation will produce solid evidence on the impact of partnership projects and access to credit, as well as on the impact of activities related to improvements in road infrastructure and in the irrigation system.	

The objective of the project is to contribute to the development of production and export capacity of the province of San Juan. The specific objectives are: i) improve farmers' and firms' access to credit; ii) improve accessibility to markets and reduce transport costs in the provincial road network, and iii) optimizing the use of available water resources. The project is aligned with the objectives of the Bank's development strategy and the development objectives of the country strategy with Dominican Republic.

The document identifies the development problem faced by farmers in the Province of San Juan and the main factors influencing those problems. The objective of the intervention is clear and the indicators allow measuring the results and progress during execution.

The cost-benefit analysis is appropriate. The monitoring and evaluation plan is adequate; it is expected to do an impact evaluation and data collection that will measure the effect of the program while reducing the current information gap about farmers.

The document identifies risks and proposes mitigation measures. The main risk are associated to experience in execution and factors that could influence the demand for credit.

RESULTS MATRIX

Program Objective: The program's goal is to support the regional productive development and export capacity of the province of San Juan. Its specific objectives are to: (i) improve credit access for producers and firms; (ii) improve market accessibility and reduce transportation costs on the provincial road network; and (iii) optimize the use of available water resources.

EXPECTED IMPACT

EXPECTED IMPACT									
Indicators	Unit of measure	Baseline		Interim measurements		End-of-project targets		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: Higher growth in total factor productivity (TFP) and export levels among program beneficiaries than among nonbeneficiaries.									
Difference in the percentage change in TFP between beneficiaries and nonbeneficiaries	Percentage increase in the TFP ratio	TBD	2014	1%	2016	3%	2018	<ul style="list-style-type: none">• Survey of beneficiary and nonbeneficiary producers and firms.• Database of the program’s monitoring and evaluation system.• PEU reports.• Provincial statistics.• Midterm and final program evaluations.	<ul style="list-style-type: none">• The difference in differences method will be used, combined with propensity score matching, to construct more similar comparator groups.• Reference values for the indicators will be obtained from the baseline survey in 2014.• TFP will be estimated as a residual, based on the factors of capital (K), labor (L), and inputs (M), and a production function in Cobb-Douglas form: $TFP_t = \frac{Y_t}{K_t^{\alpha_K} L_t^{\alpha_L} M_t^{\alpha_M}}$
Difference in the percentage change in exports between beneficiaries and nonbeneficiaries	Percentage change in the level of exports	TBD	2014	10%	2016	20%	2018		

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Interim measurements		End-of-project targets		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOMES: (i) improved access to credit conditions for producers and firms.									
Difference in the percentage change in average sales between beneficiaries and nonbeneficiaries.	Percentage change in annual sales	TBD	2014	10%	2016	15%	2018	<ul style="list-style-type: none">• Survey of beneficiary and nonbeneficiary producers and firms• Database of the program’s monitoring and evaluation system.• PEU reports.• Provincial statistics.• Midterm and final program evaluations.	<ul style="list-style-type: none">• The difference in differences method will be used, combined with propensity score matching, to construct more similar comparator groups.• Reference values for the indicators will be obtained from the baseline survey in 2014.
Difference between beneficiaries and nonbeneficiaries in the proportion of producers/firms that have introduced innovations into their products and/or processes and/or have adopted new technologies	Percentage of producers	TBD	2014	15%	2016	25%	2018		

Indicators	Unit of measure	Baseline		Interim measurements		End-of-project targets		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
Difference in the percentage change in the land area planted with non-traditional crops compared with traditional crops	Percentage increase in land area planted with non-traditional crops	TBD	2014	5%	2016	10%	2018	<ul style="list-style-type: none"> Survey of beneficiary and nonbeneficiary producers and firms Database of the program's monitoring and evaluation system. PEU reports. Provincial statistics. Midterm and final program evaluations. 	As a guide, we used data from the production chain analysis carried out for the preparation of the operation. These show that non-traditional crops (fruit and vegetables) currently account for 2% of area under cultivation in the province of San Juan. Reference values for the indicator will be obtained from the baseline survey in 2014.
Difference in credit terms available to agents financed by the program compared with a control group	Months	TBD	2014	12	2016	24	2018	<ul style="list-style-type: none"> Survey of beneficiary and nonbeneficiary producers and firms Database of the program's monitoring and evaluation system. PEU reports. Provincial statistics. Midterm and final program evaluations. 	<ul style="list-style-type: none"> As a guide, we used data from the Fondo Micro survey. In the baseline, the average credit term for the target group and the control group is 18 months. Underpinning this measurement is the assumption that the target and control groups are similar or identical in terms of sales levels at the outset of the intervention (i.e. the groups are not selected randomly). The differential will be estimated using the following formula: $(PLC^T_1 - PLC^T_0) - (PLC^C_1 - PLC^C_0)$, where PLC refers to credit terms for MSMEs in each group.

Indicators	Unit of measure	Baseline		Interim measurements		End-of-project targets		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOMES: (ii) improved market accessibility and reduced transportation costs using the provincial road network; and (iii) optimization of the use of available water resources.									
Difference between beneficiaries and nonbeneficiaries in the percentage of users who are satisfied with irrigation services	Percentage of irrigation service users	TBD	2014	5%	2016	10%	2018	<ul style="list-style-type: none">• Survey of beneficiary and nonbeneficiary producers• Database of the program’s monitoring and evaluation system.• PEU reports.• Provincial statistics.• Midterm and final program evaluations.	<ul style="list-style-type: none">• The difference in differences method will be used, combined with propensity score matching, to construct more similar comparator groups.• Reference values for the indicators will be obtained from the baseline survey in 2014.
Difference in the percentage of users that pay for irrigation services subsequent to the program (compared with the baseline)	Percentage of irrigation service users	50%	2013	55%	2016	60%	2018	<ul style="list-style-type: none">• Baseline: CNJR study (2013)• Survey of beneficiary and nonbeneficiary producers• Database of the program’s monitoring and evaluation system.• PEU reports.• Provincial statistics.• Midterm and final program evaluations.	Baseline: CNJR study (2013)

Indicators	Unit of measure	Baseline		Interim measurements		End-of-project targets		Source / Means of verification	Comments
		Value	Year	Value	Year	Value	Year		
Difference in average travel times on the targeted provincial road network subsequent to the program (compared with the baseline)	Average travel time for a private light vehicle (pickup) with a weight of up to one ton.	TBD	2014	-60%	2016	-60%	2018	<ul style="list-style-type: none"> Baseline study of the condition of the provincial road network Direct measurement by the PEU/ consulting firm 	<ul style="list-style-type: none"> The indicator will measure the impact of investments in the maintenance and rehabilitation of rural access roads. Based on the 75.76-kilometer sample of the provincial road network surveyed during the preparation of the operation, it is estimated that average travel times on targeted roads may be reduced by up to 60%. The baseline survey will be carried out once the precise roads to be financed are confirmed.
Difference in average vehicle operating costs on the provincial road network subsequent to the program (compared with the baseline).	Average vehicle operating cost for a 10-ton truck	TBD	2014	-40%	2016	-40%	2018	<ul style="list-style-type: none"> Baseline study of the condition of the provincial road network Direct measurement by the PEU/ consulting firm 	<ul style="list-style-type: none"> The indicator will measure the impact of investments in the construction and rehabilitation of rural access roads. Based on the 75.76-kilometer sample of the provincial road network surveyed during the preparation of the operation, it is estimated that average vehicle operating costs on targeted roads may be reduced by up to 50%. The baseline survey will be carried out once the precise roads to be financed are confirmed.

OUTPUTS

Outputs	Unit of measure	Baseline 2013	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Source / Means of verification
Component I:									
Loans granted to firms	Loan granted	0	0	15	20	20	20	75	EU reports
Component II:									
Roads improved (rehabilitated and/or maintained)	Km of roads	0	0	75	175	0	0	250	EU reports
Irrigation canals improved (rehabilitated and/or lined and/or with improved berms)	Km of canals	0	0	15	15	15	10	55	EU reports
Members of irrigators' associations trained in management for the efficient use of water resources	Number of participants in training	0	500	1,000	1,000	1,000	500	4,000	EU reports

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Dominican Republic
Program number:	DR-L1068
Name:	Productive Development and Competitiveness of the Province of San Juan
Executing agency:	Ministry of Agriculture and Ministry of Public Works and Communications
Prepared by:	Christian Contín (Financial Management) and Willy Bendix (Procurement), both in FMP/CDR

I. EXECUTIVE SUMMARY

- 1.1 Evaluation of the institutional capacity of the Project Execution Office (OEP) of the Ministry of Agriculture, and of the General Coordinating Office for Externally-financed Projects (OCGPRE) of the Ministry of Public Works and Communications (MOPC) was carried out based on the components of the Institutional Capacity Assessment System (ICAS) tool. These include (i) planning and organizational capacity (systems for activity planning and administrative organization); (ii) execution capacity (systems for human resources management, goods and services management, and financial management); (iii) control capacity (internal and external control systems); and (iv) operating system for procurement. As part of the analysis, information regarding strengths and weaknesses was gathered, facilitating evaluation of the institutional capacity of the OEP and the OCGPRE. The ICAS tool was designed by the Bank and is used regularly during the design phase for these types of financing operations.
- 1.2 The aim of this analysis was to identify the current capacity of the OEP and the OCGPRE for the administration, execution, and accountability of the management and use of funds under the proposed operation, as well as opportunities for improvement. The OEP will use the Executing Units for Externally-Financed Projects (UEPEX) subsystem of the Financial Management Information System (SIGEF). UEPEX is designed to support financial management and accounting in public projects with external financing. The country's internal and external control institutions are undergoing a process of institutional strengthening and are therefore not eligible for this operation. In relation to the public procurement system, the Bank provided technical assistance and support for the preparation of a MAPS/OECD (Methodology for Assessing Procurement Systems) assessment. The results indicate that the system has some strengths, such as the structure of its legal framework. However, there are a number of hurdles and challenges that must be

overcome for the system to reach a level of development compatible with international standards that would make it suitable for use in Bank operations.¹

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 There will be two executing agencies: (i) the Ministry of Agriculture (through the OEP), with subexecution agreements with the Central Bank of the Dominican Republic for the credit component, and with the National Institute of Water Resources (INDRHI) and the irrigators' associations for execution of the irrigation subcomponent; and (ii) the MOPC (through the OCGPRE) for the road subcomponent. The functions of the executing agencies include (i) ensuring compliance with contractual conditions under the program; (ii) undertaking procurement and contracting in accordance with the terms of the loan contract, as well as processing program-related payments; (iii) submitting disbursement requests to the Bank; (iv) planning and preparing annual work plans, and coordinating, implementing, and monitoring program activities; (v) monitoring and evaluating program output, outcome, and impact indicators, and preparing the reports required by the Bank and the government.
- 2.2 The OEP has considerable experience in executing programs financed by the Bank and other multilateral institutions, as well as with the necessary fiduciary tools. Execution of the program to provide support for the transition to competitive agriculture (PATCA I, 1397/OC-DR), preparation of the PATCA II (2443/OC-DR), and PATCA III (2551/OC-DR) initiatives, and the support provided for preparation of the Agricultural Research Program (2837/OC-DR) have confirmed that the OEP has: (a) a staff structure it has developed with ample knowledge of procedures for technical management, financial administration, procurement, disbursements, internal control, and the preparation of financial statements consistent with IDB requirements; (b) effective technological platforms that support these procedures; and (c) an effective and flexible organizational structure that allows the OEP to comply with the technical, administrative, and control requirements that are assigned to it within the framework of agriculture sector development, in accordance with the requirements of the Government of the Dominican Republic and the IDB. However, new initiatives have recently been added to the project portfolio administered by the OEP, while the current operation also includes new nontraditional lines of action (including rural roads, irrigation, and productive credit for production). This means that additional capacity and technical human resources will need to be incorporated into the OEP, together with the coordination and technical support mechanisms that already exist.
- 2.3 The OCGPRE has been executing loan 1939/OC-DR since 2008. It has detailed knowledge of Bank procedures and can easily manage all of the planning and

¹ In particular, the following needs have been identified: adjustments to the implementing regulations under the current procurement law; development and implementation of the Transactional Public Procurement Portal; strengthening of the capacity of public servants responsible for managing public procurement; and improvement of control mechanisms.

monitoring tools for operations. The OCGPRE's human and technical resources will allow it to easily assume the responsibilities under this operation. The OCGPRE has been a critical tool in the development and implementation of the concept of road maintenance based on service levels. Moreover, the Administrative Department for External Resources—the MOPC office is adept at handling all financial and budget aspects of projects with external resources from various agencies—is attached to the OCGPRE.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The institutional capacity assessment revealed that the level of institutional capacity development of the OEP and the OCGPRE is satisfactory, and risk is low.²
- 3.2 Given the existing experience and capacity of the OEP and the OCGPRE in using the UEPEX/SIGEF financial module and in generating and presenting accounting and financial reports, no financial management-related fiduciary risks were identified. Nonetheless, in the case of the OEP, the assessment did reveal specific needs for strengthening in the area of human resources, with a view to addressing the additional technical and administrative requirements presented by the program. These needs include a senior accountant, a procurement specialist, a planning and management specialist, a general program coordinator, two component coordinators, a credit management specialist, and two field supervisors. In the case of the OCGPRE, no staff strengthening needs were identified in the fiduciary area.
- 3.3 One issue that requires particular attention in the case of the OEP is the low level of project financial execution achieved over the last two years, which is mainly a consequence of fiscal space constraints. In this context, adding loan operations to the OEP requires discussions with the Ministry of Finance to ensure that sufficient funds are allocated to OEP-administered programs. The OCGPRE has the same problem, though to a lesser extent.
- 3.4 The institutional capacity assessment discovered that no flowcharts have been implemented in the OEP for activities, functions, and controls that would make it possible to effectively determine the response capacity of administrative/financial and procurement units to the requirements and requests of technical units responsible for project management. Given the addition of new loan operations to the OEP's portfolio, development of this activity will be promoted in the early stages of execution, once the OEP has all support staff needed. A similar situation was not observed in the case of the OCGPRE, but in the event that additional support is required, this will be included in the implementation plan.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 With the aim of facilitating contract negotiation, the agreements and requirements to be included in the special conditions of the contract are set out below:

² See Proposal for Operations Development annex, with institutional analysis.

- a. **Special contractual clauses precedent to the first disbursement:** Special contractual conditions precedent to the first disbursement of the loan will include: (i) that the program's general coordinator, the technical coordinators for Component 1 and Subcomponent 2.2, and the credit specialist for the Ministry of Agriculture's OEP and the Subcomponent 2.1 technical coordinator for the MOPC's OCGPRE have been selected and hired, in accordance with the terms of reference and selection procedures agreed upon with the Bank; and (ii) that the program's Operating Regulations previously agreed with the Bank, have entered into force, including an Environmental and Social Management System and credit regulations.
- b. **Special contractual conditions of execution.** The following special conditions for the start of execution will apply: (i) under Component 1: (i) the signature and entry into force of a subsidiary agreement between the Ministry of Finance, the Central Bank of the Dominican Republic, and the Ministry of Agriculture, setting out the obligations of each party in the implementation of this component; and (ii) the Ministry of Agriculture has selected and hired the technical coordinator for this component; (ii) for Component 2 activities related to the implementation of road infrastructure improvement, upgrading and maintenance activities, the signature and entry into force of an agreement between the Ministry of Agriculture and the MOPC, setting out the obligations of each party with regard to the implementation of such activities; and (iii) for the Component 2 activities related to irrigation management modernization, the signature and entry into force of an agreement between the Ministry of Agriculture, the National Institute of Water Resources (INDRHI), and the two irrigator's associations in the province of San Juan, setting out the obligations of each party with regard to implementation of these activities.
- c. **Exchange rate agreed upon with the executing agency for financial reporting:** The applicable exchange rate will be the effective rate at the time the resources disbursed by the Bank in U.S. dollar funds were converted into local currency.
- d. **Audited financial statements:** Presentation of: (i) audited annual financial statements for the program, to be submitted within 120 days of the end of each fiscal year for each of the executing agencies, for the duration of the original disbursement period of 60 months (plus any agreed extension). The program's financial reports will be audited by an independent audit firm acceptable to the Bank. The last of these reports will be presented within 120 days of the date stipulated for final disbursement; and (ii) interim financial reports corresponding to the period 1 January to 30 June, to be submitted within 60 days of 30 June for the duration of the original disbursement period. These reports will be audited by the same audit firm as the annual reports. The interim reports make up part of the annual external audit contract and do not therefore require any additional funding.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT

- 5.1 The Fiduciary Agreements and Requirements for procurement set out the rules governing the execution of all procurement processes planned under the program.
- a. **Procurement execution:** The Ministry of Agriculture's OEP will be responsible for the processes of selection, procurement, contracting, supervision, and receipt of items procured under Component 1 and Subcomponent 2.2 of the program. In the latter case, the INDRHI and the San Juan irrigation associations will also participate in a technical capacity in the procurement and contracting processes for irrigation activities. These bodies will provide the necessary technical inputs in accordance with their respective institutional technical procedures and standards. The OCGPRE of the MOPC will be responsible for the processes of selection, procurement, contracting, supervision, and receipt of items procured under Subcomponent 2.1 of the program.
 - b. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services generated under the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Contracts subject to national competitive bidding (NCB) will be executed using the program's bidding documents.
 - c. **Selection and contracting of consultants:** Contracts for consulting services under the program will be executed using the standard request for proposals issued by or agreed upon with the Bank. Selection of individual consultants: at the discretion of the executing agencies, the contracting of individual consultants may be carried out using local or international advertising to create a shortlist of qualified candidates. Training: the training procedures identified will be carried out by individual consultants or consulting firms hired for this purpose, based on the procedures set out in the program's policy for the contracting of consultants.
 - d. **Direct contracts:** No direct contracting is currently envisioned using loan proceeds.
 - e. **Recurrent expenditures:** The program will finance the operating and maintenance expenditures required to run the program during its execution, including, in particular, the cost of consultants hired to assist the OEP and the OCGPRE during the execution period. Operating costs do not include the salaries of active public servants or other ordinary operational expenses of the Ministry of Agriculture, the MOPC, the OEP, or the OCGPRE, which will be given priority within the institutional budget of each entity for program implementation.
 - f. **Commercial practices:** Projects executed by eligible beneficiaries using commercial bank financing (loan resources already transferred to the commercial banks) will be carried out in accordance with private sector

commercial practices, provided these do not violate the basic principles of competition, efficiency, and economy.

- g. **Recognition of expenditures:** The Bank may recognize against the local contribution up to a maximum of US\$165,000 in eligible expenses incurred by the borrower prior to the date of loan approval, as long as requirements substantially similar to those set out in the loan contract have been followed. Such expenditures must have been made after 6 August 2013 (when the project profile was approved), and up to 18 months prior to loan approval.

Activity	Type of Bidding Process	Estimated Date	Estimated Cost (US\$000)
Specialized technical consultancy for awareness raising, detection, and monitoring	ICB	1st quarter 2014	1,500
Construction and maintenance of rural access roads	NCB (several processes)	1st quarter 2015	5,200
Construction of canals and irrigation works	NCB (several processes)	1st quarter 2015	5,590
Preparation of a registry of properties and producers in the province of San Juan	NCB (several processes)	2nd quarter 2014	490
Activity	Type of Bidding Process	Estimated Date	Estimated Cost (US\$000)
Institutional strengthening activities	ICB	2nd quarter 2015	330
OEP support consultants	IC	1st quarter 2014	1,590

- 5.2 **Estimated Cost (US\$000) Thresholds** for the use of international public bidding and the inclusion of international consultants in shortlists will be made available to the executing agencies through the www.iadb.org/procurement webpage. Below these thresholds, the selection method will be determined according to the complexity and characteristics of each procurement process or contract, which is to be reflected in the Procurement Plan approved by the Bank.

- 5.3 **Main procurement processes.** The main procurement procedures for this operation are included in the table above.

*For the procurement plan for the first 18 months, see [required weblink 4](#).

Procurement supervision. In light of the fiduciary risk identified for this program, procurement will be subject to ex post review. Ex post reviews will be conducted every six months in accordance with the supervision plan for the program. The ex post review reports will include at least one on-site visit to inspect procurement processes subject to ex post review. The thresholds for ex post review of procurement processes will be those established in the Procurement Plan for the program.

5.4 **Special Provisions.**

- a. **Measures to reduce the likelihood of prohibited practices:** The provisions of documents GN-2349-9 and GN-2350-9 will be observed with respect to prohibited practices (lists of companies and individuals that are ineligible to work with multilateral agencies).
 - b. **Other special procedures:** At its discretion, the Bank may change the procurement supervision method based on execution performance, updated assessments of institutional capacity, or the results of fiduciary visits.
- 5.5 **Files and records.** The OEP and the OCGPRE will be responsible for both the maintenance of files and supporting documentation for procurement processes financed with program resources, along with their respective payment vouchers, and for carrying out these processes using established procedures.

VI. FINANCIAL MANAGEMENT, PROGRAMMING, AND BUDGET

- 6.1 The annual budget is prepared by the Ministry of Finance's Budget Bureau in coordination with the Ministry of the Economy, Planning, and Development and other government agencies. The OEP and the OCGPRE will be responsible for ensuring that budget allocations for loan proceeds are available to carry out the activities included in the Bank's planning tools (annual work plan, project execution plan, and procurement plan), as well as for requesting that the Bank modify the budget (transfers) where assigned funds are insufficient for the execution of planned activities.
- 6.2 **Accounting and information systems.** Program accounts will be kept on a cash basis. The OEP and the OCGPRE will use the UEPEX/SIGEF module for program accounting and for the preparation of financial reports. The UEPEX/SIGEF is the official country system and is in general use by executing units that receive funds from international organizations. The module allows information regarding the availability of program funds, budget control, and the control of contracts to be kept online. It also allows disbursement requests and their supplementary forms to be generated automatically for submission to the Bank. In 2013, responsibility for the UEPEX/SIGEF module was transferred to the Government Accounting Bureau, which is currently in the process of adopting International Public Sector Accounting Standards (IPSAS). These standards will facilitate the medium-term implementation of accrual accounting in the nonfinancial public sector.
- 6.3 **Disbursements and cash flow.** Advances of funds administered by the executing agencies will be (i) deposited in a special bank account in the program's name, opened by the borrower at the Central Bank (in U.S. dollars) and at the Banco de Reservas (in Dominican pesos) through the National Treasury; (ii) registered in the borrower's general account (in the event that the Unified Treasury Account—which is currently being piloted—is fully implemented before the program reaches disbursement eligibility), and thereafter in a separate subaccount in the name of the program. The subaccount will register all inward fund transfers and payments

related to the Bank-financed operation (as long as this mechanism is satisfactory to the Bank); and (iii) consistent with the financial plan previously agreed upon with the Bank, with a view to avoiding problems with respect to future fund advance requests. The OEP/OCGPRE, the Ministry of Agriculture, and the MOPC will make sure that the necessary budget appropriations are available and included in the National Budget Law. Similarly, the OEP and the OCGPRE will be responsible for documenting program expenditures, ensuring their eligibility, and submitting no objection requests to the Bank. Program funds will be used by the borrower and executing agencies for eligible expenditures only. An effective financial management and control system will be in place for their execution, following the processes established in the loan contract and reflected in the Operations Manual, and expenditures must be consistent with the financial plan agreed upon periodically with the Bank. Advances of funds may be made by component and/or subcomponent, to which end each may have an individual accountability for the respective advances.

- 6.4 **Internal control and audit.** The Office of the Comptroller General of the Republic (CGR) is the executive branch agency responsible for the design, effectiveness, updating, and supervision of the National Public Sector Internal Control System, which includes the operation of the internal audit units. Despite efforts in recent years that resulted in the adoption of Basic Internal Supervision Standards, which consist of a series of guidelines and parameters that govern control activities, risk management, communication, monitoring, and accountability for public agencies, the implementation of these mandatory standards has not occurred as quickly as had been envisaged. As a result, the CGR does not perform internal audits of control processes as set out under the standards and continues to concentrate on reviewing payment orders. This situation may affect the timeliness of payments for goods and services under the program and, hence, execution. The OEP and OCGPRE will therefore remain in close communication with the internal audit unit and begin the process of complying with the Basic Internal Supervision Standards.
- 6.5 **External control and reports.** The State Audit Office is the highest external entity overseeing public resources, administrative processes, and State assets. However, institutional limitations mean that it is not eligible to perform the external audit of the program. As a result, this function will be performed by an independent auditing firm acceptable to the Bank. External audit reports and terms of reference will meet the requirements and guidelines set out in the manual for financial and external audit reports of Bank-financed operations.
- 6.6 **Financial supervision plan.** Since the OEP and the OCGPRE already have sufficient experience working with the Bank, financial supervision, training, and monitoring will be similar to that implemented under other programs, such as DR-L1031, DR-L1048, and 1939/OC-DR. In relation to the identified fiduciary risks to the operation, it is recommended that these be monitored continuously by the responsible project team, particularly during the first year of execution.

- 6.7 **Execution mechanism.** The executing agencies for the operation will be the Ministry of Agriculture through its Project Execution Office (OEP) and the Ministry of Public Works and Communications (MOPC) through its General Coordinating Office for Externally-financed Projects (OCGPRE). The OEP and the OCGPRE will be responsible for procurement, contracting, and payment processes, at the request of the Ministry of Agriculture and the MOPC, respectively. The Central Bank will designate a technical team as counterpart that will be responsible for preparing the technical specifications for the investment activities and auctions. The Central Bank's technical team will coordinate with the OEP to supply it with all necessary documents and requirements for submitting disbursement requests to the Bank. The OEP and the OCGPRE are responsible for the execution of the operation, as well as the fulfillment of its objectives.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/13

Dominican Republic. Loan ____/OC-DR to the Dominican Republic
Productive Development and Competitiveness
in the Province of San Juan

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Dominican Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a productive development and competitiveness program in the Province of San Juan. Such financing will be for the amount of up to US\$35,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2013)