

# Policies to Improve Competitiveness in the Dominican Republic

## I. Mission Strategic Objective

The USAID Mission's Strategic Objective No. 1 (SO1) is to increase the number of *Policies Adopted that Promote Good Governance for Sustainable Economic Growth* in the Dominican Republic. In order to achieve the above objective, the Mission and its partners, including the GODR, NGOs and the private sector, are working together to achieve the following results: 1) Policies for a More Competitive Dominican Economy; 2) Improved Policies for a Sustainable Environment; 3) Improved Policies and Practices for Efficient Rural Energy; and 4) Improved Basic Education through Increased Community and Private Sector Participation.

Despite the recent high levels of national economic growth, the poor have not seen notable improvement in their standard of living. Continued reforms are needed in the area of economic competitiveness, environment, energy and education in order to broaden and sustain the benefits of the current high economic growth rates. The Dominican business community is unprepared to compete in global markets.

Certain reforms in the economic, educational, energy, and environmental sectors will constitute a major step in closing the gap between spectacular macroeconomic growth and deteriorating standards of living for the poor, but passing laws is only one aspect of the development solution. Consensus building around the direction of reforms and enhanced citizen participation in the decision-making process will be vital to the successful implementation of new policies in a fully democratic system. The inclusion of civil society organizations in the formulation of a policy reform agenda will ensure that the voice of the people will be heard, and that policies have a better chance of being adopted and implemented.

The Mission has planned a series of activities to achieve the approval of *Policies for a More Competitive Dominican Economy*. This result will be supported by the *reform of key economic policies* and by *changing public and private sector mindsets* on economic and social policies. To support policy reform USAID will provide technical assistance, observational travel, and analytical work leading to the drafting of new laws, regulations and policies. USAID will also support policy reform through workshops and seminars with civil society participation to refine policy reform proposals and build consensus for their approval.

Among the key policies that hinder competitiveness are financial sector and fiscal policies, especially those affecting small business and microenterprises. The sustainability of banks catering to small businesses and micro-finance institutions is threatened by subsidized credit offered by GODR institutions and programs. Likewise, the country lacks an adequate regulatory framework to protect borrowers and savers who are members of financial institutions like the credit unions and saving cooperatives,

which are important sources of capital for small businesses and microenterprises. High interest rates and high transaction costs constrain investment and limit access to capital by small businesses. Policies are also needed to streamline registration and licensing for businesses and for providing the small business sector access to information technology (IT).

Trade and investment policies must be changed to support expanded job creation and increased opportunities, especially in tourism, agribusiness and light industry, and to comply with free trade agreements, World Trade Organization (WTO), and other commitments. Institutions need to be strengthened to implement policy reforms related to Intellectual Property Rights (IPR) and international arbitration, and to carry out international trade agreement obligations. Finally, social investment must be improved through targeted, efficient, participatory transfer mechanisms.

Other policy reform measures will be identified through implementation of competitiveness and poverty reduction initiatives and dealt with through policy activities in the other components.

The Mission also has planned support for a series of competitiveness initiatives to *change private and public sector mindsets on economic and social policies* to make regions and products or “clusters” more competitive. USAID will assist private sector led groups at the regional, provincial, and local level in strategic planning to increase their ability to compete (competitiveness) in the global market. One potential initiative is for environmentally sustainable tourism in the eastern region, specifically in the La Romana-Bayahibe area, that will allow USAID funds to leverage resources from local and international hotel chains, The Nature Conservancy (TNC), the community and the GODR. Another competitiveness initiative is being developed with the La Vega Development Association in central mountains of the Dominican Republic. Other regional competitive initiatives may be supported as they emerge and demonstrate that they have adequate leadership and commitment to prosper.

USAID will also help establish partnerships with government, communities and businesses, especially small businesses, to increase access to information technology. The Secretariat of Education is establishing state-of-the-art information technology centers in high schools throughout the country. The partnership will open up these facilities for use by the community, particularly small businesses, which will result in an increase of their competitiveness as the most up to date information on markets, providers, suppliers and both national and international competitors become available to them.

Other initiatives may include improving the competitiveness of products such as specialty coffee, organic cocoa, and fresh vegetables for export. Finally, USAID is planning to include very focused poverty reduction initiatives, implemented through NGOs, targeted on selected communities where poverty is markedly high, like the sugar cane bateys. These strategic planning initiatives for poverty reduction, like other competitive

initiatives, will serve to change public and private mindsets on approaches to address the serious economic problems of these communities.

## II. Background

The United States Agency for International Development (USAID) contracted Chemonics International Inc. in 1999 to undertake a program titled “***Competitive Strategy for the Dominican Republic.***” The objective of the program was to support various initiatives underway in the Dominican Republic, especially by the private sector, to develop the country’s competitive capabilities and to improve the standard of living of all Dominicans. USAID and the contract team officially launched the program on November 18, 1999.

The USAID program was comprised of the following four individual projects: the *National Competitive Strategy*, a *Competitive Strategy for the Santiago Region*, a *Competitive Strategy for the Fruits and Vegetable (Hortofrutícola) Cluster*, and a *Competitive Strategy for Micro and Small Enterprises*. All of these projects are inter-linked and, as a group, represent an integrated approach to address competitiveness in the Dominican Republic. The Santiago regional and cluster projects were intended to serve as pilot projects that could be used to promote regional and cluster development in the DR.

Under the **National Competitive Strategy** (NCS) component, USAID provided technical assistance to the Competitiveness Group (CG), within an open and participatory strategic planning process, which resulted in the long-term strategy and vision for the Dominican Republic (DR). The NCS is an action-oriented framework for a national development effort geared to establishing a more competitive, sustainable and equitable economy.

The CG has continued to disseminate, promote and reinforce strategy awareness among key target audiences to get their support for strategy implementation. A critical milestone in this process was achieved at the “Forum for a National Development Agenda”, sponsored by the Office of the Presidency and held in Casa de Campo, La Romana on December 16, 2000 where the NCS was presented as a framework for a shared national development agenda.

Additionally, this scope of work is built on the recommendations of the 1998 Investor’s Roadmap project report. The report highlighted how domestic and international investment are “severely impeded in the DR by the continuance of antiquated, inefficient government administrative structures”. It also stresses that “...benefits from globalization will be slow to reach the general population as long as these structures are not aligned with new laws and policies”. Therefore, even though several legislative and economic reforms have been achieved in the DR, there are still more challenges ahead. The country must continue to position itself competitively in the global economy by carrying out further economic, environmental and social reforms.

More background details are included in Annex 1.

### III. Project Description

The project will have four interrelated components designed to increase the international competitive position of the Dominican Republic in order to reduce the country's poverty level. It will include the following components: 1) Regional and product competitiveness initiatives; 2) Trade, investment and financial policy activities; 3) Small and microenterprise policy activities; and 4) Poverty reduction policies and initiatives. Taken together, these activities are expected to lead to the *reform of key economic policies* and a *change in private and public sector mindsets*, leading in turn to policies for a more competitive Dominican economy.

The *Regional and Product Competitiveness Initiatives* component is intended to provide strategy and competitiveness technical assistance (TA) to private and public sector organizations undertaking participative strategic planning processes as part of specific regional and product competitiveness development projects. This TA will be integrated with other activities undertaken by the contractor under this contract.

Regional development, competitiveness initiatives, or wealth creation do not just happen. They need to be planned and nurtured and require commitment, people and resources to materialize. These processes demand time and energy. There is a step-by-step planning process that needs to be completed that involves engagement of a leadership group, facilitating a strategic planning process and securing commitment of stakeholders.

Because competitiveness activities are nontraditional and require new levels of commitment and collaboration among businesses, government agencies, legislators, and educational institutions, they will require persuasive explanations of the practical, bottom line value of participating. In fact, to be successful, the private sector must lead any competitiveness initiative, securing at the same time government participation if required.

As a result of the dissemination and promotion of the *National Competitive Strategy* (NCS), various private regional and sector-based organizations have requested technical assistance to carry out their own strategic planning process. The *La Vega Development Association* and the *Romana-Bahayibe Tourism Association* have requested assistance to help them launch, facilitate and manage participative strategic planning, competitiveness initiatives, including environmental, information technology, small business and community development components.

USAID is considering these two groups (La Vega & La Romana-Bayahibe) as the first candidates for providing support. Requests have also been received from regional development associations in Barahona, San Francisco de Macorís and San Pedro de Macorís. It is expected that other groups will be requesting technical assistance to develop integrated competitive strategies or to support specific initiatives to increase the competitiveness of regions or products.

Coffee is the third largest export from the Dominican Republic, the principal source of income for thousands of small farmers, and is key to environmental sustainability, but production is on the decline. Since Hurricane Georges, USAID and USDA in partnership with the GODR and 15 NGOs, have invested \$6 million to rehabilitate 5,000 hectares in the major coffee growing regions. The GODR recently created a national coffee commission, which is working with leading NGOs to bring leaders of the industry together to work for improved profitability and increased exports. Strategic partnerships are being formed with the Specialty Coffee Association of America, the U.S. Geological Survey, and with coffee producers and exporters from Haiti, and they are in need of assistance strategic planning to position themselves to take advantage of the specialty coffee market.

Likewise, improved technology and strategic partnerships with chocolate manufacturers hold the key to improving the incomes of thousands of small cacao producers while protecting the Dominican environment. USAID had initiated partnerships with the American Cocoa Research Institute, the government, universities and NGOs to promote the production of quality cacao. Technical assistance will be provided to assist in a strategic plan for improving the competitiveness of Dominican cacao.

Vegetable export, ecotourism, and furniture associations have also requested assistance with competitiveness and cluster analysis. Each of the regional competitiveness initiatives is linked with local development associations and local governments, which are also in need of technical assistance in strategic planning to link community priorities with regional and local competitiveness plans. Likewise, technical assistance will be provided to link Secretariat of Education computer laboratories at secondary schools with local and regional development associations and small businesses and community organizations to improve access to information technology.

Regional and product competitiveness initiatives will be highly focused and geared to changing policies and promoting strategic thinking and mindset changes. Competitiveness initiatives that have high potential for growth and wealth creation will be eligible for assistance if they have the following characteristics: a) involve strategic linkages (both forward and backward) between global markets, national government, local development associations, local government, and citizens; b) create partnerships among the community, Dominican public and private sector and international private associations and foundations; c) include environmental protection; d) include use of information technology and technology transfer; and e) are based on strategic business planning.

The contractor will establish a quick response facility that will provide technical assistance and support to community groups, business associations, other private sector institutions and government entities to implement initiatives that will increase the competitive level of a particular sector or the overall competitiveness of the DR. Technical assistance, studies and observational travel will be provided to establish the planning methodology and to facilitate and manage the competitiveness initiatives.

Additionally, TA will be provided for promoting social capital gains within the regional or competitiveness group, as well as in launching priority projects.

The second component, *Trade, Investment and Financial Policy Activities* will focus on those trade, investment and financial policy activities that would accelerate the policy and institutional reforms needed to make the Dominican Republic more competitive in global markets and prepared for membership in the Free Trade of the Americas Agreement (FTAA). The Dominican Republic, which is already a member of the World Trade Organization (WTO), recently ratified free trade agreements with Central America and the CARICOM. These agreements provide unprecedented opportunities for trade-driven economic growth and poverty reduction. However, the agreements are also the source of increasing pressure to reduce tariffs, lift restrictions on foreign investment, open government procurement to foreign participation, and eliminate other anti-competitive practices and trade-distorting controls.

The National Commission of Trade Negotiations (CNNC) is the interagency body responsible for negotiating trade agreements, formulating trade policies, and monitoring the implementation of trade reforms. Technical assistance, training, studies and observational travel will be provided to the GODR and related Civil Society and coordinated by the CNNC. Areas of assistance may include:

1. Study of the economic impact of trade reciprocity.
2. Sector impact studies analyzing the effects of trade reform on different sectors of the economy to inform policy decisions and trade negotiating positions.
3. Training for policy makers, through seminars and workshops, on impact analysis of trade reform.
4. Technical assistance to strengthen the CNNC through courses, seminars, and study tours.
5. Development of a database of experts with abilities and knowledge on international trade and international negotiations.
6. Study on the magnitude and composition of government procurements.
7. Civil society debate on draft legislation on intellectual property rights and “Codigo de Ordenamiento del Mercado.”
8. Training and study tours on arbitration and alternative dispute resolution.
9. Study on the effect of trade liberalization on small business.
10. Study tour to explore regional cooperation on intellectual property rights.

According to the USAID supported Investor’s Roadmap for the Dominican Republic, private investors face a series of bureaucratic procedures that puts the country in a competitive disadvantage compared to many of its neighbors in the Caribbean and Central America. In spite of profound reforms, including a new foreign investment law and reduction of tariffs, administrative and procedural barriers continue to impede foreign and local investment. Among the most serious constraints are:

- Lack of transparency in the business climate.
- Continuing problems in the power sector.

- Concentration of power and excessive discretionality in the executive branch, especially in the budget process.
- Excessive number of government entities and processes required for export permits.
- Parallel exchange rates and surcharges that penalize exporters.
- Failure to recognize international arbitration settlements.

Technical assistance for policy studies and observational travel, and workshops will be provided to accelerate progress on these and other investment policies that emerge through the competitiveness activities.

Financial sector policies also hinder competitiveness, especially those policies affecting small businesses. Among the most pernicious threats are the continuing use of subsidized credit in government programs and direct government lending. The new Monetary and Financial Code has been awaiting action in Congress for four years. High interest rates and high transaction costs constrain investment and limit access to capital by small businesses. Technical assistance for policy studies, workshops and observational travel will be provided to support these financial reforms.

Technical assistance to support *Trade, Investment and Financial Policy Activities* will be supplemented by assistance available from other U.S. Government agencies such as USDA, DOJ/FTC, and TREASURY/CUSTOMS coordinated with LAC/RSD and other USAID programs in Central America, the Caribbean, and the Andean countries.

USAID/G-CAP's regional trade Program Supporting Central America's Participation in the Free Trade Area of the Americas (PROALCA) is particularly relevant. The PROALCA program reinforces Central American efforts in the areas of: a) *Trade and Investment Policies* (implementation of WTO commitments, subregional economic integration, strengthening IPR protection through public education, assistance in updating the appropriate national IPR legislation, establishing international standards for expropriation, etc.); b) *Labor Rights and Labor Markets* (achieve more equitable and better functioning labor markets—the DR is currently participating in this component only); and c) *Energy and Telecommunications* (greater private sector investment in energy and telecommunications).

The third component is *Small and Microenterprise Policy Activities*, which is focused on providing technical assistance to strengthen the network of small business and microenterprise associations to become an effective lobby for policy change, and to improve the legal framework to support the role of the small and microenterprise (SME) sector. Work on the legal framework will focus on policies that hinder the competitiveness of small and microenterprises. For example, regulations governing financial service provision for the SME sector are lacking. Credit unions and savings and loan associations, principal lenders to the sector, are not supervised by the Banking Superintendency even though they mobilize approximately DR\$13 billion (US\$764 million) annually. Credit cooperatives have more than 500,000 shareholders, most of them from the lower income population, which are heavily concentrated in rural areas. Additionally, the GODR policies need to be revised to provide training and orientation

services to both the credit cooperatives and the SME sectors and to stop offering programs of subsidized credit that distort factor profitability. Policies are also needed to increase access for small businesses to information technology (IT).

The activities (TA) under this component will be carried out in close collaboration with the Inter-institutional Network to Support the Micro, Small and Medium enterprise (REDIMYPE). REDIMYPE is a communication, dialogue and collaboration network created in 1997 which includes 31 public and private institutions. It has as its objectives the coordination of its member efforts to support the SME sector through a series of agreed upon activities in the policy and practice areas that may affect the Dominican micro and small entrepreneurs. USAID helped establish REDIMYPE through assistance to the Centro de Apoyo a la Micro, Pequeña y Mediana Empresa (CAMPE), which holds the network's general secretariat. In order to advance the policy agenda with all interested parties in the DR, the support of REDIMYPE will be crucial to achieve an overall sector consensus on policy change.

Finally, the fourth component, *Poverty Reduction Policies and Initiatives*, will include technical assistance to design and target poverty-reduction initiatives. The implementation will be through experienced NGOs and in collaboration with the public and private sectors, as well as selected communities where poverty is high, such as the sugar cane bateys. However, as said before, all of these competitiveness and poverty reduction strategies should be part of or be integrated into initiatives which should include strategic linkages with the business community; building partnerships among the community, public and private sector; must be environmentally friendly; should employ and use information technology and technology transfer; and should have a business plan.

#### **IV. Project Execution**

The execution time frame for this project is sixteen (16) months with the option to extend it for another twelve months. It will require a full time economic and social policy advisor (ESPA), plus support staff, short-term technical assistance, policy studies, study tours, observational travel and office supplies and equipment. The support staff will include a local economist, an administrative assistant, and two research assistants.

The minimal qualifications ESPA are as follows:

- Masters degree in economics or related field.;
- Ten years of experience working in the area of competitiveness initiatives and economic and social policy development;
- Working knowledge of competitiveness activities in Latin American countries including the DR;
- Five years experience working in a developing country on competitiveness initiatives, or economic & social policy issues;
- Good knowledge of the DR business community;
- Bi-lingual (English & Spanish);
- Fully capable of working with computer programs (Word, Excel, Power Point);

- Must stay in country for the entire duration of the activities.

Additionally, fees and travel expenses of specialized short term foreign consultants that may be needed to do strategic analysis, specific competitiveness initiatives design or to participate in local planning sessions or workshops for each one of the program components should be included in the total cost of the program.

The contractor is encouraged to contract with local NGOs, institutions or individuals for policy studies, conferences and workshops in support of each component. Likewise, short study tours and observational travel related to key policy reforms will be arranged and funded by the contractor.

Local counterpart contributions would include the cost of the hours that the leadership group would put into the process and of counterpart staff assigned to the project, as well as support for events and other logistical costs.

### ***Specific Tasks for the Economic and Social Policy Advisor***

- Direct all contract activities in close coordination with USAID/DR-SO1;
- Identify and contract local organizations and individuals for providing TA on the strategic planning process, competitiveness initiative development, trade and investment policies, small business policies, poverty reduction policies and any other policies that may emerge as a result of the competitiveness and poverty reduction initiatives undertaken in this project;
- Prepare an annual work plan to be approved by USAID and updated semiannually that includes a schedule of tasks or calendar of events to be accomplished by each component. This will include name of the event, date, main sponsoring organization, points of contact, level of participation [public, private, others], and collaborating organization;
- Structure the methodological framework to be used during the strategic planning processes, including exercise designs, forms, working material to be used, etc.;
- Provide policy advice to GODR officials and private sector officials on trade, investment, small business, and financial issues affecting competitiveness;
- Help groups participating in regional and product competitiveness initiatives locate and link with potential local and international partners from the public and private sectors.
- Contribute to the removal of policy constraints to competitiveness by working with partners in each component to identify policy constraints to competitiveness, with civil society to build consensus for policy reform, and with the Competitiveness Group to select and advance a set of specific policies to be changed.
- Serve as the process facilitator and help the particular group identify the strategic options for proposed competitiveness initiatives;
- Promote the achievement of social capital gains within a particular group;
- Receive and assess requests for assistance in competitiveness initiatives and activities and determine the most effective way to assist.

*Specific Tasks for the Economist*

- Develop and maintain a system to monitor the status of policy reforms related to the competitiveness of the Dominican economy.
- Assist the Economic and Social Policy Advisor.

# ANNEX 1

## I. BACKGROUND

The United States Agency for International Development (USAID) contracted Chemonics International Inc. in 1999 to undertake a program titled “*Competitive Strategy for the Dominican Republic.*” The objective of the program was to support various initiatives underway in the Dominican Republic, especially by the private sector, to develop the country’s competitive capabilities and to improve the standard of living of all Dominicans. USAID and the contractor team officially launched the program in Santo Domingo and Santiago on November 18 and 19, 2000, respectively.

The USAID program was comprised of the four following individual projects: the *National Competitive Strategy*, a *Competitive Strategy for the Santiago Region*, a *Competitive Strategy for the Fruits and Vegetable (Hortofrutícola) Cluster*, and a *Competitive Strategy for Micro and Small Enterprises*. All of these projects are inter-linked and, as a group, represents an integrated approach to address competitiveness in the Dominican Republic. The Santiago regional and cluster projects were intended to serve as pilot projects that could be used to promote regional and cluster development in the DR.

Competitiveness strategy projects carried-out in other countries and regions have taken between 18 to 30 months, and sufficient human and financial resources were made available to undertake the needed multiple detailed analysis and to complete the different planning processes. International organizations, such as the World Bank, have funded some of these initiatives. Although the DR project’s reach and range was more limited because of budget constraints, it can be concluded that it was, nonetheless, a very cost-effective effort, when compared to similar endeavors in El Salvador, Morocco, Chihuahua, Malaysia, Colombia, South Africa, Northeast Brazil, Guatemala and the Central American regional project. The DR project could be considered as the first phase of other country projects, but specific enough to launch a national development strategy.

The **National Competitive Strategy** (NCS) project contemplated providing technical assistance to the Competitiveness Group (CG) so that, within an open and participatory strategic planning process, it would articulate a long-term strategy and vision for the Dominican Republic (DR). The objective of the project was to establish an action-oriented framework that would help get underway a national development effort geared to establishing a more competitive, sustainable and equitable economy. The NCS project was formally launched in December of 1999<sup>7</sup> and the strategy paper was completed during the month of July 2000.

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<sup>7</sup> This event, held December 7, had as principal speakers Michael Fairbanks from Monitor Company; Felipe Larrain from Harvard (Director of the HIID Competitiveness Agenda project in Central America); and Alonso Ramos Vaca, President of the Chihuahua Economic Development. The President of the country at that time, Dr. Leonel Fernández, attended part of the session and presented comments on development and competitiveness challenges in the DR.

The *Competitiveness Group* (CG) is a virtual group comprised of leading businessmen and representatives from the public, educational, media and provincial sectors. Private sector leaders have been responsible for organizing and coordinating the Group's competitiveness promotion activities. The CG began meeting at the end of 1997. It was responsible for organizing and implementing the *Development and Competitiveness Symposia* held in 1998 with the private, governmental and political sectors in Santo Domingo and Santiago and the *Competitiveness Workshop* held in March 1999 at the Monitor Company (Cambridge, MA USA). Representatives of the legislative, governmental, political, media and private sectors attended it. These events were mainly funded by USAID and served as a basis to structure and set the stage to implement the NCS project presented by the Group to USAID. The Group also received support from the IDB to cover expenses of speakers from Mexico to present the experiences of the successful Chihuahua XXI Century competitiveness, regional and cluster development program. The Group's slogan has been "**Advantage DR**" and it has promoted a positive outlook of the country's future and the belief that with vision and determination the Dominican Republic can become a net winner in the global economy.

During the NCS project design and subsequent planning session, it was established that the project had four main objectives:

1. To articulate a *vision of the future* for the country; that is, define what we want to be as a nation (a picture or snapshot of the future);
2. To establish a countrywide *strategic positioning*; that is, to determine how best to compete in a global economy;
3. To establish the *strategic lines of action* needed to materialize the vision and achieve the positioning desired; that is, to define a road map of how to get there; and
4. To increase *social capital*; that is, to establish effective cooperation and collaboration among participants.

All four objectives were fully achieved through a participatory strategic planning process.

### ***Strategy Promotion***

The Competitiveness Group (CG) has continued to disseminate, promote and reinforce strategy awareness among key target audiences to get their support for strategy implementation. Since project completion in July 2000, the CG has made 18 institutional presentations of the National Competitive Strategy (NCS) to public and private sector organizations, both at the national and regional levels; as well as numerous individual presentations to leading business, governmental and political leaders promoting a better understanding of the strategy.

A critical milestone in this process was achieved at the "Forum for a National Development Agenda", sponsored by the Office of the Presidency and held in Casa de Campo, La Romana on December 16, with a view to discussing the possible components of a shared national development agenda. At his venue, the NCS was presented together with the results of the World Bank funded dialogue process carried-out through the Pontificia Universidad Católica y Maestra (PUCMM) and presented by the Chancellor of

the University; and the proposals for reform presented by the Coordinator of various civil society organizations. The NCS was the net winner of the event, getting the widest support during the plenary sessions and from the work groups reporting to assembly. The President closed the event by stating that he would support whatever shared conclusions and recommendations would be born out of the consensus-building process to define a national development agenda.

The CG is planning to continue strategy promotion efforts through a broad-based dissemination program geared not only to promoting adoption of the strategy by target groups, but also in reinforcing it among key public and private sector audiences, and the international donor community. There is a need to establish a strategic alliance for implementation of priority projects, especially those activities that are fundamental to creating wealth for the nation and its citizens.

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