

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

**TOURISM DEVELOPMENT PROGRAM - COLONIAL CITY OF
SANTO DOMINGO**

(DR-L1035)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Mercedes Velasco (INE/RND) and Alvaro García-Negro (RND/CDR), Project Team Co-leaders; Rafael Rodríguez-Balza (CID/CID); Michele Lemay and Lina Salazar (INE/RND); Gonzalo Muñoz (RND/CPR); Paul Winters (SPD/SDV); Kelvin Suero and Carolina Escudero (PDP/CDR); Bernadete Buchsbaum (LEG/SGO); Iliana Payano (CID/CDR); and Elizabeth Chávez (INE/RND), who helped to produce this document.

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5.	Environmental and Social Management Report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36338165
OPTIONAL	
1.	Detailed Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36343258
2.	Institutional Capacity Assessment of MITUR http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36342000
3.	The Importance of Ecotourism as a Development and Conservation Tool in the Osa Peninsula, Costa Rica http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36342005
4.	Study of Tourism Demand in the Colonial City of Santo Domingo http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36342004
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6.	Analysis of Tourism Competitiveness in the Colonial City of Santo Domingo http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36342480
7.	Technical Guidelines for Evaluating the Impacts of Tourism Using Simulation Models http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35607915
8.	Tourism in Latin America and the Caribbean and the Experience of the IDB http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=14422499

ABBREVIATIONS

ASONAHORES	Asociación de Hoteles y Turismo de la República Dominicana, Inc. [Dominican Hotel and Tourism Association]
CCRD	Cámara de Cuentas de la República Dominicana [Office of the Auditor General]
CGRD	Office of the Comptroller General of the Dominican Republic
CTSD	Santo Domingo Tourism Cluster
GCI-9	Ninth General Increase in the Resources of the Inter-American Development Bank
MITUR	Ministry of Tourism
POM	Program Operating Manual
SIGEF	Sistema Integrado de Gestión Financiera [Integrated Financial Management System]
PCU	Program Coordination Unit
ROAT	Operating Regulations for Tourism Support
UNESCO	United Nations Educational, Scientific and Cultural Organization
UEPEX	Subsistema para Unidades Ejecutoras de Proyectos con Recursos Externos [Subsystem for Execution Units of Externally Financed Projects]
UNWTO	World Tourism Organization

PROJECT SUMMARY

DOMINICAN REPUBLIC TOURISM DEVELOPMENT PROGRAM - COLONIAL CITY OF SANTO DOMINGO (DR-L1035)

Financial Terms and Conditions				
Borrower: Dominican Republic			Amortization period:	25 years
			Grace period:	5 years
Executing agency: Ministry of Tourism (MITUR)			Disbursement period:	5 years
			Works start-up period:	4.5 years
Source	Amount (US\$ millions)		Interest rate:	Based on LIBOR
	Program	%	Inspection and supervision fee:	*
IDB (OC)	30	96.3	Credit fee:	*
Local	1.15	3.7	Currency: U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital	
Total	31.15	100		
Project at a Glance				
Project objective: The general objective of the program is to boost competitiveness in the Dominican tourism sector through diversification of the current tourism offerings in order to cater to high-spending demand segments, generate greater benefits for the local population, and reduce pressure on the coast. The specific objective is to increase the revenues and jobs generated by tourism in the Colonial City of Santo Domingo through the development of tourism products that have high competitive potential.				
Special contractual conditions:				
(a) Conditions precedent to the first disbursement of the loan proceeds: (i) The appointment of the MITUR team and the supporting consultants who will constitute the Program Coordination Unit (PCU) as required for program execution, under terms previously agreed upon with the Bank (see paragraph 3.2); and (ii) the approval by MITUR and entry into force of the Program Operating Manual (POM) under terms previously agreed upon with the Bank (see paragraph 3.5).				
(b) Execution conditions: (i) Formation of the Program Advisory Committee by MITUR, under terms previously agreed upon with the Bank, will be a condition precedent to disbursement of the loan proceeds for interventions under Components 1 and 2 (see paragraph 3.3); (ii) the signing of a framework agreement between MITUR and the respective sector or local entity, covering the parties' obligations for supervision and maintenance of the works and goods, under terms previously agreed upon with the Bank, will be a condition precedent to disbursement of the loan proceeds for interventions within the jurisdiction of a sector or local entity (see paragraph 3.4); and (iii) the approval by MITUR and entry into force of the Operating Regulations for Tourism Support (ROAT) will be a condition precedent to disbursement of the loan proceeds for cofinancing activities under Component 2 (see paragraph 3.6). The loan proceeds for Component 1 may be part of the automatic redirection list for the Contingent Loan for Natural Disaster Emergencies (DR-X1003) (see paragraph 2.1).				
Exceptions to Bank policies: None.				
Project qualifies as:			SEQ []	PTI []
			Sector []	Geographic []
			% beneficiaries []	
Procurement:				
All procurement under the program will be consistent with Bank policies and procedures, as defined in documents GN-2349-9 and GN-2350-9. No exceptions to Bank policies are anticipated (see paragraph 3.7).				

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

- 1.1 **Tourism in the Dominican Republic.** Tourism is a key sector of the Dominican economy, accounting for 6.3% of GDP and 64% (US\$4.1 billion) of foreign exchange receipts in 2009. As the country's leading export sector, tourism sustained nearly 200,000 jobs and generated 9% of foreign direct investment. The sector plays a positive role in the national balance of payments, having contributed a surplus of US\$3.8 billion in 2009. The country's tourism offerings are concentrated in the sun-and-sand model and in the geographic areas of Punta Cana, La Romana, Puerto Plata, and Samaná. Development in the sector began in the 1970s and intensified greatly in the 1980s, owing to the quality of the beaches, improvements in air accessibility, and fiscal incentive policies. With more than four million international tourists per year, the Dominican Republic currently ranks first in the Caribbean in the number of tourist arrivals and fourth among Latin American and Caribbean (LAC) countries after México, Argentina, and Brazil. The country has also demonstrated its ability to recover from the recent global financial crisis. In 2010 the volume of arrivals and foreign exchange receipts from inbound tourism grew 3.3% and 5%, respectively, over 2009, exceeding the absolute levels achieved at the start of the crisis in 2008, according to data from the World Tourism Organization ([UNWTO](#)).
- 1.2 Despite this performance, the current development model, based on exclusive sun-and-sand enclaves, is showing signs that it is losing its competitive edge, and the country has slipped in the rankings. According to the [World Economic Forum's Travel & Tourism Competitiveness Reports for 2007](#) and [2011](#), in five years the Dominican Republic has fallen from fiftieth to seventy-second among 139 countries, and ranks fourteenth among the 25 countries of the Americas included in the ranking. The principal signs or symptoms that this model has become outdated are: (i) slower growth in tourist arrivals (falling from an 11% annual increase in the late 1990s to less than 4% between 2004 and 2010); (ii) a shorter average length of stay per tourist (decreasing from 10 to 9.2 nights in the past 10 years); (iii) lower spending per tourist (by more than 50% in some cases) when compared with countries having similar resources (see [UNWTO](#)); (iv) environmental deterioration along the coast as a result of intensive and disorganized use of a small coastal portion of the area (see [United Nations Development Programme](#)); and (v) the prevalence of the "all-inclusive" system, along with a significant drain of benefits to other countries and the country's low revenues and internal rate of return (see [IDB](#)).
- 1.3 To overcome this situation, a number of research studies, including [a Harvard University study for the Dominican government](#), indicate a need for greater diversification in the tourism sector. With "sun-and-sand" attractions becoming widespread in the Caribbean and globally, the failure to develop the rest of the island's tourism potential has left it with thematically meager offerings and little to distinguish it from other international destinations. The goal of diversification is to

develop new attractions and regions of the country that include local communities, while complementing and improving existing attractions rather than competing with them. Such changes would distinguish it from the competition in the tourism market and promote access to high-spending demand niches. It would also turn the focus to a more sustainable development model that improves the distribution of tourist flows within the country and of the benefits to Dominican society.

- 1.4 To achieve such diversification, the Dominican government's [National Development Strategy](#) is aimed at developing tourism models that draw on its cultural heritage. To that end, the Ministry of Tourism (MITUR) and the [Strategic Plan for Tourism Development in the Dominican Republic](#) (PEDTUR) have given priority to development of the Colonial City of Santo Domingo because it offers clear competitive advantages when compared with the country's other emerging destinations: (i) its cultural attractions have earned it designation as a World Heritage Site by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and have stirred great interest in the generating markets; (ii) it is already a stop on current tours (Santo Domingo is one of the country's main gateways of arrival and departure for tourists and its most-visited city); (iii) it has a critical mass of basic and private services in the vicinity for tourists (Santo Domingo is home to 8% of the total lodging capacity); and (iv) it offers good connectivity with the country's consolidated destinations (the Coral Highway will connect Santo Domingo with the eastern beaches in less than two hours).
- 1.5 **Tourism challenges in the Colonial City.** The Colonial City is underutilized, however, and currently draws less than 14% of international tourists who visit the country. The Colonial City faces the following key challenges for utilizing its tourism potential and effectively integrating it into the national offerings (for further details, see the [competitiveness analysis](#) drawn up during program preparation):
 - (i) **Underdeveloped tourism offerings.** Many of the Colonial City's potential tourist attractions have not yet become competitive tourism products. A significant number of those attractions that are public goods—in particular goods of cultural interest—pose problems in terms of their state of preservation and inadequate services that prevent or detract from their use by tourists. The urban environment also presents issues related to safety, cleanliness, and the serviceability and condition of roads. The combination of these factors explains why few tourists come to visit the Colonial City despite its attractions, and those who do come stay only briefly (nearly 50% come for a single day) and spend less than US\$82 per person/day on average.
 - (ii) **Fragility of human capital and local business community.** This challenge arises, in particular, in the poorest population segments residing and working in the Colonial City. At present these groups are poorly integrated into tourist activity due to issues of productivity and quality of service delivery. Restricted access to training, little knowledge of key market fundamentals, and lack of access to

preinvestment and investment resources have represented an impediment to change.

- (iii) **Weaknesses in tourism management.** At the national level and in the Colonial City in particular, MITUR has demonstrated weaknesses in fully assuming its role as governing body and promoting the tourism sector. It currently has no tools for systematizing or generating tourism data (supply and demand), breaking down profiles and consumer preferences of current and potential visitors, or regulating special-interest tourism. Although the resources available to the government's tourism officials are largely devoted to promoting the country abroad, there is no system in place to evaluate the effectiveness of their actions or improve their planning and execution. The weaknesses in the Colonial City are related to the lack of installed capacity for managing a greater expected flow of visitors, provision of adequate information to tourists, and promotion of a quality system for tourism services that responds to demand.

B. The Bank's activities in the sector and lessons learned

- 1.6 In 2003 the Bank provided support to boost competitiveness in the productive sectors of the Dominican Republic through the Program for the Development of Competitive Advantages (1474/OC-DR), aimed at promoting alliance-building projects that would foster business competitiveness and serve small-scale enterprises in four sectors. The operation received Bank financing of US\$9.4 million, reached the 100% disbursement level in 2009, and received a [satisfactory evaluation](#). One of its principal outcomes was a Santo Domingo Tourism Cluster (CTSD), a trade association focused on activities in the Colonial City, registered and in operation. The Bank provided support in 2006 for preparation of the [Comprehensive Revitalization Plan for the Colonial City of Santo Domingo](#) (ATN/SF-7633-DR), an urban planning project aimed at governing the use of the Colonial City with an eye to continuing preservation of its heritage and promoting coordinated development. This plan includes a master plan that identifies the areas for preservation and use and establishes the rules of intervention, in accordance with UNESCO criteria for World Heritage Sites.
- 1.7 The Bank has broad-based [experience in the region's tourism sector](#), especially in the recovery of historical and cultural heritage for tourism purposes in Argentina (1648/OC-AR and 1465/OC-AR), Bolivia (1098/SF-BO), Brazil (2411/OC-BR and 2409/OC-BR), Chile (1507/OC-CH), Nicaragua (2439/BL-NI), Honduras (1623/SF-HO), Ecuador (1630/OC-EC), and Uruguay (1826/OC-UR). In addition, [empirical evidence from other studies](#) shows that interventions similar to the proposed program (see paragraph 1.15) have been effective in stimulating the local economy. Based on prior operations and evaluations, Table I-1 shows the principal lessons learned and how they have been integrated into the design of the proposed operation.

Table I-1. Integration of lessons learned	
Lesson learned	Integration in program design
Owing to the cross-cutting nature of tourism, a consensus is needed among all stakeholders to ensure sustainability of the investments.	A participatory planning process was used during program preparation (see paragraph 1.11) to coordinate the interventions. The proposed execution plan maintains this coordination (see paragraph 3.3).
Proper program execution calls for plans that clearly and simply identify responsibilities and hierarchical levels, while incorporating the stakeholders involved.	The program execution plan provides for a single entity responsible for execution, and other entities that participate through an advisory committee and interagency agreements on collaboration for specific investments (see paragraph 3.3).
The sector's real potential depends not only on the desires or will of the local stakeholders, but in particular on their capacity to provide products and services that meet the expectations and needs of specific demand segments.	During program preparation, a market study was conducted to identify the tourism demand needed in order to select viable investments (see paragraph 1.9).
The recovery of historical and cultural heritage is sustainable when it includes not only physical restoration of the heritage, but also the revitalization of the social and economic fabric and development of the production chain , thereby promoting the use of the buildings and generating resources to maintain them.	Component 1 calls for preservation of goods of cultural interest for use in tourism, which includes their restoration as well as outfitting facilities and equipment to handle visitors, interpreting the cultural value of the resources, and carrying out recreational and leisure activities (see paragraph 1.16). Component 2 provides for investments to generate tourism and related services provided by the population (see paragraph 1.17).
Urban public space is important because it forms the backdrop for developing tours and routes that link the different tourist attractions.	Component 1 is structured to address both the preservation of the principal tourism resources and the improvement of urban public space, with an eye to improving the overall attractiveness of the historic center for tourists (see paragraphs 1.16 and 1.17).
In order to generate the expected benefits, the tourism sector needs to plan and develop with an eye to ensuring compatibility with the other activities that the city accommodates, and thus, achieve full functionality .	The program is consistent with the guidelines and specifications of the plans for urban development and regulation of uses and interventions in the Colonial City (revitalization plan and master plan) (see paragraph 1.10).
Historic centers should not be regarded as "bubbles" inside the city. Measures should be taken to maximize their potential and seek to turn them into disseminators of tourist flows to other areas of the city.	The program has adopted an intervention strategy based on opening up and expanding the Colonial City. The investments under Component 1 will incorporate new, previously underused spaces and tourist routes in the Colonial City, and improve connections with other parts of Santo Domingo (see paragraph 1.16).
The population should be an active protagonist in tourism development so as to reduce abandonment by the poorest social classes and retain the social dynamic that makes the historic center a place that is "alive" and attractive to tourists.	Component 2 will ensure that the local population is integrated into tourism activity (see paragraph 1.17). The program also includes the implementation of an Environmental and Social Management Plan and support for the executing agency to monitor and evaluate the program (see paragraph 2.5).

C. Program design

- 1.8 Under the proposed program, the Bank will initiate comprehensive support for the tourism sector in the Dominican Republic by helping to implement the National Development Strategy and the PEDTUR. The program is built around diversifying the country's tourism offerings, beginning with a focus on tourism development in the Colonial City.
- 1.9 To ensure the sustainability of this commitment, with technical and financial support from the Bank (ATN/FG-12634-DR), the Dominican government gave priority to a market study that identified those improvements to tourist attractions in the Colonial City on which efforts should be focused in the short term, because of their ability to attract ongoing high-spending demand. Such improvements will promote both quantitative and qualitative growth of activity and will create job opportunities and sustainable revenues at the local level. Based on that study, the guidelines and investments of Component 1 were identified through a participatory process involving public, private, and civil stakeholders in the Colonial City. The strategic goal of these investments is to expand the area of interest to tourists and improve connections between the Colonial City and the rest of Santo Domingo. To that end, the investments are organized around two linchpins: (i) integrated measures to improve urban public space as the backdrop for routes and tours; and (ii) measures to preserve those attractions that are public goods (historical and cultural resources) to optimize tourist visits.
- 1.10 In recognition of the Colonial City's status as a World Heritage Site, the investments were designed in strict adherence to the provisions of the revitalization plan and the master plan, which meet the UNESCO requirements and provide rules governing interventions in the urban structure (see paragraph 1.6). The measures of Component 1 are supplemented by activities aimed at incorporating the local low-income population into the tourism value chain (Component 2) and improving public management of the sector by MITUR (Component 3). The program will thus address all of the challenges identified in the competitiveness analysis (ATN/FG-12634-DR) (see paragraph 1.5).
- 1.11 **Coordination with other local entities and stakeholders.** Given the presence of numerous government agencies and other local stakeholders that have influence in the Colonial City, and in view of the lessons learned, the program was designed from the outset in a participatory manner. During the preparation and planning stage and with the Bank's support (ATN/FG-12634-DR), MITUR maintained close cooperation and collaboration with the stakeholders, in particular the Ministry of Culture, the Municipal Government of the National District of Santo Domingo, the Ministry of Economy, Planning, and Development (all of which make up the governing committee of the Colonial City), associations in the private tourism sector (in particular, the Santo Domingo Tourism Cluster and the City of Ovando Association), the Archdiocese of Santo Domingo, and the local population (through neighborhood councils and associations). All of these stakeholders also support the development of tourism in the Colonial City. The program was designed to ensure

that the close contact and coordination are maintained during the program execution phase (see paragraphs 3.3 and 3.4).

- 1.12 **Alignment with country strategy and the GCI-9.** The program is aligned with the Bank's Country Strategy with the Dominican Republic for 2010-2013 (document GN-2581) and contributes to fulfilling its objective of support for diversification of tourism offerings and attainment of the established outcome of increased sector capacity for offering tourism products in the colonial zone of Santo Domingo. The program will help raise the proportion of attractions in the Colonial City that are conditioned for tourism—the indicator specified in the Country Strategy—by developing important offerings for domestic and international tourism. The program and associated indicators are included in the 2011 Country Program Document.
- 1.13 The program is also aligned with the lending target of preferential support to small and vulnerable countries and the sector priority of social policy for equity and productivity, established in the Report on the Ninth General Increase in the Resources Bank (document AB-2764), since the operation includes activities that will increase formal employment in the country's tourism sector. The program will promote fulfillment of the regional development goals by improving the indicator for increasing the share of formal employment in total employment, as established in the Results Framework 2012-2015 in that report.

D. Objective, components, and costs

- 1.14 The general objective of the program is to boost competitiveness in the Dominican tourism sector through diversification of the current tourism offerings in order to cater to high-spending demand segments, generate greater benefits for the local population, and reduce pressure on the coast. The specific objective is to increase the revenues and jobs generated by tourism in the Colonial City through the development of tourism products that have high competitive potential.
- 1.15 To achieve these objectives, the program is organized into three components: (i) development of key tourism offerings; (ii) local integration in tourism development; and (iii) strengthening of tourism management.
- 1.16 **Component 1. Development of key tourism offerings (US\$22.7 million).** This component is aimed at improving tourism offerings in the Colonial City so as to increase the length of stays and the amount of money spent by tourists. It calls for investments to preserve tourist attractions that are public goods and to improve public space, in order to generate routes and products based on a development plan that is consistent with urban planning and regulations. The component includes financing for works, goods, and services to improve urban public space through: (i) comprehensive revitalization of streets and plazas (including burying overhead wires and provision of new services, grading of paved surfaces, drainage, lighting, revegetation, and street furniture; (ii) a multimodal transportation hub, surface parking, and road signs; (iii) implementation of a safety and surveillance system monitoring center; (iv) restoration of the principal goods of cultural interest and the

Colonial Wall; and (v) remodeling of the gates in the Wall that provide access to the Colonial City. Financing will also be provided for works, goods, and services to preserve tourism resources through: (i) modernization of the Ozama Fort; (ii) modernization of the Casas Reales Museum; (iii) the Interpretive Center on Galleon Treasures and Marine Archaeology; (iv) thematic tourist routes on past and contemporary history; (v) the Event Center and Archaeological Park in the ruins of the old Convent and Cemetery of San Francisco; and (vi) tourist signage and interpretation.

- 1.17 **Component 2. Local integration in tourism development (US\$3.6 million).** In coordination with Component 1, this component will seek to build the capacity of local human resources to deliver quality services, and to capture more benefits as a result of the increased tourist activity in the Colonial City. It provides for investments aimed at structuring and optimizing the tourism production chain, with an emphasis on the poorest population segments. The component includes financing for goods, services, and small works for: (i) a program to train trainers and human resources to improve the quality of service at tourism and related offices; (ii) a plan for alternatives for regulating itinerant and informal street-vending; (iii) improvements to arts and crafts markets; (iv) promotion of experience-based knowledge and success stories of tourism development with social inclusion in historic centers of other destinations, and dissemination of best practices; (v) a community center and an urban outreach plan for tourists and residents; and (vi) actions to foster tourism culture among the population and local stakeholders and to promote their participation in the program. This component will also include cofinancing resources of up to US\$2.2 million to partially cover the cost of the following eligible activities: (i) beautification of the facades of privately owned homes in the Colonial City designated as historic by the Ministry of Culture; and (ii) improvement of tourism microbusinesses and related enterprises in the Colonial City that, when economically viable, will improve and adapt tourism services to the requirements of domestic and international demand. The beneficiaries will cover the remainder of the cost of these activities. These cofinancing resources are expected to benefit: (i) a total of 500 low-income people who own historic facades (40% of total facades in the Colonial City); and (ii) a total of 120 small business owners (60% of the total in the Colonial City), of whom at least 15% will be microentrepreneurs who are female heads of household (see paragraph 3.6).
- 1.18 **Component 3. Strengthening of tourism management (US\$3.4 million).** This component will include actions to build MITUR's capacity for sustainable tourism planning and management, so as to improve the information provided to the sector and increase the level of satisfaction among tourists in the Colonial City. The component includes financing for goods, services, and small works for: (i) updates and improvements to the system for registration, classification, and inspection of tourism establishments; (ii) design and implementation of the National Tourism Information System (statistics, market intelligence, and the Santo Domingo tourism observatory), coordinated with the Central Bank and the National Statistics Office;

(iii) development of the regulatory framework for special-interest tourism activities; (iv) creation of the Department of Institutional Planning under MITUR; (v) technical training for staff; (vi) design and implementation of a pilot project for a Tourism Quality System in the National District of Santo Domingo; (vii) three tourist information centers in the Colonial City; (viii) design and implementation of a carrying capacity and management system for the Colonial City; (ix) design and implementation of a system to measure the effectiveness of the country's tourism promotion activities; and (x) implementation of the program monitoring and evaluation system.

E. Key results indicators

- 1.19 The program has a Results Matrix (Annex II), agreed upon with MITUR, that contains details on the program's outcome and output indicators, with their respective midterm and final targets. In accordance with the matrix, Table I-2 presents the operation's key expected results:

Table I-2. Main results of the program	
Key results	Rationale for selection
Increased proportion of tourist attractions in the Colonial City that have been preserved.	Confirms that the historic and cultural heritage of the Colonial City is conditioned for tourism.
Increased average stay of tourists in the Colonial City.	Confirms improvement in the Colonial City's capacity to attract and retain tourist flows.
Increased average spending per day by tourists visiting the Colonial City.	Measures capacity to attract high-spending demand segments that improve revenues at the local level.
Increased local formal employment generated by tourist visits to the Colonial City.	Measures the distribution of tourism benefits to the local population and the revitalization of the socioeconomic fabric in the Colonial City.
Increased level of satisfaction of visitors to the Colonial City.	Confirms improvement in the government's performance in tourism management in the Colonial City and in the Colonial City's ability to compete in the markets.
Increased quality, quantity, and dissemination of tourism information.	Confirms improvement of services that the government delivers to the private sector to guide its decision-making, and to tourists to optimize their consumer experience.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The program, designed as an investment loan, will have a total cost of US\$31.15 million. The Bank will finance US\$30 million (96.3%) with resources from the Single Currency Facility of the Bank's Ordinary Capital. The local counterpart, equivalent to US\$1.15 million (3.7%), will be contributed by the borrower.

Table II-1 Program cost and financing (US\$ millions)				
Investment category	IDB	Local counterpart	Total	%
I. Program administration	1.4	0	1.4	4.5
II. Direct costs	28.475	1.15	29.625	95.1
2.1. Development of key tourism offerings*	22.425	0.25	22.675	72.8
2.2. Local integration in tourism development	3.3	0.25	3.55	11.4
2.3. Strengthening of tourism management	2.75	0.65	3.4	10.9
III. Audits	0.125	0	0.125	0.4
Total	30.0	1.15	31.15	100
Percentage	96.3	3.7	100	

* The loan proceeds for Component 1 may be part of the automatic redirection list for the Contingent Loan for Natural Disaster Emergencies (DR-X1003).

- 2.2 The program's disbursement period will be five years running from the effective date of the loan contract. The term for the physical start-up of works will be four years and six months running from that same date. Program resources will be disbursed in accordance with the following preliminary financing plan:

Table II-2 Disbursement schedule (US\$ millions)							
Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	1.37	6.71	8.77	9.73	3.42	30.0	96.3
Local	0.37	0.47	0.23	0.04	0.04	1.15	3.7
Total	1.74	7.18	9.00	9.77	3.46	31.15	100

B. Technical and economic viability

- 2.3 **Technical viability.** With Bank support, MITUR prepared the technical studies for the program design through technical-cooperation operation ATN/FG-12634-DR, which in addition to the outputs mentioned above (see paragraphs 1.9, 1.10, and 1.11) includes: (i) technical briefs for all program investments; (ii) technical feasibility studies for a representative sample of investments; (iii) budgets itemized by activity; (iv) terms of reference for bidding processes for the principal technical-assistance activities, commissioning of the program baseline, and inputting of data for the monitoring system; (v) the Program Operating Manual (POM) (see paragraph 3.5); and (vi) the Operating Regulations for Tourism Support (see paragraph 3.6).
- 2.4 **Economic viability.** The basis for the [Economic Evaluation](#) of the program was a simulation of the scenarios with and without the program. Under the scenario without the program, the tourist flow follows a growth trend in the number of tourists as a result of improved road connectivity with the eastern beaches. Failure to invest in the Colonial City's tourist attractions and products, however, would have an adverse impact on the quality of the destination, generating lower daily tourism spending levels and fewer overnight stays per tourist. Under the scenario

with the program, the proposed intervention increases public investment and encourages private investment, thus enhancing the quality of products and services offered, which in turn increases spending and length of stays. A simulation methodology based on a social accountability matrix was used to measure the economic effects of the proposed changes in Santo Domingo and at the national level as a result of the intervention. The findings indicate that the Internal Rate of Return (IRR) of the program is 16.2% when considering Santo Domingo alone, but that figure jumps to 42.8% when the impact is expanded to the rest of the country with a net present value (12%) of US\$109.1 million. The findings also confirm that the complementary investments aimed at training human capital and lending to microentrepreneurs, included in Component 2 (see paragraph 1.17), make a positive contribution to the program's long-term feasibility by generating benefits for the low-income population.

C. Environmental and social safeguard risks

- 2.5 This operation is classified as a category “B” operation under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703). An [Environmental and Social Management Report](#) was drafted during program preparation and includes a baseline for the physical and social context of the Colonial City, as well as an analysis of the potential direct and indirect impacts of the program. The analysis confirms that most of the impacts are highly positive in terms of: (i) improvement of the urban environment (safety, drainage, lighting, green areas, etc.); (ii) more opportunities for the local low-income population to participate in the tourism sector; and (iii) restoration of regionally and internationally significant cultural resources. The potential adverse impacts from street improvement works would have short-term effects of limited scale and very low intensity. This analysis was the basis for an Environmental and Social Management Plan (ESMP), which has been integrated into the three components and the program budget, ensuring resources for management, preservation, and environmental and social safeguards, including: (i) support for the Program Coordination Unit (PCU) by a socioenvironmental consultant charged with monitoring compliance with the ESMP; (ii) a communication and public participation strategy focused on the Colonial City’s resident population aimed at preventing potential future conflict; and (iii) mitigation measures for the street improvement works. The program complies with the Bank’s policies on environmental and social safeguards (Operational Policy OP-703), access to information (document GN-1831-28), natural disaster risk management (Operational Policy OP-704), involuntary resettlement (Operational Policy OP-710), and women in development (Operational Policy OP-761).

D. Fiduciary risks

- 2.6 During program preparation, the following aspects of [MITUR’s institutional capacity](#) were assessed: programming and organization, financial-administrative management and control, and procurement. The risk level determined in the assessment was classified as medium, in acknowledgement of MITUR’s lack of

experience in the execution of Bank-financed programs. The identified risks will be mitigated by: (i) training for MITUR staff in Bank policies and procedures for fiduciary management; (ii) specification in the POM of relevant provisions for financial-administrative, accounting and disbursement controls, settlement of expenditures and payments, auditing, and procurement of goods, works, and services; (iii) strengthening of MITUR's institutional planning area through actions incorporated into Component 3 (see paragraph 1.18); and (iv) hiring of staff at MITUR to strengthen program execution and form the PCU (see paragraph 3.2). The program's accounting and financial management system for reporting to the Bank will be based on the Dominican Republic's Integrated Financial Management System (SIGEF) and the associated Subsystem for Execution Units of Externally Financed Projects (UEPEX).

- 2.7 **Auditing.** MITUR will use the loan proceeds to hire an independent firm of public accountants acceptable to the Bank to perform the annual external audit of the program's financial statements, according to the terms of reference approved by the Bank and the policies for the selection and contracting of auditing firms (document OP-273-1).

E. Other risks

- 2.8 The other potential risks of the program involve operational considerations and coordination with the participating entities (see paragraph 3.3), and the fact that this will be MITUR's first operation with the Bank. The recommendations from the [Risk Matrix](#) were incorporated into the design and cost of the program.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Program execution and administration

- 3.1 The borrower will be the Dominican Republic, and the executing agency will be MITUR, which will have full responsibility for program administration and supervision. Its responsibilities include: (i) executing the program in accordance with the contractual conditions; (ii) requesting disbursements from the Bank and coordinating, implementing, and monitoring procurement activities; (iii) planning and preparing the work plans; and (iv) preparing all required reports.
- 3.2 To fulfill these duties, MITUR will have a Program Coordination Unit (PCU), which will serve as a liaison with the Bank and with the technical, administrative, and financial units of MITUR and other participating entities (see paragraph 3.3). At a minimum, the PCU will consist of: (i) a general coordinator with experience in project administration and management, who will report directly to the Minister of Tourism; (ii) a coordinator for each component who has technical experience in tourism, preparation and supervision of work plans, and monitoring and evaluation of investments; (iii) a technical analyst to support the coordinator for Component 2; (iv) a procurement specialist; (v) a financial-administrative specialist; and (vi) an accountant, all of whom will report to the general coordinator. This team will

support MITUR's staff in the various units involved in program execution, which will share responsibility for execution in the following areas: (i) technical considerations related to the activities; (ii) planning and control; and (iii) fiduciary management, procurement, and contracts. The profiles, responsibilities, tasks, and relationships of MITUR's staff and the PCU for the operation are delineated in the POM. As work progresses on the institutional strengthening of MITUR, the responsibilities of the PCU may be gradually incorporated into MITUR's organizational structure. **The appointment of the MITUR team and the supporting consultants who will constitute the PCU, as required for program execution, under terms previously agreed upon with the Bank, will be a condition precedent to the first disbursement of the loan proceeds.**

- 3.3 **Participating entities.** A Program Advisory Committee will be formed during program execution, in order to maintain the levels of participation and collaboration achieved during the preparation phase for Components 1 and 2. The committee will consist of public, private, and civil stakeholders that are important for tourism development in the Colonial City. At a minimum, the committee will consist of representatives of the Ministry of Culture, the municipal government, the Ministry of Economy, Planning, and Development, the Archdiocese of Santo Domingo, the CTSD, the City of Ovando Association, and the Union of Neighborhood Councils of the Colonial City. The responsibilities of the committee will be: (i) responding to inquiries from MITUR and the PCU regarding preparation and monitoring of the program's work plans; and (ii) coordinating the actions to navigate the internal processes of the committee's member institutions in order to make the investments for Components 1 and 2 viable. Formation of the advisory committee by MITUR, under terms previously agreed upon with the Bank, will be a condition precedent to disbursement of the loan proceeds for interventions under Components 1 and 2.
- 3.4 For program investments that involve the jurisdiction of another public entity, MITUR will receive support from those institutions, formalized through a framework agreement with the respective sector or local entity. There are no provisions for resources to be transferred to those entities. The framework agreement will establish the parties' obligations for execution, including the methods and terms of transfer of the goods and services acquired by the executing agency for the sector or local entity to carry out the specific project involved. The participating entity will prepare the asset maintenance plan and demonstrate that it has sufficient financial capacity to assume its operation and maintenance, except in cases that provide for a concession. Agreements are planned between MITUR and the Ministry of Culture, the municipal government, the Ministry of Public Works and Communications, and the Tourism Police. The signing of a framework agreement between MITUR and the respective sector or local entity, covering the parties' obligations for execution and maintenance of the works and goods, under terms previously agreed upon with the Bank, will be a condition precedent to disbursement of the loan proceeds for interventions within the jurisdiction of a sector or local entity.

- 3.5 **Program Operating Manual.** Program execution will be governed by a Program Operating Manual (POM), which establishes the rules and procedures for the executing agency in terms of planning of activities, accounting and financial management, and program monitoring and evaluation. The POM will also specify the following: (i) the rules and procedures between MITUR and the participating entities; (ii) the execution mechanisms for all three components; (iii) the technical review mechanisms for the individual projects; (iv) social and environmental sustainability procedures for interventions that require them; (v) the duties and responsibilities of planning, programming, and management of the functional units of MITUR and the PCU; (vi) the system for delegating responsibilities according to level of authority; and (vii) a manual of responsibilities and procedures for program execution, which will establish the fiduciary requirements and mechanisms for procurement and financial management. Any modification of the POM must be previously agreed upon with the Bank. **The approval by MITUR and entry into force of the POM, under terms previously agreed upon with the Bank, will be a condition precedent to the first disbursement of the loan proceeds.**
- 3.6 The cofinancing resources of Component 2 (see paragraph 1.17) will be administered by the PCU and governed by the Operating Regulations for Tourism Support (ROAT). These regulations will include the following minimum content agreed upon with the Bank: procedures; responsibilities; levels of cofinancing and maximum amounts of support by beneficiary type; content of requests for support and, in the case of microenterprises, business plans; project selection criteria and evaluation indicators; and eligibility criteria for providers of goods, services, small works, and beneficiaries. The execution mechanism will be specified in the ROAT and will include, among other considerations, the following steps to be taken by the executing agency: (i) registration and credentialing of providers; (ii) enrollment and eligibility of beneficiaries; (iii) review and approval of requests for support and business plans; (iv) monitoring of providers' implementation of activities, including verification of compliance with eligibility criteria for expenditures by an independent firm; and (v) payment to providers at the request of beneficiaries and upon prior verification of compliance as indicated in the preceding item. The approval by MITUR and entry into force of the ROAT will be a condition precedent to disbursement of the loan proceeds for cofinancing activities under Component 2.

B. Procurement

- 3.7 The program procurement plan (Annex III) will be updated at least every twelve months. Goods, works, and services will be procured using the loan proceeds in accordance with Bank policies (documents GN-2349-9 and GN-2350-9 of April 2011) and the procurement plan approved by the Bank. The Bank will conduct ex post reviews in the case of goods procured for amounts below the threshold stipulated for national competitive bidding in the Dominican Republic. Other procurement will be subject to ex ante review by the Bank.

C. Monitoring and evaluation arrangements

- 3.8 The program has a [Monitoring](#) and [Evaluation](#) plan agreed upon with MITUR and integrated into Component 3 of the program. The plan includes: (i) indicators for monitoring, evaluating, and measuring the program's impact, baseline, and means of achievement; (ii) critical path of actions and outputs during program execution; (iii) description, timeline, and persons responsible for the basic tools for monitoring the operation; and (iv) methodology, activities, and budget for plan implementation. The methodology specified in the plan for assessing the impacts must be consistent with the Bank's [guidelines and experience using simulation models for tourism](#), with the expectation that it will become a model applicable to other Dominican destinations that lack this type of tool to guide decision-making.
- 3.9 **Monitoring.** During the loan disbursement period, MITUR will submit semiannual progress reports to the Bank as stipulated in the General Conditions of the loan contract. These reports will indicate the level of fulfillment of the program's output and outcome indicators specified in the Results Matrix, analyze problems encountered, and indicate corrective measures adopted to address them. Each year's second semiannual report will also include the annual work plan for the following calendar year, with a disbursement forecast, an updated procurement plan, and the maintenance plan for the program works.
- 3.10 **Evaluation.** MITUR will submit the following reports to the Bank: (i) a preliminary evaluation report 18 months after the effective date of the loan contract; (ii) a midterm evaluation report within 90 days after the date on which 50% of the loan proceeds have been committed; and (iii) a final evaluation report within 90 days after the date on which 90% of the loan proceeds have been disbursed. These reports will include: (i) an analysis of the program's financial execution, by component and source of financing; (ii) progress towards attaining outputs, outcomes, and impacts indicated in the Results Matrix, and the results of a comparative analysis with the program baseline; (iii) effectiveness in implementing the POM; (iv) level of compliance with the contractual clauses; and (v) summary of the findings of audits of the program's financial statements. The final evaluation report will also include the results of the measurement of the program's impact, thus enabling an evaluation of the program's contribution over time to the local and national economy, in accordance with the agreed evaluation plan.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		The intervention contributes to the lending program for small and vulnerable countries.		
Regional Development Goals		The intervention contributes to improving the share of formal employment in total employment.		
Bank Output Contribution (as defined in Results Framework of IDB-9)				
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2581	The project contributes to support diversification of the tourism sector.	
Country Program Results Matrix		GN-2617	The project is included in 2011 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
		9.8		10
3. Evidence-based Assessment & Solution		10.0	25%	10
4. Ex ante Economic Analysis		10.0	25%	10
5. Monitoring and Evaluation		9.1	25%	10
6. Risks & Mitigation Monitoring Matrix		10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Medium		
Environmental & social risk classification		B		
III. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Financial Management: Budget, Treasury and Accounting and Reporting.	
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		yes	Component 2 includes activities that should generate increases in formal employment for local population through micro enterprises support. At least 15% of small entrepreneurs benefited from the program should be female micro-entrepreneurs head of household (see paragraph 1.17 from PDD).	
Labor		Yes	Component 2 includes activities aimed at increasing formal employment for the local population through training and other support to micro enterprises. Component 3 includes activities aimed at improving the working conditions of the employees of the Ministry of Tourism thorough the creation of the direction of strategic planning of the institution.	
Environment				
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	ATN/FG-12634-DR. Surveys to tourists were conducted with this technical cooperation, a demand study was produced with the information obtained to select investments that were financially viable and that had a positive impact on the sector's competitiveness. Furthermore, this technical cooperation financed a process to create consensus among all the involved organizations. Lastly, the resources from this technical cooperation allowed the elaboration of a socio-environmental management plan to prevent potential future inconveniences.	
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	Using simulation methods, the impact evaluation of the project will provide rigorous empirical evidence on the effectiveness of tourism projects in the local economy.	

This is an investment loan funded by ordinary capital. The program supports the government of the Dominican Republic in energizing the competitiveness of the Dominican tourism sector, through the diversification of the current supply, which in turn will allow satisfying demand segments of high expenditure, generate higher benefits for the local population and diminishing the pressure on the coast. Specifically, the loan focuses on increasing the income and the employment generated by the tourism in the colonial city of Santo Domingo, through the development of touristic products of high competitive potential. The Bank has a significant record providing support to the Dominican Republic on topics on the competitiveness of the tourism sector: (1474/OC-DR) in 2003, which main result was the Touristic Cluster of Santo Domingo, and in 2006 the Bank contributed in the elaboration of a revitalization plan of the Colonial City of Santo Domingo (ATN/SF-7633-DR).

The loan is accompanied by a good empirical diagnosis of the main problems of the sector, and its main causes, and the proposed solutions are appropriate. Indicators for impacts, outcomes, and outputs are SMART. An adequate cost-benefit analysis was performed; the assumptions used in the analysis are proper and sound. The monitoring plan of the loan is specific about the activities to be conducted, includes information on responsibilities, timelines and includes a sound budget. The loan incorporates a rigorous impact evaluation with simulation methods, which will produce important empirical evidence of the effectiveness of tourism projects in the local economy. Finally, the project has a risk matrix that identifies potential risks and mitigation measures.

RESULTS MATRIX

TOURISM DEVELOPMENT PROGRAM – COLONIAL CITY OF SANTO DOMINGO (DR-L1035)			
Specific objective:	Increase the revenues and jobs generated by tourism in the Colonial City of Santo Domingo through the development of tourism products that have high competitive potential.		
Outcome indicators	Baseline (2010)	Target (2016)	Comments
Tourism revenues increase in the Dominican Republic			
Indicator: Average daily spending per international tourist in the Dominican Republic (US\$/person/day)	107.24 (MITUR)	117.8 (MITUR)	Both indicators increase and maintain the trend established by the Strategic Plan for Tourism Development in the Dominican Republic (PEDTUR).
Indicator: Foreign exchange revenues from tourism in the Dominican Republic (US\$ millions)	4,209 (MITUR)	4,622 (MITUR)	
Formal employment in the tourism sector in the Dominican Republic increases	195,371 (Central Bank of the Dominican Republic, Asociación de Hoteles y Turismo de la República Dominicana, Inc. [Dominican Hotel and Tourism Association] (ASONAHORES))	212,416 (Central Bank of the Dominican Republic, ASONAHORES, MITUR)	Total jobs from tourism include: (i) direct jobs (generated by the hotel sector); and (ii) indirect jobs (generated by tourism subsectors – restaurants, agencies, guides, etc.—and other related activities—handicrafts, trade, etc.). The trend established by PEDTUR is maintained.
Indicator: total formal jobs in the tourism sector in the Dominican Republic (number)			

COMPONENT 1. DEVELOPMENT OF KEY TOURISM OFFERINGS								
Outcome	Base (2011)	Year 1	Year 2	Year 3	Year 4	Year 5	Target (2016)	Comments
<p>Tourists stay longer and spend more in the Colonial City.</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Average daily revenue per tourist in the Colonial City (US\$/person/day) • Tourists who visit briefly (less than one day) in the Colonial City (%) • Percentage of increase in tourists who visit for more than one day (%) 	81.9			86.5		90.5	90.5	<p>Improved, expanded tourism offerings in the Colonial City increase average daily spending by 10.4% and the number of visits longer than one day by 10%.</p> <p>Means of verification: Monitoring surveys in 2014 and 2016 as part of MITUR's National Tourism Information System, which will be implemented under Component 3.</p> <p>Source of baseline: Survey of current and potential tourism demand in the Colonial City, conducted using resources from ATN/FG-12634 during program preparation.</p>
	65			60		55	55	
	0			5		10	10	

COMPONENT 2. LOCAL INTEGRATION IN TOURISM DEVELOPMENT								
Outcome	Base 2010	Year 1	Year 2	Year 3	Year 4	Year 4	Target 2016	Comments
Employment generated by tourism increases among the local population in Santo Domingo.								
Indicator:								
<ul style="list-style-type: none"> Number of Dominicans employed in tourism and related activities in Santo Domingo (number) 	18,339			19,800		21,160	21,160	Means of verification: Monitoring surveys in 2014 and 2016 as part of the National Tourism Information System, which will be implemented under Component 3.
<ul style="list-style-type: none"> Number of Dominicans employed in tourism and related activities in Santo Domingo compared to total number employed in tourism and related activities in the Dominican Republic (%) 	9.4			9.6		10.0	10.0	Source of baseline: Information from MITUR and the Central Bank.

COMPONENT 3. STRENGTHENING OF TOURISM MANAGEMENT								
Outcome	Base (2011)	Year 1	Year 2	Year 3	Year 4	Year 5	Target (2016)	Comments
<p>The level of satisfaction among visitors to the Colonial City increases.</p> <p>Indicator:</p> <ul style="list-style-type: none"> Tourists who visit the Colonial City and consider it necessary to improve the experience created by the destination (%) 	70			50		35	35	The target outcome is a 50% reduction in tourists not satisfied with the destination and a 52% reduction in tourists who ask for better information, as a result of the strengthening of tourism management for the destination.
<p>The quantity and quality of tourism information increases and is distributed to more stakeholders in the sector.</p> <p>Indicator:</p> <ul style="list-style-type: none"> Tourists who visit the Colonial City and consider it necessary to improve the tourism information they received (%) 	62			40		30	30	<p>Means of verification: Monitoring surveys in 2014 and 2016 as part of the National Tourism Information System, which will be implemented under Component 3.</p> <p>Source of baseline: Survey of current and potential tourism demand in the Colonial City, conducted using resources from ATN/FG-12634 during program preparation.</p>

For more details, see [Detailed Program Results Matrix](#).

FIDUCIARY AGREEMENTS AND REQUIREMENTS

COUNTRY: DOMINICAN REPUBLIC

PROJECT: DR-L1035 **NAME:** NATIONAL TOURISM PROGRAM – COLONIAL CITY OF SANTO DOMINGO

EXECUTING AGENCY: MINISTRY OF TOURISM (MITUR)

PREPARED BY: Carolina Escudero (Procurement Specialist, PDP/CDR) and Kelvin Suero (Senior Finance Specialist, PDP/CDR)

I. Executive summary

1.1 The institutional capacity of MITUR as the program executing agency¹ was assessed using the components and guidelines of the Institutional Capacity Assessment System (ICAS), including: (i) planning and organizational capacity (activities planning system and administrative organization system); (ii) execution capacity (personnel management system, goods and services management system, financial management system); (iii) control capacity (internal and external control systems); and (iv) procurement operations system. In general, fiduciary management systems are used to a partial extent in the Dominican Republic. For this operation MITUR will use the UEPEX system, which is used for most Bank-financed operations in execution in this country. UEPEX is a subsystem of the Integrated Financial Management System (SIGEF), which was designed for accounting and financial management of externally financed public-sector projects. The country's national procurement and internal and external control systems are currently being strengthened and evaluated by the Bank but are not yet fully used in operations.

II. Fiduciary context of the executing agency

2.1 Although the weighted results obtained in the institutional analysis of MITUR during the operation's design phase indicate sufficient execution capacity according to the indicators for personnel management, goods and services management, financial management, and internal and external control systems, the fact that MITUR has no prior experience as an executing agency for any Bank operation somewhat limits the scope of its institutional capacity. Therefore, although the fiduciary systems used by MITUR work sufficiently well for performing its ordinary functions, additional strengthening will be needed to endow it with sufficient specialized capacity to fully assume the responsibilities involved in executing a Bank-financed investment program. The recommendations provided in this document address those concerns.

III. Fiduciary risk evaluation and mitigation measures

3.1 The institutional evaluation identified the risk as medium. During the risk analysis, the parties recognized that MITUR's lack of prior experience with the Bank represents a weakness, and the following principal risk factors were identified: (i) the executing agency's lack of familiarity with IDB procurement policies and procedures; (ii) insufficient staff to absorb the additional work load from the new operation; and (iii) lack of an institutional entity responsible for strategic planning in MITUR's organizational structure. These factors could jeopardize the efficiency of program execution by creating delays in procurement processes. The recommended mitigation measures include strengthening MITUR through the operational structure proposed below, and implementing other measures identified in the risk mitigation plan.²

¹ See the [Institutional Capacity Assessment of MITUR](#).

² Risk Matrix (PRM): <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36342001>

IV. Considerations for the Special Conditions of the contract

Agreements and requirements to be included in the operation are presented below:

(a) Special conditions precedent to the first disbursement of the loan proceeds: (i) appointment of the MITUR team and supporting consultants who will constitute the Program Coordination Unit (PCU), as required for program execution, under terms previously agreed upon with the Bank; and (ii) approval and entry into force of the Program Operating Manual (POM), under terms previously agreed upon with the Bank.

(b) Special execution conditions: (i) formation of the Program Advisory Committee, under terms previously agreed upon with the Bank, is a condition precedent to disbursement of the loan proceeds for interventions under Components 1 and 2; (ii) the signing of a framework agreement between MITUR and the respective sector or local entity, covering the parties' obligations for supervision and maintenance of the works and goods, under terms previously agreed upon with the Bank, is a condition precedent to disbursement of the loan proceeds for interventions under Component 1 in the jurisdiction of a sector or local entity; (iii) evidence of entry into force of the legal instrument establishing the legal, institutional, operational, and financial framework for public-private transfers to beneficiaries of the investments to be financed using the cofinancing resources for improvement of local microbusinesses and beautification of historic homes owned by private individuals in the Colonial City, is a condition precedent to disbursement of Bank resources to cofinance interventions under Component 2; and (iv) approval and entry into force of the specific operating regulations for cofinancing improvements in local microbusinesses and historic homes in the Colonial City is a condition precedent to disbursement of Bank resources to cofinance interventions under Component 2.

(c) Exchange rate agreed upon with the executing agency for rendering of accounts: For purposes of Article 3.06 (b) of the General Conditions of this contract, the parties agree that the applicable exchange rate will be the one indicated in item (b)(i) of that article.

(d) Financial statements and other audited and unaudited reports: During program execution, the executing agency will submit annual audited financial statements for the program, in accordance with IDB policies. A preliminary audit report may also be requested for the first six-month period of each year. External program audits will be performed by an independent auditing firm acceptable to the Bank. The cost of the audits will be financed using the loan proceeds.

V. Agreements and requirements for procurement execution

5.1 The procurement processes planned for the program will be carried out by MITUR through the Procurement Section of the Administrative Department under the Office of the Deputy Minister of Administration and Finance, supported by a consultant in charge of procurement who is experienced in managing procurement processes in accordance with Bank policies and procedures.

5.2 Procurement execution

Contracts for works, goods, and nonconsulting services³ arising under the project will be carried out in accordance with Bank policies (document GN-2349-9, as amended), using the standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be carried out using national bidding documents agreed upon with the Bank. Review of the technical specifications for procurement during preparation of the selection processes is the responsibility of the project sector specialist.

³ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9), paragraph 1.1: Services other than consultant services will be treated like goods.

5.3 Procurement of works, goods, and nonconsulting services:

Contracts for works, goods, and nonconsulting services⁴ arising under the project will be carried out in accordance with Bank policies (document GN-2349-9, as amended), using the standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be carried out using national bidding documents agreed upon with the Bank. Review and validation of the technical specifications for procurement during preparation of the selection processes is the responsibility of the project sector specialist.

5.4 Selection and contracting of consultants:

Contracts for consulting services arising under the project will be carried out using the standard request for proposals issued or agreed upon with the Bank *[or satisfactory to the Bank in the absence of an agreement]*. Review of the terms of reference for *consulting contracts is the responsibility of the project sector specialist. Identify the selection processes that will be contracted directly.*⁵

5.5 Selection of individual consultants:

Selection will be carried out in accordance with the provisions of Document GN-2350-9, as amended. When individual consultants are required during program execution, notices calling for expressions of interest will be published in local media or on *UNDB online*.

5.6 Recurring expenses:

This category includes the group of consultants belonging to the PCU who will be financed by the program. Their contracting will comply with the procedures specified in document GN-2350-9, as amended.

5.7 Advance procurement/Retroactive financing:

The method established in the loan contract will be used.

VI. Thresholds (US\$ thousands)

Works			Goods ⁶			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity	Shortlist 100% national
>US\$3,000	>US\$250	≤US\$250	>US\$250	>US\$50	≤US\$50	>US\$200	≤US\$200

VII. Major procurement processes

7.1 See [18-month procurement plan](#).

VIII. Procurement supervision

8.1 The procurement plan identifies the processes subject to ex ante and ex post review. All cases of single-source selection will be subject to ex ante review, as will procurements that exceed the amounts specified in the thresholds table, for each type of process.

8.2 In accordance with the risk level of the project, visits for ex post review of procurement will be conducted annually.

⁴ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9), paragraph 1.1: Services other than consultant services will be treated like goods.

⁵ Policy for the Selection and Contracting of Consulting Services (document GN-2350-9), paragraph 3.9 et seq.

⁶ Includes nonconsulting services.

Threshold for ex post review		
Works	Goods	Consulting services
N/A	≤ US\$50,000	N/A

Note: The thresholds specified for ex post review are based on the executing agency's fiduciary capacity for execution and may be modified by the Bank as the capacity changes.

IX. Special provisions

9.1 Measures to reduce the likelihood of corruption: N/A.

9.2 Other special procedures: N/A

X. Records and files

10.1 The Finance Department, Procurement Division, is responsible for maintaining project records and files. The program's Operating Regulations will include specific guidelines on the preparation and filing of the project reports, as well as the applicable formats or procedures that have been agreed upon.

Financial management

1. Programming and budget. *The annual budget is prepared by the Ministry of Finance through the Budget Department, in coordination with the Ministry of Economy, Planning, and Development and other government entities. MITUR does not have an institutional entity responsible for strategic and operational planning in its organizational structure. The "Strategic Plan for Tourism Development in the Dominican Republic" is not up-to-date and lacks mechanisms that allow for measurement of its implementation. This area for improvement is within the scope of the institutional strengthening provided in the program. In addition to the planned institution-strengthening measures, the program design and execution will use the Bank's planning mechanisms (program execution plan, annual work plan, procurement plan). No provision is made for counterpart resources, and therefore this item will not be required for budget programming.*

2. Accounting and information systems. *MITUR will use the official accounting and budget control system known as UEPEX/SIGEF, which records the accounting transactions and performs budget controls, and also has the capacity to produce the required financial statements, in accordance with Bank policies and procedures. UEPEX/SIGEF is currently being improved and strengthened as part of the Ministry of Finance's Integrated Financial Management Program with Bank financing. The accounting records are kept on a cash basis for the time being. The Ministry of Finance is currently in the process of improving the implementation of the International Public Sector Accounting Standards (IPSAS).*

3. Disbursements and cash flow. *The resources to be administered by the executing agency for advances of funds may be: (i) deposited into a special bank account in the name of the project, opened by the borrower at the Central Bank (in U.S. dollars) and at the Reserve Bank (in Dominican pesos) through the national treasury; (ii) recorded in the borrower's general account (in the event that the general treasury account, currently in the pilot implementation phase, comes into full effect prior to eligibility for program disbursements), and subsequently in a separate subaccount in the name of the project, in which all deposit and payment transactions for the Bank-financed operation will be recorded (provided that this mechanism is satisfactory to the IDB). Project resources will be used by the borrower and the executing agency exclusively for eligible expenditures, and must have a suitable system of financial management and controls for their execution, pursuant to the procedures specified in the loan contract and the Operating Manual and in accordance with the financial plan agreed upon periodically with the Bank.*

4. Internal control and internal auditing

The Office of the Comptroller General of the Dominican Republic (CGRD)⁷ is responsible for the government's internal auditing process. To perform this function, the CGRD assists internal auditing units in each entity of the Dominican government. In MITUR, that unit carries out its functions in accordance with standards and guidelines established by the Government Accounting Office of the CGRD and other regulations. At this time, the principal functions revolve around procurement and payment processes. The Bank maintains ongoing exchanges with the CGRD in the interest of improving the internal control systems of the executing agencies for the operations it finances in the Dominican Republic. MITUR should be considered one of the potential pilots for development coordinated between the Bank and the CGRD in this area in future joint planning efforts.

5. External control and reports. *The Dominican Republic's Cámara de Cuentas [Office of the Auditor General] (CCRD) is an autonomous entity whose responsibilities include performing external audits of entities that receive or manage State funds (Law 10-04). The institutional assessment did not identify any reports done by the CCRD in recent years, although there were reports of visits to MITUR for specific reviews. This operation will require contracting the services of mid- or top-tier independent auditing firms for the annual external audits of the program. The external audits will be performed on the basis of the terms of reference previously agreed upon with the Bank. The auditing services must be contracted in a timely manner so that the auditor can present periodic preliminary or midterm reports to facilitate monitoring and maintenance of the executing agency's internal controls for program management.*

6. Financial supervision plan.

Upon formation of the Program Coordination Unit, a workshop will be held to review the Bank's policies and procedures on fiduciary matters. Periodic inspection visits will be scheduled, including at least one initial visit and another visit during the second six-month period, and frequent meetings will be held during the first six months of execution to ensure MITUR's internal cohesion with regard to program organization. Efforts will be made to incorporate the external auditor into the internal controls review process, and a meeting will be held between the stakeholders, the executing agency, and the Bank to review the findings of the preliminary audit report prior to the end of each year's fiscal period. The operation's risk will be monitored on an ongoing basis by the responsible project team, especially during the first year of program execution.

7. Execution arrangements. *To fulfill its duties, MITUR will be supported by a Program Coordination Unit (PCU), which will serve as a liaison with the Bank and with the technical, administrative, and financial units of MITUR and other participating entities. At a minimum, the PCU will consist of: (i) a general coordinator with experience in project administration, planning, and management, who will report directly to the Minister of Tourism; (ii) a coordinator for each component who has technical experience in tourism, preparation and supervision of work plans, and monitoring and evaluation of investments; (iii) a technical analyst to support the coordinator for Component 2; (iv) a procurement specialist; (v) a financial-administrative specialist; and (vi) an accountant, all of whom will report to the general coordinator. This team will support MITUR's regular staff in the various units involved in program execution, which will share responsibility for execution in the following areas: (i) technical aspects of the activities; (ii) planning and control; and (iii) fiduciary management, procurement, and contracts. The profiles, responsibilities, tasks, and relationships of MITUR's regular staff and the PCU for the operation are delineated in the POM. As work progresses on the institutional strengthening of MITUR, the responsibilities of the PCU may be gradually incorporated into MITUR's organizational structure.*

⁷ See Law 10-07 on the National System of Internal Control and its implementing regulations, and Presidential Decree 121-01.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/11

Dominican Republic. Loan ____/OC-DR to the Dominican Republic
Tourism Development Program – Colonial City
of Santo Domingo

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 tourism development program – Colonial City of Santo Domingo. Such financing will be for the amount of up to US\$30,000,000, from the resources of the Single Currency Facility 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 __ ____ 2011)

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