

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA7738

Project Name	Caribbean Regional Communications Infrastructure Prog - Dominican Rep. (P147483)
Region	LATIN AMERICA AND CARIBBEAN
Country	Dominican Republic
Sector(s)	Telecommunications (50%), Information technology (50%)
Theme(s)	Regional integration (10%), Regulation and competition policy (30%), Infrastructure services for private sector development (60%)
Lending Instrument	Investment Project Financing
Project ID	P147483
Borrower(s)	Ministerio de Hacienda
Implementing Agency	INDOTEL
Environmental Category	B-Partial Assessment
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Decision	

I. Project Context

Country Context

The Dominican Republic's (DR) GDP growth averaged 5.7 percent per year between 1991 and 2013, making the DR one of the top performers in the Latin America and Caribbean region (LCR). In the last decade, the Dominican economy grew on average by 4 percent per year, almost twice as fast as the LCR average. This good performance has enabled the convergence of the DR's GNI per capita (US\$5,640 in 2013), from 52 percent to 78 percent of the regional average. However, declining domestic demand and weak performance in richer economies contributed to slower growth since 2011 (growth fell from 7.8 percent in 2010 to an estimated 4.1 percent in 2013) . Such high growth rates have however not translated into a proportional poverty reduction, and monetary poverty is higher today than in 2000. Poverty soared from 32 percent in 2000 to almost 50 percent in 2004 following a severe banking and macroeconomic crisis, before declining gradually to 40.9 percent by 2012 . Also, poverty is significantly higher in rural areas where extreme poverty reached 15.5 percent in rural areas vs. 5.8 percent in urban areas in 2012 and overall poverty was 46 percent in rural areas vs. 26 percent in urban areas.

Sustained growth needs to be complemented with an increase of social plans and social investment as a way of reducing poverty and stimulating sustainable human development. This includes providing equal infrastructure services, such as connectivity opportunities to quality affordable telecommunications services both in cities and (commonly underserved and poorer) rural areas. The government has taken steps to increase public revenues, but more needs to be done. A tax package approved in November 2012 increased VAT rates from 16 to 18 percent, and the renegotiation of the agreement with Barrick Gold are expected to help increase public revenues by 1.2 to 2 percentage points over the next four years, but this may be insufficient to expand fiscal space in the medium term. A persistent primary deficit still remains due to two long-standing, structural challenges, namely the large electricity sector deficit, which absorbed 1.8 percent of GDP in public subsidies in 2012, and a narrow tax base, which has averaged 13.7 percent of GDP since 2000. The Government recognizes that additional measures are needed to target public expenditure on resilient sectors, such as ICT, to diversify its economy and ensure a sustainable source of income for the country.

International support will be essential for the Dominican Republic to reach the goals of the Law on the National Development Strategy of the Dominican Republic 2030 and ensure future growth. The Law on the National Development Strategy of the Dominican Republic 2030 (END, Law No. 1-12), identifies the development of the ICT sector as one of the key drivers to achieve its objectives. Access to Internet will be monitored as one of the indicators to measure progress towards achievement of the END's objectives.

The Dominican Republic can play a key role within the CARIFORUM region in fostering growth and increasing the competitiveness of the region as a whole. The Dominican Republic's economy is currently the largest and most resilient in the CARIFORUM region. The Dominican Republic's GDP (US\$ 60 billion) is almost a third of CARIFORUM's total GDP (US\$195 billion in 2011). This points to the potential of the Dominican Republic for playing a leading role in fostering regional growth. The Dominican Republic's strategies for ICT can also enhance the competitiveness of the region by strengthening the region's ties to international markets and attracting foreign investment.

Sectoral and institutional Context

The General Telecommunications Law in 1998 created INDOTEL, Instituto Dominicano de las Telecomunicaciones, the state's independent regulatory authority for telecommunications, and opened the market to competition. The ICT sector has since grown to become one of the major pillars of the country's economy. In 2010, the ICT sector accounted for 15% of the GDP. The ICT sector has been playing an important role in diversifying the economy from primary industries (e.g. agriculture, mining) to manufacturing and services based activities.

Mobile phone subscriptions surpassed 89% in December 2013 compared to 58.1% and 75% in 2007 and 2008, respectively. Competition has been successful in bringing prices down and providing access, including in some of the most marginalized areas of the country. However, the mobile phone market is currently under a restructuring process, where two of the main operators have been taken over by a foreign group of investors. The effect that these developments will have on the telecommunications sector in the Dominican Republic is still uncertain.

INDOTEL's Rural Broadband Network Project (2007) installed third generation mobile phone services (3G), with broadband internet access in 506 locations countrywide, covering practically all

the municipalities (96%). The main traditional telecommunications operators offering retail services were Codotel/Claro Dominicana, and Tricom . In early 2014, Tricom and Orange Dominicana were being acquired by the foreign investment group Altice . There are several cable television operators which would have the potential to offer fixed broadband access services if they were connected to international connectivity points at affordable prices. Moreover, electricity transmission companies that have deployed fiber through their transmission networks for internal use, like ETED (Empresa de Transmisión Eléctrica Dominicana) and CEPM (Consortio Energético Punta Cana-Macao) have started or plan to start offering part of these fibers, or of its capacity, on a commercial basis. In most areas, except in the main cities, only one provider offers retail fixed broadband services, and, although an interconnection policy is in place, wholesale prices are not regulated.

However, there is still a big gap in both accessibility and prices for fixed internet between major urban centers and rural and remote areas. For the poorest households, fixed internet connectivity prices equal 79% of the household's earnings, and for 60% of households, connectivity prices are well above the maximum of 5% of household earnings recommended by the ITU. In 26 municipalities (16.8% of the existing 155) there are no fixed internet accounts registered , and only 14.4% of households have internet, with 22.1% average in the city of Santo Domingo versus 5% in certain rural areas. The Dominican Republic shows connectivity statistics below the regional average for Latin America indicators: 35.5% vs. 39.5% of internet users; 4% vs. 7.5% of fixed broadband internet subscribers.

Fixed broadband is more reliable for government and corporate clients alike, especially those with decentralized units like schools or hospitals, which need to offer external online services or internal services through intranet or a private virtual network. The National Fiber Optic Network will help the national and municipal government reach citizens with improved services, and it will help citizens interact with the government.

Submarine cable international connections exist and are not an obstacle for fixed broadband supply. In March 2014 the NAP of the Caribbean (the main international broadband connectivity hub in the country) offered wholesale high speed internet at US\$125 for each Mbps of symmetrical speed (i.e. equal speed for uploading and for downloading). However, in most municipalities this service is offered by a single provider, for about US\$500 ; the difference in price between the NAP and the average municipality is due to national transmission (or backbone) costs; in most municipalities there is no competition in this network segment. In the national fixed broadband market, the incumbent holds more than half of the market and there is not a strong additional player. For the other operators in the market, the heavy upfront investment required to build a high speed fiber optic network, coupled with the low and slow return on investment expected in some of the rural and poorer areas, has discouraged them from operating beyond the more densely populated and richer areas.

CARCIP can support existing Government's efforts in addressing the lack of supply of fixed broadband connectivity, particularly in remote and marginalized areas of the country, and contribute to achieve its goal of providing universal and affordable access to all citizens. In the 2014-2015 Biennial Plan, INDOTEL planned a National Fiber Optic Network for \$US30, 000,000, carried out through CARCIP and independent from the Universal Service Fund and the Telecommunications Development Fund (FDT or Fondo para el Desarrollo de las Telecomunicaciones).

CARCIP can also support the government's efforts to improve the use of ICT's in vulnerable

communities by working on the demand side of broadband. In the 2014-2015 Biennial Plan, INDOTEL included a set of projects to reduce the digital divide. In addition, the Ministry of High Education, Science and Technology (MESCyT) and the Ministry of Industry and Commerce (MIC) are promoting entrepreneurship and ICT support programs, by organizing co-creation events (such as Hackathons), creating entrepreneurship centers in Universities (currently in nine) and promoting ICT courses. The Presidential Office of ICT (OPTIC) in its Strategic Plan 2013-2016, identified among its objectives: 1) enhancing the use of e-government in public sector decision making; 2) creating channels for citizen participation; and 3) facilitating the use of e-services in society and the private sector. CARCIP will align with these efforts and support an Open Innovation Hub to build ICT skills, particularly among the poor and women, and foster a culture of entrepreneurship by involving citizens in identifying and solving their own problems through ICT solutions.

II. Proposed Development Objectives

The project development objective (PDO) of the Dominican Republic CARCIP is fully consistent with the overall regional program development objective and seeks to increase access to regional broadband networks and advance the development of ICT-enabled services in the Caribbean Region.

CARCIP's objective is expected to be achieved through: (a) targeted investments in ICT infrastructure that fill the gaps at the national and municipal level, preferably in partnership with the private sector; (b) creating an open innovation ecosystem that fosters the development of ICT skills and ICT enabled services; and (c) strengthening institutional capacity/arrangements to ensure effective program implementation and outcomes.

III. Project Description

Component Name

Component 1: Regional Connectivity Infrastructure.

Comments (optional)

This component will support the reduction of connectivity gaps between rural and urban, and poor and developed areas in the Dominican Republic, through the deployment of a National Fiber Optic Network. This network will provide high-speed fiber optic connectivity to several municipalities in the country. The infrastructure will contribute to increase access to more affordable high-speed connectivity in the Dominican Republic. The fiber optic network will reach interconnection points with regional and global backbone networks, as part of CARCIP's regional strategy.

There are two subcomponents: (A) Enabling Environment; and (B) Broadband Backbone Network.

Component Name

Component 2: Open Innovation Hub

Comments (optional)

The main objective of the Hub is to increase impact of the investment in fixed broadband infrastructure by creating an ICT-enabled open innovation ecosystem in the Dominican Republic. The Hub will support ICT experts, businesses and entrepreneurs for the creation of innovative solutions to fight poverty and inequality in vulnerable urban and rural communities. The main activities under the Hub are: (i) Improve ICT skills, with a special emphasis on women and children from poorer communities; (ii) Promote the creation of an Open Innovation Ecosystem leading to ICT enabled products and services to address societal challenges; and (iii) Connect knowledge and entrepreneurs with incubators, investors and business opportunities.

Component Name

Component 3: Implementation Support.

Comments (optional)

This component will provide resources for the establishment and logistic support for a core Project Coordination Unit (PCU) staff to administer and coordinate the project's implementation and conduct monitoring and evaluation. It will also support oversight arrangements and capacity building for key policy and regulatory institutions.

IV. Financing (in USD Million)

Total Project Cost:	30.00	Total Bank Financing:	30.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			30.00
Total			30.00

V. Implementation

Institutional and Implementation Arrangements

As part of project preparation, the Bank performed fiduciary capacity assessments of INDOTEL's structure, and the evaluating team highlighted as a strength that the responsibilities in each department at INDOTEL are well defined, with clear lines of communication in entity's internal regulation and its institutional structure. However, given the previous successful experience with the creation of a Project Coordination Unit (PCU) for the implementation of the Telecommunications Regulatory Reform Project, INDOTEL indicated its decision to create a new PCU for the implementation of this Project. The Bank agreed and made recommendations to strengthen this PCU. This decision will be finalized during negotiation, since a new Executive Director was recently appointed. At this stage, the fiduciary aspects of the Project will be implemented by the new PCU, which will coordinate the technical, logistics and implementation aspects of the project, as well as relevant stakeholders and beneficiaries. Given that INDOTEL's staff currently has no experience in Bank's procurement processes, the PCU will be strengthened with a Procurement Specialist with relevant experience in Bank's Procurement, Consultant Guidelines, financial management and disbursement guidelines, among others. Additional procurement staff may be needed based on the workload. Further, its capacities may need to be strengthened by adding some more financial management experts to accommodate the additional work to be undertaken, and maintain segregation of duties in key Financial Management (FM) processes to keep a solid internal control environment. The new PCU will interact with the current procurement and financial management structures, as defined in the Operations Manual. Also, INDOTEL's Board includes the Ministry of Economy, Planning and Development which ensures the participation of the different agencies involved in the implementation.

Results Monitoring and Evaluation. The PCU will bear the primary responsibility for project monitoring and evaluation (M&E), and, as such, will establish standard formats and guidelines for data collection and reporting, and organize training sessions for project stakeholders in their use. Many of the indicators in the results framework, or at least the main data needed to build the indicator, are already being collected on an annual basis by national level institutions, such as the

National Statistics Office (Oficina Nacional de Estadística or ONE), or by INDOTEL itself. This will facilitate the work of the PCU. Monitoring and evaluation of the program will be embedded in the various components of the program to ensure results are properly monitored. In addition, the CTU will be doing M&E at the regional level to ensure success of the overall CARCIP program. A PCU coordinator and a Procurement Specialist will need to be appointed prior to negotiations, to ensure swift implementation of the Project. Action plans have been recommended for both procurement and financial management, to mitigate the identified risks

Sustainability

The Dominican Republic is committed to a holistic ICT agenda which ensures the sustainability of the program. Moreover, the holistic approach of the project covering both the supply and the demand side of the ICT sector ensures its sustainability beyond the program duration. As demand is created through the development of a broadband ecosystem that spurs human capacity as well as ICT and non-ICT related entrepreneurship and social innovation, it is expected that supply of ICT services will be further stimulated, ensuring a self-reinforcing cycle of ICT investment and growth in the country.

CARCIP has carried out stakeholder consultations during the preparation of the project to ensure relevance of the activities proposed. Stakeholders consulted include telecommunications operators, Public Administration (at the central and local levels), universities, private firms, and NGOs. CARCIP will connect and leverage existing initiatives and public spaces to increase project sustainability. The existing strong collaboration environment, including citizens as main actors, can also support sustainability of project initiatives under component 2.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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