

Supporting Policy Reforms in Business Climate and Innovation in Latin America and the Caribbean

**Lessons Learned from the Inter-
American Development Bank's
Experience with Policy-Based Lending**

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Abstract*

This paper reviews the Inter-American Development Bank's policy-based loans, which are designed to improve competitiveness in selected Latin American and Caribbean countries. It summarizes the context in which those projects were implemented and qualitatively assesses the information available about their impact. The findings are based on mapping initiatives undertaken in eight countries for each of seven thematic areas related to business competitiveness and innovation. The evidence gathered for this paper supports the conclusion that policy-based loans have achieved concrete lasting benefits, but additional research is required to assess in more detail the extent of the benefits and the long-term effects of the reforms on indicators such as economic and productivity growth.

JEL Codes: H81, O1, O38, O43

Keywords: competitiveness, innovation, policy-based loans

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Acronyms and Abbreviations

ABC	Acuerdos Bolivianos de Competitividad
ANII	Agencia Nacional de Investigación e Innovación
CAF	Corporación Andina de Fomento
CCAC	Competition and Consumer Affairs Commission
CEP	Competitiveness Enhancement Program
CIACEX	Comisión Interministerial para Asuntos de Comercio Exterior
CITEs	Centros de Innovación Tecnológicos
CNCel	Comision Nacional de Competitividad e Innovacion
CONACYT	Consejo Nacional de Ciencia y Tecnología
CONPES	Consejo Nacional de Política Económica y Social
CPDC	Comisión de Promoción y Defensa de la Competencia
CTI	Competitiveness, Technology, and Innovation
FIDECOM	Fondo de Investigación y Desarrollo para la Competitividad
FINCyT	Fondo para la Innovación, Ciencia y Tecnología
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International financial institutions
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LAMP	Land Administration and Management Program
MEF	Ministerio de Economía y Finanzas
MIF	Multilateral Investment Fund
NCC	National competitiveness councils
OPP	Oficina de Planeamiento y Presupuesto
PACC	Programa de Apoyo a la Competitividad de Conglomerados
PCR	Project completion reports
PDP	Políticas de Desarrollo Productivo
PEPC	Program to Enhance Productivity and Competitiveness
PPD	Public–Private Dialogue
PRA	Proyecto de Solución y Alivio a la Pobreza
RITEX	Régimen de Admisión Temporal para Perfeccionamiento Activo
SAIFE	Sistema de Atención Integral para la Formación de Empresas

SBPC	Sistema Boliviano de Productividad y Competitividad
SBS	Superintendency of Banking
SC	Superintendencia de Competencia
SME	Small and medium-sized enterprises
SUNARP	Superintendencia Nacional de Registros Públicos
UNASEP	Unidad de Apoyo al Desarrollo y la Inversión en el Sector Privado
UPC	Unidad de Productividad y Competitividad
USAID	United States Agency for International Development
UXXI	Instituto de Promoción de la Inversión y las Exportaciones de Bienes y Servicios
VUCE	Ventanilla Única de Comercio Exterior

Executive Summary

Over the past decade, the Inter-American Development Bank (IDB) has come to see lagging firm productivity and misguided—or absent—private sector development public policy and regulations as two of the largest roadblocks to economic development in Latin America and the Caribbean (LAC).¹ Many investment programs channeling resources to improve trade, access to credit, and innovation have represented the better known part of the Bank's contribution to tackling these problems. Yet a whole different and complementary line of work has dealt with encouraging countries to undertake policy and regulatory reforms and institutional changes in areas that can make a difference in competitiveness, understood as the relative performance of the private sector in the region compared to other economies.

This paper reviews IDB operations precisely of that nature in selected LAC countries, namely policy-based loans (PBLs), which are designed to improve competitiveness. The authors provide a summary of the context in which PBL projects were implemented and then qualitatively assess the information available about their impact. The findings are based on mapping initiatives undertaken in eight countries for each of seven thematic areas related to business competitiveness and innovation. The strengths and weaknesses of the interventions are assessed, and a list of lessons learned and priority action areas to enhance the Bank's efforts are recommended for the Competitiveness, Technology, and Innovation (CTI) division and the IDB more generally. A qualitative approach is used based on the results of interviews of key IDB specialists and government counterparts acting as expert informers. The interviews were complemented by a desk review of IDB documentation on the lending programs and their results, as well as on extensive web-based information-gathering regarding repercussions and continuity of the policy reforms supported by the Bank's PBLs. Important issues related to causation and attribution are not resolved here, but left to further research efforts. Overall, the approach pursued in this paper warrants the following conclusions:

- Reforms prompted or supported by IDB PBLs aimed at improving business climate and the overall framework for productive development policies have been, in the majority of cases examined here, maintained over time well beyond Bank participation, having beneficial and lasting effects on private sector activity and overall competitiveness.
- End results do not exhaust the competitiveness policy reform agenda, indicating that in many cases further reforms are needed.
- PBLs have achieved concrete benefits, but additional research is required to assess in more detail the extent of the benefits and the long-term effects of the reforms on indicators such as economic growth and productivity, and to disentangle the influence of IDB involvement from other, no doubt very important, sources of support for competitiveness policy reform.
- Competitiveness PBLs have helped to improve innovation policy as part of an overall productive development policy. Even though they have lent valuable support to the

¹ For the key insights and analysis that support these ideas, see Pagés (2010) and Crespi, Fernández-Arias, and Stein (2014).

institutional development needed to undertake effective innovation policy, this should be considered just a first step in the process of developing an adequate framework for effective consolidation of an innovation climate that is needed for knowledge economies to flourish. In this regard, the paper concludes by identifying room for eventual development of PBLs more deliberately aimed at promoting innovation as a promising avenue for further IDB involvement in competitiveness policy reforms.

Introduction

Since the early 1990s, the IDB has been supporting efforts in the LAC region to carry out structural reform programs aimed at redefining the role of the state and assigning the private sector and competitive markets a leading role in the economy. The primary instrument to support such reforms, PBLs, was designed to address complex, medium-term structural, social, and institutional challenges. PBLs provide fungible resources to support an agreed program of policy reforms and/or institutional changes in a sector or subsector. The aim has been to support the process of good policymaking while providing an incentive structure for reform agendas (IDB, 2014).

Since the concept of competitiveness was introduced and since the notion of business climate improvements began to be measured and countries benchmarked, LAC countries have increased their efforts to modernize their legal and institutional frameworks to promote private sector-led growth and productivity-enhancing innovation. The task is clearly important given that productivity growth in LAC has stagnated over the past couple of decades, in most cases lagging well behind developed and competing emerging economies.

However, experience has shown that carrying out these reforms is a complex process that entails important efforts on the part of governments, and this takes time since there are a series of government failures involved in the process (OECD, 2010). More specifically, to carry out complex, medium-term reforms that involve private sector stakeholders, three problems have been identified in the region (CNID, 2013):

1. **Dynamic inconsistency:** The difficulty that a public authority faces in sustaining policies over the medium and long term that may have short-term costs but only long-term benefits.
2. **Capture by rent-seeking actors:** A public policy becoming guided or controlled by the particular interest of certain firms or sectors, without regard for the welfare of the public.
3. **Agency problems:** Underperformance or lack of coherence in public agencies due to informational asymmetries among public officials with different responsibilities for formulating, managing, and deploying public services or enforcing regulations.

During the past decade, private sector development, competitiveness, productivity enhancement, and innovation have become increasingly important areas for which the IDB has provided support to policy reforms using PBLs. Based on the Bank's experience supporting reforms, a sample of eight competitiveness-related projects was selected from across the region and studied in detail. The analysis focused on how the Bank's participation in this process has helped achieve and sustain better policies, regulations, and institutional frameworks consistent

with welfare-enhancing productive policy while also helping to solve the obstacles that prevent such policies from emerging. For this, the paper aims to answer the following questions:

- Have the approved legal and regulatory reforms and the strengthening of existing institutions or creation of new institutions been sustained over time even after Bank support has been finalized?
- Recognizing the difficulty of establishing attribution and the known weaknesses of referencing external assessments, have the reforms achieved any sustainable changes to indicators of competitiveness, innovation, and doing business?
- What are the long-term benefits of the reforms supported by IDB operations?

This paper looks at the long-lasting institutional and policy reform measures that have remained after business climate PBLs have been fully disbursed or have reached near full disbursement to ascertain the strengths and weaknesses of these efforts. It then assembles a set of lessons learned and suggestions of priority action areas for CTI and the IDB. The paper is structured to first provide a background on policy reforms in the areas of business climate and innovation and the effect of the reforms on the economy. The next section explains the methodology used to perform the qualitative analysis. The seven policy areas are then identified and qualitative evidence is provided regarding the impact of PBLs after the programs have ended. The paper concludes with a summary of findings and recommendations for priority actions for the IDB.

Background

The literature on economic development has long recognized the role of institutions and an enabling legal framework as being key determinants of economic growth and development (North, 1990; Rodrik, 2011; World Bank, 2001). The legal, regulatory, and institutional framework affects the flow of information and authority between private and public sector actors that is required to shape and support competitive markets. Yet, at times, this framework may also require firms to adhere to a complex and costly set of rules and regulations to do business that in turn can negatively affect the development of efficient markets. The business environment influences investment decisions and the organization of production. It plays a central role in determining how societies distribute the benefits and bear the costs of development strategies and policies (Anzola, 2014).

Competitiveness policy reform has been a dynamic process subject to a combination of internal and external social and economic forces. The complexity of policy issues involves the interplay of variables that "...are dynamically interrelated in ways that are not fully understood, involve multiple conflicting interests, and combine a diversity of institutions that play varying and interdependent roles in the policy reform process" (Abonyi, 2002).

Not all countries have engaged in the same reforms nor have they done it at the same pace. The implementation of policy reforms has been country specific in terms of timing, sequencing, and composition of the policy reform mix. Quite often, implementation has involved strengthening or creating institutions intended to prioritize, monitor, coordinate, manage, and assess reforms.

A series of measures and indicators have been developed to benchmark the performance of countries' business environments. Ample literature has striven to develop methodologies to measure productivity and competitiveness and has produced periodic reports that measure and benchmark the performance of countries in relation to reforms (e.g., WEF, 2015; World Bank, 2015). Even though many of these benchmarks have been criticized, exposing their limitations, they have gained currency and, in practice, have shaped many of the reforms in LAC countries (OECD, 2006a).²

The starting point for this paper is that some reforms have been carried out with long-term support from institutions such as the IDB, mostly using a particular kind of lending instrument, the PBL, which focuses on providing a framework to encourage policy and institutional reforms (see Box 1). The issue arises as to whether the countries took ownership of these reforms, which translates into the key question of whether the reform process continued after the Bank's support was completed.

Box 1: Types of Policy-Based Loans

There are two types of PBL operations: programmatic and multi-tranche. *Programmatic PBLs* consist of a series of single-tranche operations within a well-specified medium-term framework of policy and institutional actions. They are approved on a phased basis to support the borrower in achieving the country's reform program, with specified triggers for moving from one operation to the next. *Multi-tranche PBLs* consist of two or more tranches within a single operation, in which the disbursement conditions for each tranche are specified at the beginning of the operation.

PBLs seek to help build a country's capacity to lead and manage the policy reform and/or institutional change process, while reducing the transaction costs of external assistance and providing timely disbursement of resources to the national budget. PBLs are most effective when policy dialogue and capacity building takes place with the participation of key stakeholders. The design of PBLs should reflect country circumstances and borrower implementation capacity.

The IDB's internal policy and guidelines for preparing PBLs is instrumental to successful implementation and to ensuring long-lasting changes remain after Bank intervention has ended. The main criteria include:

- **Linkage to Country Strategy:** The diagnostic is a key input that identifies "the principal development challenges confronting the country, analyses the government's development program, and assesses the country's institutional capacity and ability to implement effectively its overall reform agenda (IDB, 2005)."
- **Country Ownership and Commitment:** The Bank provides its expertise in technical assistance and design, but the request must come from the country and "must have

² There is more on this criticism later in this paper.

sufficient political support within the country from relevant sectors/actors in government as well as frequently from stakeholders outside of government. Ownership implies that the government can build and maintain an adequate coalition of support for the program (IDB, 2005).”

- **Macroeconomic Framework:** An independent assessment of macroeconomic conditions must be carried out to ensure the country’s macroeconomic framework is sound to support the reform measures.
- **Coordination among Development Partners:** To prevent overlap when involved in supporting a reform program, all partners should have a clear modality for their cooperation.

Design considerations (e.g., institutional analysis, results framework, sustainability, economic and environmental analysis, debt sustainability, and fiduciary capacity) are also strategic to successful operations. The Bank’s role is to provide analytic and advisory services to help the country design its policy strategy. The Bank also brings high visibility to the reform process, increasing the likelihood of successful implementation despite political changes. The Bank takes care in assessing and mitigating risks that may inhibit the reform agenda. Most importantly, the Bank’s involvement opens the floor to dialogue on important development issues that involve a range of stakeholders who may not otherwise have found the need to coordinate. The Bank has thus filled an important gap in terms of financing development and bringing a multiplicity of stakeholders into the development talks. Its special expertise in designing innovative development strategies that comply with international standards and best practices and its understanding of and physical presence in LAC make this possible. The Bank adds publicity to the government’s commitment to the reforms, a key element for implementation.

Methodological Approach

Over the years, the IDB has spearheaded PBLs that assist countries in designing and implementing measures to build the capacity of their firms to compete. To assess the long-term benefits of PBLs, a universe of programs that have been completed or were well advanced and have achieved significant results was identified. A sample of eight programs from this universe was chosen for analysis. The criteria for selection were:

- programs that were already concluded so that meaningful questions could be asked about their results and the sustainability of the reforms supported by the Bank; and
- programs that represented the diversity of national economies in which the Bank works, in terms of sub-regions (the Caribbean, Central, and South America).

Seven thematic policy areas were chosen as the focus for the analysis because they are frequently included in IDB competitiveness PBLs:

1. Public–private sector dialogue
2. Reduction in regulatory costs
3. Transparency and competition
4. Technological development and innovation
5. Value chains and clusters

6. Export promotion
7. Access to finance

The eight programs in the sample include many, if not most, of the components related to the seven thematic areas identified for analysis, resulting in the matrix in Table 1. The dark cells in the table show that the country’s competitiveness program includes the related policy area. Of the possible 56 specific thematic initiatives in the countries examined, there are a total of 41 that were implemented. This paper reviews these cases more specifically.

Table 1: Matrix of Policies per Program

	Bolivia	Columbia	Dominican Republic	El Salvador	Guyana	Jamaica	Peru	Uruguay
Policy Themes								
1. Public–private sector dialogue								
2. Reduction in regulatory costs								
3. Transparency and competition								
4. Technological development and innovation								
5. Value chains and clusters								
6. Export promotion								
7. Access to finance								

Source: Authors.

The authors reviewed existing documentation for the projects and then secondary sources (e.g., reports, public policy documents, and official websites) were used to examine the endurance of reforms. The information gathered was validated by cross referencing a number of sources for each case and by interviewing expert informers, including IDB professionals that participated in the process. Assessing the precise economic impact of the policy and institutional reforms undertaken by these PBLs and separating the IDB effect from the many other factors that may have influenced reforms—the ideal research outcome—would require data that are not available for several of the countries involved, as well as an experimental or quasi-experimental design beyond the scope of this paper.³

As it stands, this paper does not directly address the key question of whether Bank-supported PBLs had a positive impact on economic development or productivity growth. It focuses on a particular secondary outcome of such lending operations, namely the staying power of the institutional and policy reforms supported by the IDB. It does so by taking advantage of the relative abundance of available information. Even though this admittedly constitutes a more modest undertaking, it remains significant for at least two important reasons. First, business climate and competitiveness-promoting reforms such as those contained in the PBLs are pursued by governments in LAC—and around the world—because there is a strong theoretical

³ A quantitative analysis of the impact of competitiveness PBLs is currently being explored by the authors and it may result in a follow-up paper.

and evidential⁴ basis to believe that reforms that favor better functioning markets and eliminate barriers to private sector development are worth the effort and are meaningfully associated with growth.⁵ Second, a major concern of the Bank across all operations, including PBLs, is that the resources spent to support particular reforms contribute to strengthen an institutional or policymaking process that will lead the country receiving the support to take ownership of the reforms instead of becoming dependent on Bank operations to sustain good policy over the long run. Thus, the fact that institutions and reforms survive once the IDB's involvement has ceased points to the important outcome of growth-promoting policies that have become embedded in domestic capabilities and priorities.

The analysis of the lasting benefits of PBLs began by documenting initiatives undertaken by each of the eight programs in each of the seven thematic areas based on a review of project documentation, including project progress monitoring reports and project completion reports (PCRs) when available. Pending issues at the closing of each of the programs were then identified and questions formulated to assess what had happened in each of the eight countries regarding each thematic area. In some cases, the programs concluded several years ago, so there was an opportunity for considerable further advances to have taken place in each of these areas. The questions were distributed to a select group of sector specialists that participated in the programs' design and/or execution. Their responses were corroborated and supplemented by an internet-based desk study of official documents from the respective country, academic studies carried out in the country or abroad, and news reports and opinion pieces on the specific reforms and the extent to which they have been internalized by host-country stakeholders. In some cases, this information was supplemented with responses to queries made of selected country office specialists. These findings are documented in the *Main Thematic Findings* section of this paper for each of the 41 cases indicated in Table 1.

Table 2 summarizes the PBLs assessed in this paper. PCRs were not available for DR-L1014, DR-L046, GY-L1006, or UR-L1007. Of the PCRs assessed, most indicated that implementation and sustainability were either probable or highly probable. BO-0219 was the only program that rated the sustainability of the reforms as a low probability. Bolivia, at the time, experienced drastic changes in its political and social situation, which led to a significant shift in the overall framework for economic policy (see Box 2). All of this may have hindered reform implementation and country ownership of the reform program. (See Appendix 1, which lists the relevant political cycles affecting reforms).

Common patterns regarding effectiveness (or lack thereof) of Bank interventions in each of the seven thematic areas are identified in this paper. These patterns suggest conclusions about the lasting (long-term) benefits of the Bank-sponsored initiatives in the various countries.

⁴ See Lora (2012) for a summary of the issues and evidence in LAC.

⁵ Reforms usually included in The World Bank's standard Doing Business framework may not be the whole story when it comes to promoting productivity growth. Hence Bank PBLs often include reforms beyond such framework, including promotion of innovation policy and, more generally, productive development policy.

Table 2: Policy-Based Loans Included in the Analysis

Countries	Project Number	Approval Amount (\$MM)	Tranche Released	Title
Bolivia	BO-0219 ¹	87	2003	Sector Program to Support Competitiveness
Colombia	CO-L1007	200	2006	Competitiveness in Colombia I
	CO-L1027	0.3	2007	Competitiveness Enhancement Program II
Dominican Republic ²	DR-L1014	60	2009	Program to Support Policies to Enhance Productivity and Competitiveness
	DR-L1046	124 ³	2010	Program to Support Competitiveness Policy II
El Salvador	ES-0151	100	2003	Sector Program for Competitiveness Reforms
Guyana	GY-L1006 ³	27	2006	Support for Competitiveness
Jamaica	JA-L1001	30	2008	Competitiveness Enhancement Program
	JA-L1010	60	2010	Competitiveness Enhancement Program II
	JA-L1014	60	2014	Competitiveness Enhancement Program III
Peru	PE-0239 ⁴	300	2003	Competitiveness Reform Program
	PE-L1076	50	2010	Program to Enhance Productivity and Competitiveness I
	PE-L1098	30	2012	Program to Enhance Productivity and Competitiveness II
	PE-L1099 ⁵	25	2014	Program to Enhance Productivity and Competitiveness III
Uruguay	UR-L1007	75	2007	Programmatic Competitiveness Loan I

Source: Author compilation from IDB system.

¹ A single loan disbursed in three tranches totaling \$87 million, released in 2003, 2004, and 2005.

² Stage III is in preparation. As such, there is no PCR. Consisted of three programmatic PBLs, each in the amount of up to \$60 million.

³ A single loan originally to have three tranches totaling \$18 million but which was actually released in two tranches in 2009 and 2012.

⁴ The Bank sourced \$120 million from Ordinary Capital (including \$10 million for technical cooperation) and \$4 million from a local contribution.

⁴ A single loan disbursed in two tranches released in 2004 and 2006..

⁵ The third loan in a series of three programmatic PBLs.

Box 2. A Case of Dynamic Inconsistency

The Bank's program in **Bolivia** built on previous initiatives under the general heading of the Bolivian System of Productivity and Competitiveness (Sistema Boliviano de Productividad y Competitividad, SBPC) established in 2001 with a technical secretariat called the Productivity and Competitiveness Unit (Unidad de Productividad y Competitividad, UPC). Starting in 2002, the UPC mapped emerging value chains and encouraged the value chains to organize into competitiveness committees (Comités de Competitividad). These predecessor initiatives had instituted Bolivian Competitiveness Agreements (Acuerdos Bolivianos de Competitividad, ABCs), which were "formal public-private agreements defining commitments made with a view to resolving the bottlenecks that restrict these chains' growth potential."⁶ The Bank's PBL built on this promising start, focusing on impediments facing value chains in realizing their potential to export their products. The PBL supported the strengthening of the SBPC/UPC institutional infrastructure and called for at least seven ABCs to be signed at the municipal level and two at the prefecture level. These ABCs would enable the participating firms in the respective value chains to take advantage of preferential trade agreements that Bolivia had signed with other countries. At the end of the program, the public and private entities participating in each ABC were to have demonstrated that specific commitments made in the original agreements had been met.⁷ By 2007, the program had fulfilled its goals.⁸

These initiatives prospered between the end of the Bank's program in 2006–07 and 2010. The SBPC and its technical secretariat, the UPC, expanded the number of ABCs to eight and increased the number of value chains to 20, primarily in agriculture but also in tourism and textiles. The SBPC and its various initiatives also received support from the Dutch and Swedish bilateral assistance agencies. The UPC-sponsored clusters program produced numerous specific products and had several notable achievements that served to broaden and deepen this business development model throughout the country.

After 2010, however, the Government of Bolivia took a different view of promoting clusters and value chains. The authority in charge of defending competition, the Authority of Inspection and Control of Companies (Autoridad de Fiscalización y Control de Empresas, AEMP), through its investigative arm, Technical Director of Defense of Competition and Normative Development (Dirección Técnica de Defensa de la Competencia y Desarrollo Normativo, DTDCDN) investigated a variety of value chains and their participating stakeholders over a two-year period (2012–13) to determine whether their actions had led to market distortions (DTDCDN, n.d.). The authority then issued a series of Administrative Resolutions sanctioning various businesses for "anti-competitive behavior." In early 2014, the Council of Ministers issued a decree formally closing the UPC.⁹

⁶ Bolivia Sector Program for Strengthening Institutions and Public Policies to Support Productivity and Competitiveness (BO-0219) Loan Proposal, paragraph 1.29, pp.10–1.

⁷ *ibid*

⁸ BO-0219 Project Completion Report, p.10.

⁹ Bolivia: Supreme Decree N°1874. Last modified January 23, 2014. <http://www.lexivox.org/norms/BO-DS-N1874.xhtml>.

A new approach to productive development is now being promoted by the Ministry of Productive Development and Plural Economy (Ministerio de Desarrollo Productivo y Economía Plural). The approach—productive complexes—has some similarities to the previous methodology (namely the collective diagnostic and plan and the resulting collective actions), but its final objective focuses on improving revenues exclusively for small producers.

The Bolivian experience serves to illustrate what can happen—though not necessarily in every case—when a drastic reorientation of public policy occurs as the result of an election. Some policies get interrupted, potentially for a long period of time; a phenomenon often referred to as dynamic inconsistency. No matter how well designed or implemented, the medium- to long-term effects of PBLs remain vulnerable to this kind of change. Regardless of one’s opinion of the original or new policies, the main lesson in this case is dynamic inconsistency. Consequently, references to the Bolivian PBL in terms of its results, effects, and continuity are very limited in the rest of the paper.

Main Thematic Findings

Theme 1: Public–Private Sector Dialogue

Structured public–private dialogue (PPD) has been recognized as a participatory process that can ensure more inclusive and sustainable policy reforms.¹⁰ PPD requires participation of the business community as well as academia and civil society in designing public policies that enable a better private sector environment. By providing a more transparent policymaking process and engaging a wider range of public and private stakeholders, PPDs generate political will and create a process to carry forward reform or sector programs from diagnosis and prioritization to implementation, contributing to mitigating dynamic inconsistencies in public policy. By facilitating the flow of information between the government and the private sector, PPDs can also mitigate information asymmetries that are endemic to decision-making in economic policy.

The institutional arrangements to promote and support PPD play an important role in sustainable policy reform. Due to their function as coordinators of diverse stakeholders, they also pose a series of challenges (OECD, 2006b). Empirical evidence from developing countries has shown that significant reforms can be attributed, at least in part, to well-designed and functioning PPDs. The dialogue itself is a positive outcome for the reform process and PPDs have often opened communication and advocacy channels where they did not exist before (IFC, n.d.).

Though the scope of this paper does not include a detailed evaluation of the outcomes of the PPD institutions supported by the Bank’s programs, it deals with the question of whether the institutions created have remained active over time and have been instrumental in promoting

¹⁰ For a full discussion of best practices for PPD and implications for LAC, see Devlin and Mogueilansky (2009).

reforms.¹¹ In this regard, the IDB's programs have focused on developing structures for a sustainable, participative, and inclusive PPD to foster the reforms included in the long-term competitiveness policy reform programs in each country.

With few exceptions, the diagnostic that the IDB carried out in preparation for the competitiveness programs in the respective countries documented the absence or weakness of forums designed to bridge the gaps between the public, private, labor, and academic sectors. In some countries, such as Colombia, relatively strong institutions existed to build this consensus and oversee implementation of concrete measures to improve the business climate. In such cases, the Bank worked with the existing structure to support some of the specific initiatives already underway. In most countries, however, the Bank found weak competitiveness councils. In these cases, the country diagnoses found organizations that were weak in their functional structure and leadership, with very limited capacity to rally the support of member institutions and engage stakeholders more broadly. These organizations had little consensus-building capability or influence on policy. Based on the experience of international best practices in emerging economies, such as Singapore and Korea, the Bank conveyed to its counterparts in LAC that a key component of a competitiveness program would be strengthening the country's internal capacity to identify its own weaknesses and build consensus on the reforms needed to overcome them. Table 3 highlights competitiveness councils that remain active after their creation and/or strengthening in the context of an IDB PBL project. Interventions promoted by the Bank are described more fully in the next section.

**Table 3: Public–Private Dialogue Competitiveness Councils
Created and/or Strengthened by IDB PBLs**

Country	Institutions	Created or Strengthened?	Still Active?
Bolivia	National Competitiveness Council	2003	No*
Colombia	National Competitiveness and Productivity Council	2007 (created)	Yes
	High-level Commissioner for Competitiveness, a Secretariat of Competitiveness in the National Planning Department, and a university-based think-tank, as well as a Private Council of Competitiveness and regional competitiveness commissions	2011 (created)	Yes
Dominican Republic	National Competitiveness Council	2010 (created)	Yes
Guyana	National Competitiveness Strategy Steering Committee	2007 (created)	Yes
Jamaica	National Competitiveness Council	2010 (strengthened)	Yes
Peru	National Competitiveness Council	2003 (strengthened)	Yes
Uruguay	National Economic Council (Consejo Economico Nacional)	2007 (reactivated)	
	Private Sector Development and Investment Support Unit (Unidad de Apoyo al Desarrollo y la Inversion en el Sector Privado)	2008 (created)	Yes

Source: Authors' compilation.

* Tech secretariat abolished.

¹¹ For a more detailed review, see Maffioli, Pietrobelli, and Stucchi (2016).

NCCs and technical support units initiated or strengthened by IDB interventions.

All the programs surveyed, except El Salvador's, included a component supporting public–private dialogue on competitiveness. As discussed above, the lack of trust and communication between government and the private sector has been an important feature of the policymaking landscape in most LAC countries. Thus a hallmark of most of the Bank-sponsored PBL operations has been direct Bank involvement to address this impasse.

In most cases where the IDB was involved, the national competitiveness councils (NCCs) have survived. After a difficult initial few years, NCCs have gone on to become much more institutionally robust and relevant to the policy discussion and consensus building process in their countries. In **Colombia**, the first of two PBLs built on a countrywide network of regional and sector-specific forums that had been held to develop internal agendas for regional and sector issues. This led to the creation of the National Competitiveness and Productivity Commission. The subsequent PBL supported creation of a High-level Commissioner for Competitiveness, a Secretariat of Competitiveness in the National Planning Department, and a university-based think-tank, as well as a private sector driven Private Council of Competitiveness and regional competitiveness commissions.¹²

The **Dominican Republic's** NCC was established in 2010 with financial support from the IDB. The NCC has faced difficulties in acting as a regular public–private forum for competitiveness policy since it has convened rarely. However, from the beginning, the NCC developed administrative and implementation capacity that has produced interesting outcomes (see next section).

In **Guyana**, the IDB encouraged and then took advantage of a presidential summit on competitiveness held in 2006 that led to the creation of the National Competitiveness Strategy Steering Committee. The committee meets quarterly and oversees ongoing strategy formulation, adherence to the goals of the National Competitiveness Strategy, and implementation of policies and programs. The Bank provided technical assistance in drafting the committee's internal procedures, commissioning technical studies, and mediating between public–private councils during the first three years of its operations. A National Competitiveness Summit was convened in 2011. Results of an evaluation of progress made in implementing the National Competitiveness Strategy were reported. This led the Bank to conclude in the third (and final) tranche release report, "As a result of this process, a public–private forum for policy dialogue for competitiveness has been validated and gained sustainability."¹³

Peru saw the creation of an NCC in 2002 under the President of the Council of Ministers. The IDB competitiveness programs supported the NCC and its technical secretariat from 2003 onward, starting with the first three-tranche PBL that ran from 2003 to 2007, followed by a sequence of three programmatic PBLs disbursed in single tranches. In 2009, the NCC was

¹² For a discussion of Colombia's regional experience with competitiveness councils, see Restrepo and Mitchell (2016).

¹³ GY-L1006 Third Tranche Release, November 29, 2012, paragraph 3.9, p.5.

reconstituted and the Ministry of Economics and Finance assumed institutional responsibility for the council. The Program to Enhance Productivity and Competitiveness operation supported the consolidation of this new institutional framework, the stakeholders' agreement on a reform agenda, and an assessment of progress achieved. Since its reconstitution, the NCC has been much more proactive in carrying out policy dialogue and in following up on implementation of specific initiatives, as discussed in the next section. In Peru, long-term commitment to competitiveness reforms has allowed the Bank to witness sustainable and accumulative results of micro-economic reforms that reflect considerable private–public consensus over a period of a decade and a half. In addition, the most recent operations have benefited from its formulation and follow up of an increasingly well-articulated reform agenda put forward by the NCC, facilitating the design and ultimately the relevance of Bank operations.

Jamaica has a two-tiered structure to address broad social issues at the highest level and then, within this general framework, a more specifically focused forum to resolve competitiveness issues. After numerous earlier attempts to launch and sustain a public–private forum to address the many problems facing Jamaican society, ranging from chronic crime to stubbornly low growth rates, the Partnership for Jamaica finally coalesced in August 2013 as a high-level forum with representation from the government, private business, trade union, civil society, and academic sectors. Within this context, the NCC, led by the Jamaica Investment Promotion Agency has undertaken the coordination and monitoring of a number of initiatives, as noted below.

Uruguay's PBL supported the reactivation of a long dormant National Economic Council and an associated Private Sector Development and Investment Support Unit (Unidad de Apoyo al Desarrollo y la Inversión en el Sector Privado) only to see the council relapse into low visibility and influence, while the support unit managed to survive and continue to play an active role, as discussed below. A second PBL called for the formal establishment of the council (approval of legal and institutional framework)¹⁴; however, it has never been approved and the reforms are pending.

Initiatives undertaken by NCCs since the IDB programs concluded

In those countries where competitiveness councils have prospered, they have actively pursued reform agendas subsequent to the final Bank PBL involvement. In **Jamaica**, for example, in December 2013, Cabinet expanded the NCC mandate to include facilitating business environment reforms, thereby allowing it to address specific firm-level issues and requiring ministries and related government entities to take the required government actions. In February 2014, the NCC sponsored a Business Environment Reform Agenda Roundtable, which listed as NCC accomplishments virtually all the initiatives sponsored by Jamaica's IDB-supported Competitiveness Enhancement Program (CEP).¹⁵ The logical follow-on reforms make up the NCC agenda for the years beyond 2014. This not only shows that the NCC is dynamic and

¹⁴ UR-L1007 Loan Proposal, paragraph 2.5(a), pp.17–8.

¹⁵ The three single-tranche PBLs that funded Jamaica's CEPs were disbursed in 2008, 2010, and 2014.

proactive, but also reflects the buy-in of the premier Jamaican institution to several Bank-led reforms that initially had been received with lukewarm enthusiasm.

Colombia's National System of Competitiveness and Innovation (Sistema Nacional de Competitividad e Inovacion, SNCel) is the framework for all competitiveness enhancement and promotion activities. An active National Commission for Competitiveness and Innovation (Comision Nacional de Competitividad e Inovacion, CNCel) reports directly to the President, who is its chairman. There are 12 central government departments, two regional/local government federations, and nine private sector/civil society representatives on the CNCel. The Directorate of Productivity and Competitiveness (Dirección de Productividad y Competitividad) within the Ministry of Commerce, Industry, and Tourism (Ministerio de Comercio Industria y Turismo) is responsible for all the expected secretariat functions of the CNCel. Mixed (public-private) technical committees (Comités Técnicos Mixtos) support the CNCel by providing an institutional framework to address bottlenecks or specific problems that impede doing business and require coordination between various government and private sector agencies. Several regional competitiveness commissions are also active in their respective jurisdictions.

Guyana's NCC holds regular meetings. It encompasses 10 working groups, each focused on a major sector. Achievements under the National Competitiveness Strategy include approval of a Competition and Consumer Protection Policy and the establishment of a Competition Commission and appointment of commissioners. The commission has been adjudicating on matters relating to competition policy. The NCC has also been instrumental in taxation policy and financial reform, playing an important role in the government's introduction of a value added tax, and laying the groundwork for the establishment of a credit bureau to increase the transparency of credit markets and reduce risks to lenders.

In 2009, **Peru's** Ministry of Finance assumed primary institutional responsibility for the NCC, with the Minister of Finance as chairman. The NCC concluded the Competitiveness Agenda 2012–13, which prioritized 60 targets in seven strategic areas. The agenda was the product of intensive consultations with the private sector, which also participated in evaluating the results of the agenda in 2014 that led to a new agenda building on the first one. Among specific results from this agenda is a pilot program in two regions providing web-based information on opening, operating, and closing a business; an electronic business registry service in 11 regions; and a reduction in the time required to form a business to 2.7 days, with a target of 24 hours. At the local level, 30 municipal governments set up online processing of operating license applications. The time to obtain the licenses was reduced substantially and unnecessary building inspection regulations were eliminated. A particularly remarkable indication of sustainability of reforms is the fact that the original agenda was followed by a second that counted on extensive engagement from both private and public stakeholders, built on progress achieved by the first, and defined new goals for 2014–18.

In addition, the NCC formally adopted the target of doubling the use of moveable property guarantees and supported the development of a draft law to fully enshrine the concept of a notice registry, as distinct from legal registry, of pledged assets. Even without the approval of this law, use of these guarantees surpassed the target and increased by 80 percent between 2011 and 2013 primarily due to increased automobile purchases on credit. The scrutiny of and

widespread attention to the actions of the NCC indicates that there is a lasting, and generally positive, impact on constructive PPD about competitiveness issues.

It can be argued that the main and most lasting impact of the PBL series in Peru is not business environment reforms, but reform and creation of institutions and policies aimed at improving productivity and innovation. Highlights include:

1. Creation of the National Institute of Quality (Instituto Nacional de la Calidad) in 2014.
2. Completion of the OECD Review of Innovation Policy in 2011, which paved the way for ample public discussion and development of an agenda in that sector.
3. Strengthening of the institutional framework for policymaking in science, technology, and innovation.¹⁶

For the most part, **Uruguay's** National Economic Council failed to take hold and become a dynamic force for change in competitiveness policy. However, the Private Sector Development and Investment Support Unit (Unidad de Apoyo al Desarrollo y la Inversión en el Sector Privado, UNASEP) has evolved and assumed some of the same functions. Established in 2008 within the Ministry of Economics and Finance,¹⁷ the support unit's mission is to "advise, propose, implement, and facilitate coordination of policies and actions that improve the business climate and support private sector development and productive investment."¹⁸ In practice, UNASEP has concentrated primarily on facilitating specific investment activities, especially for small and medium-sized industrial enterprises. The unit prepares detailed reports on new investment projects in each economic subsector and business strata.

While UNASEP has been instrumental in promoting numerous projects and has an ample pipeline of additional investment activities (UNASEP and MEF, 2014), it is not a forum for the larger issues of policy and institutional reform. This vacuum was filled in part by an August 2013 report prepared by a consortium of private sector chambers of commerce and industry called "Contributions to an Agenda to Improve Uruguay's Competitiveness and Development, 2013" While this report provides a useful diagnostic of the larger issues facing Uruguay, hopefully it is serving to build consensus for change and will lead to a more proactive high-level public-private forum with real capacity to engender change.

The **Dominican Republic** shows a similar evolution. The NCC, which is fully functional, has evolved toward an agency that implements private sector development public policies; however, it could benefit from operating as a forum for regular consultation and public-private consensus building. The NCC became the executing agency for an IDB investment loan supporting cluster development and has managed international cooperation funds from a variety of donors, such as the European Union and the United States Agency for International Development (USAID). The NCC has also been instrumental in approval of the law that created the Dominican Cruise Council

¹⁶ Details of these and other institutional reforms can be found in the project completion report for the program series.

¹⁷ In 2005, the Multilateral Investment Fund provided resources to establish UNASEP.

¹⁸ For more information, see Uruguay's Ministry of Economy and Finance website at <https://www.mef.gub.uy/>.

(Consejo Dominicano de Cruceros), a law on perishable agricultural products, a law to provide incentives for renewable energy, and a law to strengthen the competitiveness of the free trade zones.

Assessment of how NCCs fomented initiatives to improve the business climate.

The impact of the NCCs depends directly on their ability to promote sustainable reforms, influence the business climate, and enable long-lasting change. In most cases, the leadership the government provides the NCC is one of the most important factors in empowering the other actors, but active participation and support from other actors is also important. In the cases studied in this paper, the institutions supported have evolved and changed over time. They have sustained their objectives and their capacity to bring other actors into the policymaking process. In most cases, the institutions have remained and have influenced the policy agenda. In some cases, particularly of all the cases included in our sample Jamaica, Peru, and Colombia, the NCCs have been instrumental in moving controversial reforms forward.

A ready-made formula for the best institutional framework does not appear to exist. Different approaches have had interesting results considering the circumstances in each country. However, buy-in from the relevant stakeholders and leadership from the public and private sectors are critical to the effectiveness of promoting reforms.

Review of the cases suggests that the pace at which country stakeholders (private businessmen and key government officials) come to realize the relevance of institutionalized PPD and become active supporters of their NCC may be influenced by the conditionality of Bank-sponsored PBLs. It often takes longer than the typical funding cycle of a sequence of two or three PBLs. Thus it may appear at the end of this PBL cycle that, while the letter of the program conditionality regarding formation of an NCC may have been met, it would appear that the spirit of the conditionality has not been fully embraced by the stakeholders. However, as shown in a number of sample cases, subsequent initiatives of the government and/or private sector have strengthened and increased the relevance of their NCCs. This pattern is certainly seen in Jamaica, Colombia, Guyana, and Peru. In Bolivia and Uruguay the conclusion also holds; however, a new government in Bolivia withdrew support for a promising nascent NCC and in Uruguay did not provide the leadership to establish the NCC as a preeminent forum for consensus building on larger policy issues involving legal and institutional reform. In the Dominican Republic and Uruguay, though the efforts to institutionalize PPD were not necessarily successful in their own terms, a gap in the policy implementation capabilities of the public sector was filled—a by-product of no small significance.

One seeming failing in early attempts at policymaking of several of the NCCs has been the tendency to develop a laundry list of sometimes fairly minor reforms with little attempt to prioritize in terms of importance or sequencing. However, the publicity given to this list of proposed actions draws the attention of stakeholders, who are then more likely to follow the progress made in achieving the goals. If the claims of progress made are inflated, commentary is provoked, which, even if negative, can help to build further consensus on achieving overall goals. In some cases, such as the Competitiveness Agendas developed by Peru's NCC, putting together and publicizing lists of reform agendas has been thoughtful and built on extensive

consultations with stakeholders. In turn, the agendas have become key accountability mechanisms for the government and the private sector to measure progress toward reforms.

Even when the NCCs are not particularly robust, the private sector may fill in the vacuum, such as in the case of the early stages of development in Jamaica, where the Private Sector Organization of Jamaica took several initiatives to promote dialogue on competitiveness issues. In Colombia, the Private Council for Competitiveness remains a strong driver of policy. The recent chambers of commerce and industry consortium reports in Uruguay are still another example of the private sector taking the lead in the face of government inaction.

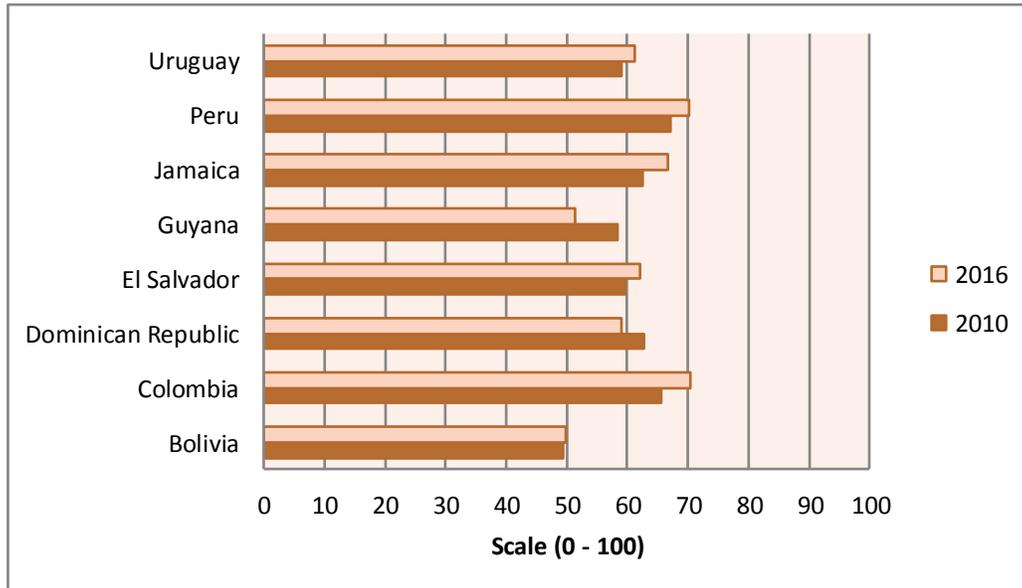
Finally, another encouraging development, although not reviewed in detail in this paper, is the increase in competitiveness council-like organizations at the subnational level. These have been particularly prominent in Colombia.

Theme 2: Reduction in Regulatory Costs

The regulatory environment in which a firm operates has an impact on its costs and thus has the potential to either restrain or promote economic activity. Clear and coherent rules that can be implemented at a reasonable cost (World Bank, 2013) are widely believed to be a major factor affecting business profitability and competitiveness. This awareness has led countries in LAC to engage in regulatory reform aimed at reducing firms' transaction costs, with the intention of creating a policy environment conducive to smart regulation (Parker and Kirkpatrick, 2012). Typical reforms include reducing unnecessary licensing requirements, streamlining business entry processes, reducing overhead costs, and improving coordination between regulatory agencies.

The World Bank's Doing Business indicators offer a holistic view of whether the rules and regulations that affect the private sector are efficient, transparent, and simple. Improvements in the Ease of Doing Business Index imply decreases in regulatory costs for small and medium-sized enterprises (SMEs) along one or more of the dimensions captured by the index. Reforms in the sample countries took place across the board (e.g., starting a business, trading across borders, and property registration).

Figure 1: Distance to the Frontier



Source: The World Bank’s *Ease of Doing Business* reports.

The annual World Bank *Doing Business* report provides an aggregate ranking on the ease of doing business based on indicators that measure and benchmark regulations that impact domestic businesses throughout their life cycle. This is a common indicator that is often referenced in designing PBLs because of the ease with which it allows countries to benchmark their regulatory and institutional performance against global competitors. For each of the indicators in the *Doing Business* report, the distance-to-the-frontier score measures how far a given economy is from the best performing economy in the *Doing Business* sample. In Figure 1, the scores for individual indicators are combined to produce an average score for each country. Figure 1 shows how the countries in the sample progressed in reaching that frontier between 2010 and 2016. If viewed as a race, Colombia is leading, followed by Peru.

The various initiatives undertaken by the sampled IDB programs

Seven of the eight PBLs (**El Salvador’s** operation being the exception) supported a diverse and broad range of initiatives to reduce some aspect of bureaucracy-related transaction costs (red tape) and to improve process efficiency in public agencies that are usually in contact with firms. The series of PBLs in **Colombia** had a distinct and broad range of objectives, including publication of an *Anti-formalities Act* (Ley de Antitrámities), as well as specific measures to streamline and simplify procedures to close and liquidate businesses, register properties, and co-finance business development programs.

The PBL series in **Peru** focused on reforming firm registration at the national level and then business licenses and construction permits at the municipal level. The program in **Uruguay** aimed to implement a single window to start a business.

The **Dominican Republic**'s focus was on modifying and upgrading the Comprehensive System for the Formation of Companies (Sistema de Atención Integral para la Formación de Empresas, SAIFE). This was to be a precursor to a website that would allow businesses to be created online anywhere in the country. In **Guyana**, measures to reduce transaction costs were concentrated on improvements to the Deeds Registry and on achieving a fully operational commercial court. **Jamaica** had a similar emphasis, expediting land titles, registration, and tax preparation and payment.

Continuity in regulatory improvements

In all but one of the seven countries surveyed there has been clear indication of a steady commitment to simplifying or eliminating superfluous bureaucratic procedures beyond the original IDB support.

In some of the countries examined, the programs have been modified or expanded and now play an important role in limiting the transaction costs associated with bureaucratic requirements. A few of the initiatives have withered, such as the Information System for the Surveillance of State Procurement (Sistema de Información para la Vigilancia de la Contratación Estatal, SICE) in **Colombia**, which was phased out when it was found to be inconsistent with the *Anti-formalities Act*.¹⁹ But a successor program, the Electronic System for Government Procurement Online Contracts (Sistema Electrónico para la Contratación Pública Contratos en línea, SECOP), and one for international trade, the Single Window for Foreign Trade (Ventanilla Única de Comercio Exterior, VUCE), have prospered.

Other programs that have done well are the SAIFE in the **Dominican Republic** and the Deeds Registry in Guyana. The Government of the Dominican Republic carried out a second phase (2012–15) of SAIFE upgrades to assure that the system is fully compliant with the *Companies Law* (MEPD, n.d.).

In **Guyana**, improvements to the Deeds Registry contributed to a 50 percent decline in the time to start a business (to 20 days from 41) between 2007 and 2012. The government has shown a commitment to continue implementing a long-term agenda to modernize the registry, including digitizing all transactions (Wilburg, 2013). Guyana is also a good example of donor coordination, as the Millennium Challenge Corporation sponsored a Threshold Program that took advantage of the improved Deeds Registry to convert over 5,000 company records and 90,000 business registration records into user-friendly electronic records (Horning, 2010).

In **Jamaica**, the Land Administration and Management Program (LAMP) was started as a pilot program, with early assistance from the IDB. Jamaica's CEP extended LAMP to the entire country, resulting in substantial declines in the time to process land titles and registration applications.²⁰ With regard to business formation, Jamaica amended the *Companies Act* to

¹⁹ This program received substantial IDB support in the early 2000s. See Cantillo, 2012.

²⁰ Estimates made by the Ministry of Agriculture for an average plot of land indicate a time reduction to 2 weeks from 6 weeks at two-thirds of the cost.

enable implementation of the Business Registration Form, substantially reducing the time and costs of starting a business. Meanwhile the legal and institutional reforms needed to streamline tax payments in Jamaica have proceeded apace with the broad introduction of e-payment systems. Jamaica is an example of the complementarity of effort of two IDB programs sponsored by separate divisions within the IDB. Jamaica's CEP operations focused on reducing transaction costs associated with wages and related social benefit taxes. The operations of the Fiscal Consolidation Program (JA-L1032 and JA-L1034) and subsequently the Fiscal Structural Programme for Economic Growth significantly expanded this mandate to include reform of corporate and personal income tax regimes.

Peru's first PBL supported the System of Information and Monitoring of Administrative Procedures (Sistema de Información y Monitoreo de Trámites Administrativos, SIMTA), resulting in the streamlining of 2,550 administrative procedures by 2007. However, bureaucratic red tape at the municipal level was still onerous, so the second and third PBLs included support for municipal modernization to improve procedures relating to business formalities. More recently, the Ministry of Economics and Finance sponsored a Municipal Modernization Program (Programa de Modernización Municipal) (2010–13) that focused on municipal procedures, establishing numerous specific targets and providing support to achieve them. The goals are set and experts are sent to the field to collect data from the municipalities so that progress on the reforms can be monitored (MEF, 2012).

In **Uruguay**, the single window to create business was launched in December 2013 with technical assistance from the IDB. At the same time, a presidential decree was issued requiring all government agencies to simplify or, wherever possible, eliminate cumbersome procedures.²¹

Assessment of ongoing benefits from these initiatives.

The **Dominican Republic's** SAIFE was evaluated in 2011. The assessment found the number of administrative steps required to register a business had fallen to 7 from 10 and the time to register a business to 19 days from 75. Further, the tax authorities had created a virtual facility to compute and pay taxes online (Castillo Saviñón, 2011).

In **Jamaica**, reforms to the LAMP led to an increase in the number of titles registered from less than 10 to around 1,000 each year (IDB, 2014). While the pace picked up and costs declined (Hill, 2014), there are pending issues to address in reducing the regulatory burden to increase the impact and the number of titles registered.²²

The cost and complexity of complying with the various taxes have been reduced substantially. Large firms (with annual sales greater than J\$500 million) are now expected to e-file all returns. In addition, all employers with more than 20 employees are now regularly expected to file their monthly statutory payroll deductions electronically (Jamaica Observer, 2014b).

²¹ Presidential Decree of the Eastern Republic of Uruguay CM/692. June 11, 2013.

²² The numerous impediments imposed by the current land titling and registration system in Jamaica and suggestions for alternative, more streamlined approaches, are discussed in a report by Holden and Howell (2012).

In most cases, evidence indicates that initiatives to reduce red tape have remained after IDB PBLs have been finalized. Initiatives may have been modified, but they seem to have gained sufficient acceptance and support from current and prospective beneficiaries that governments cannot turn back the clock and reverse them. A good example is single windows for different kinds of government services, which seem to rapidly gain supporters and yield visible results in countries where they have been applied. On balance, many of the reforms aimed at reducing regulation-related business costs were effective and now show concrete results. Colombia's government electronic contracting and acquisition program illustrates the robustness and acceptance of the underlying idea in the face of legal challenges to its original structure. Another encouraging development is the diffusion of these initiatives to reduce red tape at the provincial and municipal levels, as is the case in Peru.

One cloud on the horizon is the limited enthusiasm of governments, in some cases, to advance further by making the more fundamental legal and institutional reforms that would obviate some key, if not all, impediments to doing business. It is one thing to improve the efficiency of an existing procedure; it is another to eliminate the requirement for the procedure altogether (Holden and Howell, 2012).

Theme 3: Transparency and Competition

In economics, competition theory is predicated on the premise that competition can lead to lower prices, enhance product variety, promote innovation, and lower costs. On this basis, competition and anti-monopoly laws should increase market efficiency to the benefit of consumers (Owen, 2005). Since 1990, several Latin American countries have adopted competition and antitrust policies as part of their economic reform agenda, aiming to promote more efficient markets. However, the evolution and implementation of these policies has been uneven and has taken a long time. IDB lending programs have become involved in supporting, perfecting, and institutionalizing competition policies in several countries in the region (De Leon, 2008).

The various initiatives undertaken by the sampled IDB programs.

Four of the eight programs in the sample of PBLs reviewed for this paper included initiatives to improve the transparency of and competition in the domestic market. The PBLs in Bolivia, Colombia, Jamaica, and Peru did not contain an explicit component to address transparency and competition, although other aspects of their programs contributed in an indirect way to this goal. The PBLs in the Dominican Republic, El Salvador, Guyana, and Uruguay included specific legal and institutional measures to improve transparency and competition in their markets. Typically they established or improved on a legal framework needed for viable regulation of anti-competitive behavior.

The program in the **Dominican Republic** called for promulgation of a *Competition Protection Act* and related regulations, along with the appointment of a Competition Commission with an executive director and adequate funding for the implementing agency. Similarly, in **El Salvador**, the competitiveness program called for approval of a Competition Law (Ley Sobre Competencia) and creation of a new General Superintendency of Competition

(Superintendencia General de Competencia). By 2009, the law had been approved, providing the Superintendency legal authority and an organic structure. Among other activities, it reviewed the regulatory frameworks for the aviation, ports, and energy sectors, carried out studies of collusive behavior and market concentration.²³ In **Guyana**, the PBL portion of the program did not include any conditionality related to transparency and competition in the domestic market, but the investment component supported creation of the Consumer Protection and Competition Commission, with particular support for legal consultancy services to review the consistency of the Competition and Fair Trade bills with existing commercial legislation as well as procurement of office equipment and staff training. Finally, the PBL in **Uruguay** included presentation to Congress of a draft law on promoting and defending competition (Proyecto de Ley de Promoción y Defensa de la Competencia) with a subsequent stipulation that an agency to implement the law's provisions be created and provided with sufficient human and financial resources.

Governmental follow up of competition policy reforms

Transparency and pro-competition initiatives embedded in Bank PBLs have done well. The results are encouraging in those countries where the required legislation was approved and the authorities fully empowered the implementing agencies. In **El Salvador**, the Superintendencia de Competencia (SC) has actively prosecuted unfair market practices and imposed fines totaling US\$859 million in 2013 alone. Two of the fines were for anti-competitive practices, four for lack of collaboration with the authorities, and one for actions leading to economic concentration without prior authorization (SC, 2013a). The SC has also sponsored studies in numerous areas, including retail distribution, maritime port services, agroindustry (corn and bean), liquid fuels, and telecommunications. One of the most high-profile studies dealt with the lack of competition among passenger air carriers. In 2013, the SC Board of Directors approved a resolution to implement the study's recommendations, which among others included promoting new market entrants and creating a common air travel market in Central America (SC, 2013b).

In **Guyana**, the Competition and Consumer Affairs Commission (CCAC) has focused primarily on protecting consumer rights, most notably championing the right of consumers to return defective goods for a refund from the seller. The CCAC sponsored a massive publicity and education campaign directed at retail businesses to make sure they understand their obligations and at customers to make sure they understand what they must do to take advantage of the law (Kaieteur News, 2013). As a result of its proactive stance, the CCAC received 96 new complaints in 2013, most of which have been addressed. Businesses are informed that they face fines of GY\$20,000 to GY\$1million (roughly US\$100 to US\$5,000), and in most cases they move swiftly to correct their deficiencies (Sukhnandan, 2014). To date, the CCAC appears to have been less active in other areas of competition promotion, such as anti-trust.

²³ ES-0151 Project Completion Report (prepared late 2008/early 2009) p.11.

In **Uruguay**, the Commission to Promote and Defend Competition (Comisión de Promoción y Defensa de la Competencia, CPDC) has been perhaps the most active and far-reaching of all the competition commissions surveyed. The CPDC has systematically undertaken studies of anti-competitive market behavior and then acted on them to impose sanctions on the offending enterprises or business groups. The CPDC has actively promoted competition and fair practices in the beer market. Based on an investigation launched in 2008 (El Observador, 2012), the CPDC found that a domestic beer company had engaged in anti-competitive practices by abusing its dominant market position and restricting retail distribution of the competing imported beer.²⁴ In March 2013, the CPDC imposed the maximum fine permitted of approximately US\$1.36 million (El Observador, 2013). In January 2014, cattle farmers complained of collusion among the meat packers and were considering lodging a formal complaint with the CPDC, which has publically stated that it is prepared to take action if the complaint is filed (Duranzno Digital, 2014). An update from 2016 shows that the sentiment continues, but no formal complaint has been put in yet. In 2016, a study was done hinting that prices were not abnormal.²⁵ One final example of the CPDC's pro-active stance is an investigation initiated in March 2014 of the market for imported bath products and whether importers were engaging in an abuse of dominant market position to raise prices by as much as eleven times the retail price of the same item in neighboring Argentina and Brazil.²⁶

The one country in the sample where the Competition Commission seems to have been less unequivocally effective is the **Dominican Republic**. Since 2012, the legal and institutional framework have been established formally; the implementing agency, Pro-Competencia, has been constituted officially; and the members of its board of directors have been appointed. However, the commission was hamstrung by the lack of an executive director who in turn must approve the operating regulations before the agency could begin to carry out its regulatory functions (Merielin Almonte Estudio Legal, 2013). As a result, Pro-Competencia was unable to process complaints or otherwise take measures to reduce barriers to competition (Diario Libre, 2014a). In early January 2017, an executive director was finally appointed (Pro-Competencia, 2017). The *General Law for the Defense of Competition* (Ley General de Defensa de la Competencia), approved in 2008, appears to still not be effective. As with any unused piece of legislation, certain sections can become obsolete. It is hoped that Pro-Competencia will now be able to actively enforce the law and begin to identify whether sections need to be amended, deleted, or added.

²⁴ CPDC Resolution No. 51/013: Asunto 2070/08: Osanil S.S. con Fabricas Nacionales de Cerveza S.A. Last modified April 10, 2013. https://www.mef.gub.uy/innovaportal/file/1261/1/20130411_resolucion_013_51_osanil_fnc.pdf.

²⁵ "Carne faenada de ganado de corral "no cambia la estacionalidad de precios." Retrieved January 29, 2017, from <http://www.alejandroiundain.com/carne-faenada-de-ganado-de-corral-no-cambia-la-estacionalidad-de-precios/>.

²⁶ La Red 21. "Economía investiga formación de precios de productos importados ante posibles ilegalidades." Last modified March 28, 2014. <http://www.lr21.com.uy/economia/1166039-economia-investiga-sobrevaluacion-precios-productos-importados-uruguay>

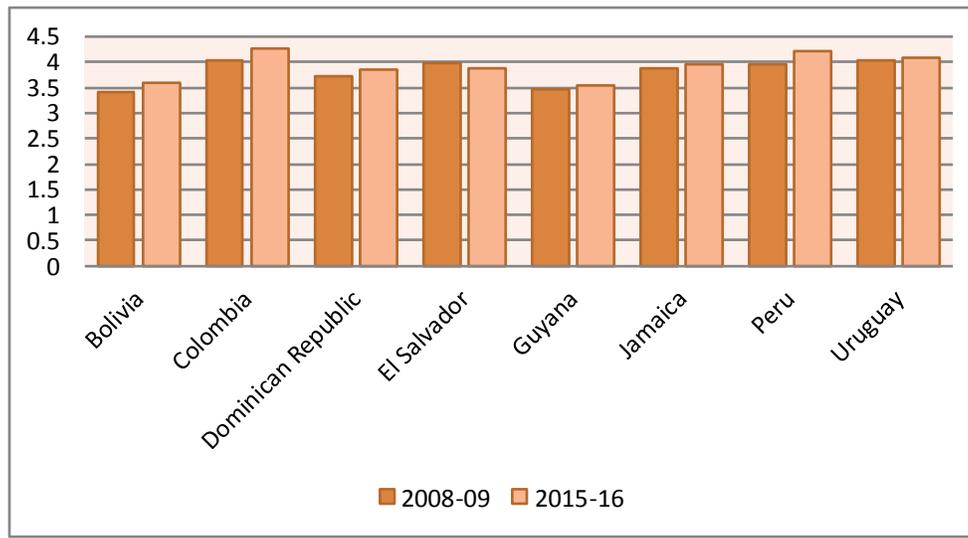
Assessment of ongoing benefits from these initiatives

In the three countries where IDB-sponsored competition policy initiatives have been fully implemented, the lasting public benefits are visible. There is increasing public awareness of the importance of this form of market oversight and the commissions have responded to specific infractions vigorously. The commissions in **El Salvador** and **Uruguay** have been particularly active in carrying out the necessary studies and then implementing their recommendations to restructure markets and in imposing fines in cases of clear anti-competitive behavior. **Guyana** demonstrates the importance and effectiveness of public awareness campaigns directly to consumers to inform them of their rights and to business establishments to inform them of their responsibilities to consumers. Even in the **Dominican Republic**, where the law is not yet fully effective, public awareness of its importance and potential to level the playing field is strong and the authorities are very cognizant of the need to appoint an official executive director.

Theme 4: Technological Development and Innovation

Recent literature has identified how innovation is a determining factor in economic growth through its positive effects on productivity. Further, it shows how business innovation is affected by the institutional, legal, and regulatory environment, including, for example, property rights, taxation rules, and the macroeconomic framework. Thus, getting firms interested in investing in innovation has traditionally been approached as a matter of establishing mechanisms that compensate for well-known market failures in financing innovation activities (Benavente and Navarro, 2014; Crespi, Fernández-Arias, and Stein, 2014). In addition, an implicit requirement of a firm's engagement with innovation has been the need to ensure that they operate in a reasonable business climate that frees them from excessive government regulation and provides an adequate legal and competitive environment in terms of trade and investment. From this perspective, firms do not exist in a vacuum but in the midst of a business environment that constitutes a critical part of the way they develop, how competitive and productive they become, and whether they are able to invest in innovation. Just like several indexes benchmarking countries in terms of competitiveness, the Global Innovation Index ranks countries in terms of their innovation capabilities and products, as seen in Figure 2.

Figure 2: Global Competitiveness Index



Source: World Economic Forum.

The Global Innovation Index is a composite of 81 indicators that measure various facets of innovation. Between 2007 and 2010, the maximum score possible was 5. Changes in methodology led to a maximum score of 100 in 2011 and beyond, noting that the highest score for 2014 was 64.8 (Switzerland). Interestingly, this index shows a slightly different picture of innovation than the World Economic Forum's Innovation Subindex. Since 2011, all countries analyzed here, except for El Salvador and Guyana, improved their innovation values, even if only marginally.

The majority of the programs assessed in this paper address various elements of creating, implementing, and sustaining national innovation systems and of enhancing the regulatory framework for intellectual property. A national system can be defined as nation-specific institutions and policies that affect the generation, production, absorption, diffusion, and use of innovation-enhancing know-how (Fromhold-Eisebeth, 2007). Important to the national innovation system is the interactive learning among actors (e.g., researchers, firms, users, and government) and the inputs (e.g., investment in knowledge and human capital such as research, training, production facilities, and marketing) (Navarro and Zuniga, 2011). There is also the issue of the role of a robust intellectual property rights regime in strengthening innovation activity (Stiglitz, 2014).

Innovation surveys indicate that the main obstacles to innovation reported by firms in LAC are (Navarro and Zuniga, 2011):

- Constraints on securing financing for innovation (high costs of innovation and risks).
- The inability of firms to wait for long periods of time (perceived or real) before investments can be recovered or a positive return realized (rates of return).
- The small size of the market.
- The shortage of qualified personnel.

The IDB's CTI policies seek to address these obstacles. Despite technology and innovation policy reform that has been implemented, the following patterns persist in LAC:

“...a lack of continuity over time; partial attention to articulation of the national innovation system, resulting in an underdeveloped culture of networking and a lack of trust; coordination failures (the inability of private and public agents to combine innovation activities to generate positive and mutual externalities and to reinforce private and social returns); and overemphasis on science, as opposed to a balance between science, technology, and innovation.” (Navarro and Zuniga, 2011)

Such analyses point to the fact that creating a regulatory environment favorable to innovation goes well beyond the areas of policy that are standard in the notion of business climate. Innovation is not captured in conventional indicators such as the Doing Business framework. Recent contributions to the literature have also found elements to support the idea that improving the business climate in the conventional sense—through policy improvements along the six themes (public–private sector dialogue, reduction in regulatory costs, transparency and competition, technological development and innovation, value chains and clusters, export promotion, and access to finance) highlighted in this paper so far—might be either

1. helping many businesses, but not those that are most productive, those that can grow faster, and those that make the difference by improving productivity the most (Acs, Stenholm, and Wuebker, 2010); or
2. are not necessarily highly correlated with growth performance, suggesting productivity gains should be sought somewhere else (Hallward-Driemeier and Pritchett, 2011).

All of which points to the need to think about reforms that would produce more effective environments for productivity enhancement through innovation.

The various initiatives undertaken by the sampled IDB programs

Five of the eight programs surveyed specifically addressed technological development and innovation policies. The most common requirement among the PBLs was the creation and/or strengthening of innovation councils coupled with the development of national strategies to develop innovation and technology. To stimulate innovation, intensive interaction is desirable between businesses, academia, research institutes, finance bodies, industry associations, and government agencies, among others (Nuur, Gustavsson, and Laestadius, 2009). Innovation councils allow for the interaction among these entities to occur through a PPD that guides the design of national innovation policy.

The **Dominican Republic's** PBLs supported the creation of a Council on Innovation and Technological Development and the National Strategy for Science, Technology, and Innovation (Plan Estratégico de Ciencia, Tecnología e Innovación, PECYT+I). The council used a broad process of consultation and study that led to the strategy, which was designed to be carried out between 2008 and 2018. The process, led by the Secretariat of Higher Education, Science, and Technology, counted on input and participation from over 50 institutions (associations,

universities, business leaders, government, and civil society).²⁷ The plan was completed, published, and widely disseminated.

A commission comprising public and private sector representatives was established for each component of the plan. As an outcome of the process, the Secretariat was given ministerial status, and a National Innovation Fund (Fondo Nacional de Innovación y Desarrollo Científico y Tecnológico, FONDOCYT) was created. For the first time, the newly created ministry could develop a competitive system of matching grants to fund scientific research and business innovation.

El Salvador's PBL supported the creation of the National Council for Science and Technology (Consejo Nacional de Ciencia y Tecnología, CONACYT) and the drafting of a National Strategy for Innovation and Technological Development. The strategy established a general framework to increase the capacity for and coordination of scientific and technological research, with the objective of contributing to sustainable development and social welfare by generating and diffusing knowledge and innovation. This would help to improve competitiveness and achieve more rational national production patterns, thereby assisting in reaching levels of sustained growth.²⁸

Uruguay's PBL supported passage of a law that established the National Agency for Research and Innovation (Agencia Nacional de Investigación e Innovación, ANII). The agency is focused on three main areas: training, research, and innovation.

Peru's PBL mainly focused on institutional development and creating a basis from which to develop funding mechanisms to promote science, technology, and innovation as a way to increase the efficacy of policy. Two public programs were established: the Bank's Science and Technology Program, an investment loan, in 2007, and the Research and Development Fund for Competitiveness (Fondo de Investigación y Desarrollo para la Competitividad, FIDECOM). Both are managed by the Fund for Innovation, Science, and Technology (Fondo para la Innovación, Ciencia y Tecnología, FINCyT) and aim to competitively fund scientific research and business innovation.

On the institutional development side, major successful reforms supported by the PBLs—in combination with investment loans—include strengthening The National Council for Science, Technology, and Innovation (Consejo Nacional de Ciencia, Tecnología, e Innovación, CONCYTEC), which is now focused on supporting scientific activity and advancing human capital.

²⁷ The plan addresses (i) strengthening the public financial and institutional framework of the national system for science, technology, and innovation; (ii) carrying out research and development to improve the quality and positioning of products, goods, and services; (iii) creating human capital in science and technology for knowledge generation and innovation; and (iv) disseminating and socially appropriating science, technology, and innovation.

²⁸ Government of El Salvador. National Policy on Innovation, Science, and Technology (Política Nacional de Innovación, Ciencia, y Tecnología). <http://unpan1.un.org/intradoc/groups/public/documents/icap/unpan029744.pdf>.

The projects in the sample touched on technology-related reforms in other ways as well. The most common spread use of or access to information and communications technology. We did not include these components in this analysis.²⁹

Government follow-up of innovation policy reforms

In the **Dominican Republic**, the Council on Innovation and Technological Development has been convened and some degree of coordination on science and innovation policy has taken place in its meetings. However, meetings have been few and far between, and the coordination and policymaking framework for competitiveness and innovation remains fluid. The National Strategy for Science, Technology, and Innovation has become a reference for policy debate on science and innovation policy, but its implementation remains partial at best on most fronts. The Dominican Republic's FONDOCYT continues to be the bright spot in the sector. The fund, which is coordinated by the Ministry of Higher Education, has been active since 2005. From its inception until 2011, 137 research projects by 25 institutions, including academic institutions and firms, were approved. To date, the fund has awarded resources totaling RD\$608 million (roughly US\$13 million). Although it remains a small scale operation, the learning process regarding the operation of a policy instrument that awards funding on a competitive basis in the area of science and innovation has been extremely valuable for the government.

El Salvador's CONACYT continues to operate as a decentralized institution reporting directly to the Vice Ministry of Science and Technology of the Ministry of Education. This council has proactively launched scholarships for graduate programs in engineering and sciences and initiated efforts to link productive development policies with innovation.

Uruguay's ANII has become the government's leading innovation policy agency and in many ways a model agency that represents good practice for other governments in the region.³⁰ It operates more than 30 innovation policy instruments, including funds for research and innovation projects³¹ and scholarships for national and international graduate programs. The agency also gathers information and evaluates the impact of its programs. It has also developed the National Research System, a program of national researchers categorized on the basis of a strict evaluation system, and the Timbo portal, which allows free access to educational and scientific institutions in Uruguay and all types of scientific publications worldwide.³²

²⁹ For example, **Colombia's** PBL focused on promoting measures for SMEs and government to adopt information and communication technologies through its procurement and contracting system. The Prymeros project, spearheaded by the IDB, aimed to contribute to improved competitiveness of Colombian SMEs through the massification of internet technologies as a tool for business management and development of e-commerce, creating an environment of trust in electronic transactions.

³⁰ After its inception in the context of the PBL operation referred to in this paper, ANII became the executing agency for two IDB investment loans that have been successfully implemented. This combination of PBL-supported reforms and investment operations that facilitate new institutions to develop and grow faster has proven to have favorable effects on development, although it is not very common. Another successful case is the support for innovation and competitiveness policy in Peru (see next paragraph for additional information).

³¹ The listing of projects is available at <http://www.anii.org.uy/proyectos/>.

³² <http://www.anii.org.uy/>.

Peru's FIDECOM and FINCyT have continued to very actively promote research and development and business innovation projects through competitively awarded grants. FINCyT, in particular, evolved from its original status as a project execution unit in the context of an IDB investment loan, to a full-fledged government agency called INNOVATE, which operates under the Ministry of Production and Fisheries (Peruvian Times, 2012).

Assessment of ongoing benefits from these initiatives

In at least two of the five cases examined in this section there is ample evidence that positive and long-lasting benefits arose from reforms that were originally supported by competitiveness PBLs. Uruguay's and Peru's national innovation systems are now far more developed and capable than about a decade ago, when the first PBLs were approved. The agencies and initial reforms that were created as part of the reform programs in innovation have enjoyed not only continuity, but have gained strength to the point of becoming the core of innovation policymaking in both countries. Intertemporal consistency in policies are the norm, with few drastic changes and holding under at least three electoral cycles in each country. Since PBL lending was accompanied by investment operations in both countries, detailed intermediate and final project evaluations are available. Further, impact evaluations for several of the programs undertaken by ANII and INNOVATE are also available and provide hard evidence about positive returns on investment and favorable effects on firm productivity, scientific productivity, and other key indicators. Taken together, these cases provide one of the best illustrations of how the IDB can, through PBL lending, provide an initial push that supports national reform agendas with very significant impacts, at least when it comes to innovation policy. They also indicate the potential benefits of pursuing PBL-supported and investment loan-financed operations at the same time, in the same place, and in close coordination, since in both Peru and Uruguay at least three investment lending programs were executed as the PBLs advanced.³³

The Dominican Republic provides an intermediate case: partial continuity, low impact of initial reforms. In spite of implementing the Council on Innovation and Technological Development and the Plan Estratégico Nacional de Ciencia, Tecnología e Innovación (PENCYT 2010–2014), a large public initiative, they have not become drivers of public policy in science, technology, and innovation. The set up and continuity of FONDOCYT, as well as the elevation of the former Secretariat for Higher Education, Science, and Technology to the ministerial level, show institutional progress, but it remains weak in light of the insufficient focus and coordination of policy in the sector so far. A similar conclusion can be reached, to a certain extent, in the case of the effects of the operation in El Salvador.

Theme 5: Value Chains and Clusters

During the past two decades, a new approach to industrial policy in developing countries has gained ground, stimulated by the successful performance of the agglomerations of SMEs in the developed world, particularly in countries like Italy and Germany. Well-functioning clusters

³³ This simultaneous and mutually reinforcing presence of reform and investment lending creates another difficulty for rigorous evaluation of the Bank's activities, since the effects of the two types of operations need to be disentangled.

institutionalize the synergies inherent in joint procurement, production, research and development, and marketing activities of closely allied enterprises, thereby increasing the operational efficiencies of all members. This in turn improves competitiveness. The capability of clustered firms to be economically viable has the potential to contribute to the growth process in industrial districts, an issue that has attracted a great deal of interest in development studies.

The IDB has rich experience implementing cluster development projects and operations in LAC, covering several countries and subnational regions and provinces (Maffioli, et al., 2016). While many of the Bank-sponsored cluster initiatives are financed with investment loans or grants from the Multilateral Investment Fund (MIF) grants, PBLs are also used to promote the legal and institutional reforms needed to provide a more conducive environment for productivity chains to be established or strengthened in the context of new approaches to industrial or productive development policy.

The various initiatives undertaken by the sampled IDB programs

Four of the eight competitiveness PBLs sampled in this paper (Bolivia, Colombia, Peru, and Uruguay) included components designed to provide improved institutional arrangements to better coordinate the activities of firms participating in clusters.

In **Colombia**, the Bank's program was funded by two single-tranche PBLs and was designed to closely complement investment loans of the Andean Development Corporation (Corporación Andina de Fomento, CAF) that supported several individual initiatives to strengthen value chains and clusters in several economic sectors. The PBLs were also coordinated with MIF programs designed to develop a methodology of intervention and understanding of best practices that would enable regional competitiveness commissions to apply them in other regions and clusters in Colombia.³⁴ Thus the Bank's competitiveness PBL was more complementary to, rather than being directly involved in, cluster promotion and development. The one specific target embedded in the PBL conditionalities was the improvement in health indicators of the dairy and beef value chains to meet international phytosanitary standards, thus enabling these clusters to be more competitive in national and foreign markets. Specifically, the program called for certain standards to be met, particularly in the beef and milk value chains, over a five-year period starting in 2006 as established by the National Council on Economic and Social Policy (Consejo Nacional de Política Económica y Social, CONPES).³⁵ By the end of the sequence of two PBLs, the combined effect of these policy initiatives, parallel MIF programs, and non-financial Bank products were judged as having played a very positive role in

³⁴ CO-L1007/27 Project Completion Report, p.18–9.

³⁵ CO-L1027 Loan Proposal, Appendix I: Progress on the Indicative Targets for the Second Programmatic Loan Defined in the Policy Matrix of the First Programmatic Operation. The specific CONPES papers are available at: http://www.minambiente.gov.co/images/normativa/conpes/2005/Conpes_3375_2005.pdf and http://www.minambiente.gov.co/images/normativa/conpes/2005/Conpes_3376_2005.pdf.

compliance with the triggers and conditions of the programs and, more broadly, leveraging policy dialogue on related issues.³⁶

The first program in **Peru**³⁷ supported forming and strengthening clusters by establishing an interagency coordinating group to develop and carry out an action plan to promote decentralization, training in cluster promotion, and a funding mechanism to increase social capital in the clusters. This was implemented through an MIF project in which the project's board of directors was spearheaded by the Ministry of Economics and Finance but the executing agency was a private institution. However, there was no continuity after the MIF funds ended, so the subsequent PBLs in Peru included the topic again. This time, the PBLs included an institutional arrangement whereby the public sector executed the program, which included other new instruments to promote productive development, such as a supplier development program, support for technology extension, and reform of the institutional model of the Technology Innovation Centers (Centros de Innovación Tecnológicos, CITEs).³⁸ The clusters, the supplier development program, and the instruments to extend technology are all now implemented by INNOVATE. The new CITEs are being rolled out by the Technological Institute of Production (Instituto Tecnológico de la Producción) and the Ministry of Production.

The IDB has very actively promoted value chains and clusters in **Uruguay**, notably by means of investment programs such as the Program to Support Competitive Clusters (Programa de Apoyo a la Competitividad de Conglomerados, PACC) and various MIF operations. The first of a sequence of two competitiveness PBLs in Uruguay focused on the lack of coordination between the various public and private programs. It supported a government initiative to create a bureau to coordinate programs (Mesa de Coordinación de Programas) that would develop a work plan, including presenting the Bank a final report on the design of a unified registry (Registro Único) of all enterprise support programs and all businesses that benefited from one or more of these programs. By the second operation, the bureau was also supposed to present evidence that coordination of the various programs had improved, that the unified registry had been established on a pilot basis, and that an action proposal to coordinate and institutionalize these enterprise support activities had been developed. The action proposal was also to contain a transition plan to the new institutional arrangements supporting the productive sector.³⁹ The various government programs designed to support business development in general and cluster development in particular should be coordinated to ensure lasting benefits of the initiatives undertaken in the PBL program.

Government follow up to productive development policy reforms.

Since the four competitiveness programs were completed (or suspended—Uruguay), developments in cluster promotion initiatives have varied widely from one program to the next.

³⁶ CO-L1007/27 Project Completion Report, p.18–9.

³⁷ The program was a single loan disbursed in two tranches, the last of which was released in December 2006.

³⁸ PE-L1098: Program to Enhance Productivity and Competitiveness II Loan Proposal, policy matrix, pp.7-8.

³⁹ UR-L1007: Programmatic Competitiveness Loan First Operation Loan Proposal, paragraph 2.5(f), p.21.

Colombia's clusters-related initiatives, funded by two sequential PBLs, were designed to complement existing CAF- and IDB-sponsored investment programs and a series of MIF programs that directly supported cluster creation and expansion. These activities, particularly the MIF programs, provided crucial support to establish iNNpulsa,⁴⁰ a joint venture of BANCOLDEX and the Ministry of Commerce, Industry, and Tourism. Benefiting from the technical assistance provided by the MIF, iNNpulsa can now provide guidance on international best practices to clusters at the regional and municipal levels.⁴¹

The cluster-related component of the second PBL, which called for fulfillment of phytosanitary standards in the beef and dairy value chains, led to specific health safety improvements in meat and dairy processing facilities. In 2013, inspection and control of quality standards in milk processing had been intensified in several departments (Nariño, Cauca, Caquetá, and Huila) and inspectors had been retrained in analyzing food safety risks. Meat processing facility inspections had been extended to 100 percent of the slaughterhouses. And, inspections of beef products destined for export assured that international standards were being met, with measures being taken to mitigate transmission of hoof-and-mouth disease (INVIMA, 2013).

The second PBL in **Peru** partially achieved the program goals for cluster development as specified in the results matrix. The matrix called for one productive development support system to be reinforced by 2016 and for 100 firms to be beneficiaries of the new productive development instruments.⁴² These goals were included in the NCC's Competitiveness Agenda for 2012–13. The agenda's specific objectives were to strengthen development of the national productive system with increased value added and to implement a group of instruments to support productive development (CNC, 2014). As of April 2014, the NCC was able to report that designs for the institutional arrangement had been prepared and that 64 public programs and 75 subprograms had been identified for inclusion. Three instruments had been designed to provide productive development support to clusters, suppliers' development programs, technological extension services, and technical assistance platforms. Regarding the goal that 100 firms benefit from the new instruments for productive development, the NCC reported that 41 potential cluster initiatives had been identified and the methodology developed, including mapping, prioritizing, diagnostics of 187 clusters, and entrepreneurial databases for each cluster (CNC, 2014). By the time the third PBL was effective, a full-fledged public program to support clusters was operational.

In addition to its commitment to cluster development by achieving the targets contained in Peru's Program to Enhance Productivity and Competitiveness (PEPC) series of PBLs, the IDB

⁴⁰ Created to promote innovation and economic development: <http://www.innpulsacolombia.com/es/nuestra-organizacion>).

⁴¹ Communication from Colombia Country Office specialist, January 2014.

⁴² Goals for 2016: A Unit of Measure: Support System for Reinforced Productive Development and 100 firms benefiting from the new instruments of productive development (clusters), supplier development, etc., to improve their management systems. Metas para 2016: Una "Unidad de medida: Sistema de apoyo al desarrollo productivo reforzado" and 100 firmas beneficiarias de los nuevos instrumentos de desarrollo productivo (*clusters*), desarrollo de proveedores, etc. mejoran sus sistemas de gestión..." Source: Results Matrix for PE-L1098.

also supported development of value chains in agriculture with a series of three PBLs.⁴³ The third component of each operation is entitled Development of Agricultural Clusters and Value Chains. The focus is sector-specific and appears to primarily be on developing the capacity of the Ministry of Agriculture and Irrigation and its Directorate General of Agricultural Competitiveness (Dirección General de Competitividad Agraria, DGCA) to map agricultural value chains and prioritize regionally. The approach is top-down and depends heavily on the ability of the ministry to deftly lead several large government agencies⁴⁴ in the regional and cluster validation and coordination process.⁴⁵ In the documentation reviewed, there appeared to be only a tangential reference to, and little account taken, of lessons to be learned from other cluster initiatives that the Bank was sponsoring, such as those of the PEPC series of PBLs or the MIF, much less from the initiatives of other multilateral and bilateral development agencies, such as the CAF⁴⁶ and USAID⁴⁷ programs ongoing during the period. This suggests that additional effort should be made to consolidate the Bank's experience with such policies, even though recent IDB publications may have gone a long way in correcting the situation (Crespi, Fernández-Arias, and Stein, 2014).

The cluster-related initiative of **Uruguay's** PBL was designed within the context of the PACC, which was approved in 2006. As noted above, Uruguay had numerous enterprise support programs operating in various sectors and areas of the country, with little coordination between them. The first PBL in the sequence called for the creation and continued operation of a bureau to coordinate programs, which in turn would facilitate a unified registry of all enterprise support programs operating in the country. By the second PBL (which has not been prepared or approved), the bureau was to have been fully functioning and to have established the unified registry on a pilot basis. Since the second operation did not occur, there is no direct documentation regarding compliance with its conditions. However there is evidence that the spirit, if not the exact letter, of the targets for the second operation are being met. A technical assessment reports that interagency coordination has been very active, with several entities having been created or strengthened for this purpose, including the bureau for programs (Casaburi and Demaestri, 2010). Along with this bureau, the ANII, the National Development

⁴³ PE-L1066 approved July 2009, PE-L1097 approved June 2011, and PE-L1126 approved September 2013.

⁴⁴ Such as the Directorate General of Agricultural Competitiveness (Dirección General de Competitividad Agraria, DGCA), the Compensation Program for Competitiveness (Programa de Compensaciones para la Competitividad, PCC), the National Institute of Agricultural Innovation (Instituto Nacional de Innovación Agraria, INIA), the National Agricultural Health Service (Servicio Nacional de Sanidad Agraria, SENASA), the Ministry of Production (Ministerio de la Producción, PRODUCE), and the Ministry of Foreign Trade and Tourism (Ministerio de Comercio Exterior y Turismo, MINCETUR).

⁴⁵ See PE-L1126 Loan Proposal, Appendix II, Policy Matrix, p.4.

⁴⁶ Between 2000 and 2009, the CAF executed 17 projects in this area of cluster development, including some that were very labor intensive (clothing apparel) and some that were knowledge intensive (software). The projects were spread throughout 13 of the 24 regions in Peru (CAF, 2009).

⁴⁷ USAID sponsored the Poverty Alleviation and Relief Project (Proyecto de Solución y Alivio a la Pobreza, PRA) from 1998 to mid-2013. The project supported 10 Centers for Economic Services (Centros de Servicios Económicos, CSEs) and three strategically located special offices for alternative development. By the time the PRA concluded, it had benefited around 55,000 small business people selling to more than 350 buyers and had generated around US\$400 million in sales, of which slightly less than half were exports. Several Peruvian mining companies became sponsors of seven of the 10 CSEs, which helped to assure their continued viability after the conclusion of USAID support (Info-Region and USAID, 2013).

Agency (Agencia Nacional de Desarrollo, ANDES), UNASEP, and the National Institute of Quality (Instituto Nacional de Calidad) are the core institutions that assure institutionalization of the Productive Development Policies (Políticas de Desarrollo Productivo, PDPs). These institutions have facilitated the expansion of small pilot programs, such as promoting clusters, into broad countrywide initiatives, while keeping them consistent with the principals laid out in the PDPs (Casaburi and Demaestri, 2010).

In the case of clusters, the PACC has been the major vehicle for implementation; however, the European Union also sponsored a cluster development program during the latter half of the 2000s and coordination with the PACC was found to be an essential contribution.⁴⁸ This suggests that, although there is no explicit reference to a bureau for program coordination, the basic concept of coordination between different cluster initiatives is being followed. The Office of Planning and Budget for the Presidency of the Republic (Oficina de Planeamiento y Presupuesto [OPP] de la Presidencia de la República) administers the PACC. As of 2013, befitting its title and constitutional mandate, the OPP was using its position to contribute to the strategic planning of development initiatives, including the issues of territorial policy, in addition to playing an active role in operational issues of encouraging development of specific clusters (Presidencia de la República, 2013). Thus it appears that the OPP is carrying out many of the functions ascribed to the bureau to coordinate programs and that the concept of cluster program coordination is well established in Uruguay.

Assessment of ongoing benefits from these initiatives

The cluster promotion initiatives sponsored by the three competitiveness programs examined in this review have had ongoing benefits in Colombia, Peru, and Uruguay, where they have been allowed to continue. At a basic level, the concept of value chains and clusters has been well established in all the countries. Generally, there is a very encouraging pattern of continued support for clusters by both public agencies and the private sector, which has proved to be lasting after IDB programs were completed.

The review of the programs also suggests that Bank interventions contributed to greater application of best practices by the clusters and led to increased rigor and deepening in using these best practices. In particular, IDB-sponsored PBLs served to establish new and strengthen existing institutional and regulatory frameworks that facilitate forming and expanding clusters.

It is worth highlighting that, even though Uruguay's competitiveness PBL was not concluded because the second of PBL was not prepared, the main cluster-related initiative supported by the first operation remained on track.

In conclusion, the ongoing benefits of IDB-sponsored PBL initiatives are visible in those countries where value chain development has remained a priority for the governments. In most

⁴⁸ Promoting Cluster Initiatives in Uruguay: A program to support the competitiveness and promotion of the exports of SMEs. Cooperation between the European Union and Uruguay's Ministry of Industry, Energy, and Mining. <http://www.cepal.org/dmaah/noticias/paginas/8/28248/darscht.pdf>

cases, the Bank's policy-based interventions were complemented by MIF operations or larger investment loans that both preceded and followed the competitiveness PBLs. This complicates determining the relative contribution of each form of intervention, although generally the PBLs were more instrumental in developing the legal and institutional frameworks, while other operations with multilateral support were more focused on providing technical and financial support for specific cluster initiatives.

Theme 6: Export Promotion

A common measure of international competitiveness, and thus a common feature of competitiveness PBLs, is a country's trade performance, in particular its export performance. Increased exports do not necessarily equate to an increase in the level of economic activity required to spur sustained economic growth. However, exports have been shown to yield several benefits to local economies, which is why competitiveness efforts have targeted this policy area. Exporting firms develop productive structure by transferring knowledge and innovations in managerial techniques (ECLAC, 2004). Exporting firms impact employment levels especially when firms grow by taking advantage of economies of scale not present at the local level and by tapping into new export markets. Other benefits include generating foreign exchange and creating positive linkages with other economic activities.

Despite the benefits, the LAC region's export performance has historically remained relatively low compared to other regions. In 2010, only 18 percent of firms in LAC exported (World Bank, 2010), which is generally considered to reflect low firm competitiveness. Studies have shown that exporting firms tend to be more innovative and able to compete with the productivity levels of other exporting firms in the global market. Numerous variables, such as access to capital and technical and managerial know-how impact the likelihood of a firm being export ready.

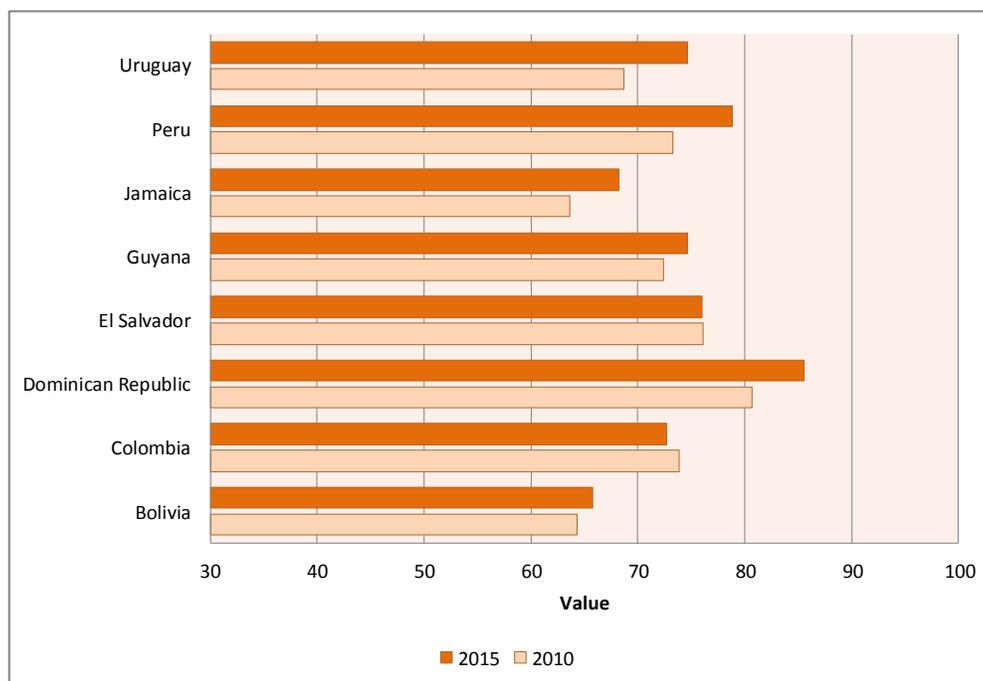
Policy interventions can address deficient export performance. A 2010 IDB study of Peru's Export Promotion Agency found that actions to promote exports were associated with increased exports. Activities included providing financial incentives to exporters (i.e., fiscal incentives), negotiating trade agreements that provided preferential market access, easing logistical challenges (infrastructure improvements), implementing and monitoring quality through standards and certifications, marketing and promotional efforts at the national level (i.e., at trade expos), and promoting investment to partner with local firms to export. The export promotion mechanisms traditionally used in the region are financial and tax incentives (see ECLAC, 2004), but policy has gradually been moving toward a focus on diversifying exports, targeting markets, and increasing market penetration.

A number of indicators provide a good overview of how the studied countries are performing with regard to the trade-related variables that the PBLs sought to influence.

The Trading Across Borders Index from The World Bank's *Doing Business* framework is one of the most comprehensive. It measures eight indicators of the regulatory hurdles and costs of exporting for a local business. The Dominican Republic has, by quite a margin, surpassed its peers in this area. For countries that implemented automated windows to process customs

documents, the time to export has dropped for all except Bolivia, which experienced an increase in its time to export from 19 days in 2013 to 22 days in 2015.

Figure 3: Trading Across Borders



Source: The World Bank’s *Doing Business* reports.

The next section details the export promotion policy interventions supported by the IDB’s PBLs that strengthen and/or create export promotion efforts.

The various initiatives undertaken by the sampled IDB programs

Of the PBL’s surveyed, **Jamaica’s** operation was the only one that did not directly address efforts to promote exports, although several of its initiatives aimed to indirectly lower transactions costs to benefit exporters.⁴⁹ Given that several factors impact a firm’s export growth and developing countries have limited capacity to manage standalone export promotion agencies effectively, export promotion initiatives are often carried out in tandem with investment promotion and export financing initiatives. This is evident in **Uruguay**, where the investment promotion agency (Instituto de Promoción de la Inversión y las Exportaciones de Bienes y Servicios, UXXI) is also tasked with promoting exports. **Guyana’s** investment promotion agency (GoInvest) promotes both investments and exports, as well as Guyana’s Trade Point program, which was implemented under the PBL.

⁴⁹ As noted below, a separate IDB investment program in Jamaica supported trade facilitation by modernizing customs.

Another common element in the cases assessed under this theme are the trade facilitation efforts included in the PBLs. Trade facilitation includes reducing time, costs, and bureaucratic impediments within customs departments and thus relates back to the focus in the section of this paper on reducing regulatory costs. Bolivia, Colombia, the Dominican Republic, Guyana, and Peru pursued implementing and, at times, streamlining automated customs systems. Specifically:

- **Bolivia's** Temporary Admissions Regime for Asset Improvement (Régimen de Admisión Temporal para Perfeccionamiento Activo, RITEX) facilitated the temporary entry of inputs to be used in export products;
- **Colombia's** VUCE PBL focused on simplifying procedures;
- the **Dominican Republic** set up a one-stop-shop for customs procedures and a single customs document for imports;
- **Guyana** implemented the Single Window Automated Processing System for Trade Transactions; and
- **Peru** established VUCE.

With Bank support from another operation,⁵⁰ **Jamaica** also facilitated trade by adopting ASYCUDA-World, the latest version of the UNCTAD-sponsored Automated System for Customs Data. **El Salvador's** program focused on trade facilitation as well but sought to do this by lowering its logistics costs and targeting improvements in maritime and air transport.

Trade agreements allow for preferential access into another country's market under agreed terms that often require firms to adhere to certain standards or criteria for market entry. In this regard, **Uruguay's** Interministerial Commission for Foreign Trade Affairs (Comisión Interministerial para Asuntos de Comercio Exterior, CIACEX) was created to coordinate and build consensus among the various agencies and ministries that affect export. The commission's priority areas were an approved export strategy and an analysis mechanism to harness trade agreements.

Colombia focused the export promotion aspect of its program on building institutional capacity to implement and administer trade agreements. Included were requirements to strengthen the National Quality System through a policy guideline issued by the CONPES. The National Intersectorial Sanitary and Phytosanitary Committee also issued guidelines designed to reduce barriers limiting access of Colombian products to foreign markets. In this regard, CONPES 3375 (national policy on agricultural health and food safety for the system of sanitary and phytosanitary measures) and CONPES 3376 (health policy for meat and milk value chains) were developed. **Uruguay** established the National Institute of Quality (Instituto Nacional de Calidad, INACAL) for to guide and coordinate implementation of a National Quality System and to address the quality of goods entering the market.

⁵⁰ An IDB loan in support of the Fiscal Administration Modernization Program was approved in December 2011.

The **Dominican Republic's** PBL also focused on promoting competitiveness by facilitating trade through legal reforms that ensure compliance with international commitments, simplify administrative procedures, and strengthen the institutions that develop the strategies and policies for productive development.⁵¹ To facilitate customs operations, the Director General for Customs (Dirección General Aduanas, DGA) initiated (i) a one-stop shop for customs procedures using electronic media and (ii) a single customs document for imports. The Dominican Republic's second PBL called for an expansion of both.⁵²

Government follow up to trade reforms

Several of the PBL-sponsored export promotion initiatives continued well after final disbursement. All of the governments assessed, including the most recent case, Guyana, remain committed to facilitating efficient trade, which is recognized to be an avenue of growth for developing countries.

Guyana has been moving closer to achieving the automated customs procedures for trade, and workshops on training on the Single Window Automated Processing System for Trade Transactions have taken place (Guyana Chronicles, 2013a). Guyana's Trade Transaction Public–Private Dialogue continues and comprises the private sector, Guyana's Revenue Authority, the Customs House Association, and the Shipping Association of Guyana (Guyana Chronicles, 2013b).

Although the customs reform aspect of **Peru's** loan was discontinued in subsequent tranches (though taken on by other Bank instruments⁵³), the pilot one-stop window^{54,55} was completed. Publicly available information about the single window indicates that the project moved from a pilot to implementation of VUCE, and several system improvements and updates to regulation have taken place.

Colombia's Intersectorial Committee on Sanitary and Phytosanitary that was instituted under the loan still functions to ensure greater integration and coordination of the activities of safety and quality throughout the food chain in the framework of the powers and functions of the law (FAO, 2013). CONPES 3375 and 3376 are in place today but, given new public health challenges that arise, further modifications will be required to adapt to new conditions to promote health, safety, and quality of products not only in export markets, but in local markets as well (Context Ganadero, 2013).

El Salvador, which focused its export promotion efforts on building infrastructure capabilities to facilitate trade, continues to take on new initiatives for improvement. The Port of Acajutla,

⁵¹ See the loan proposal for DR-L1014, paragraph 1.36, p.8.

⁵² See Appendix II of the policy matrix in the Stage II Loan Proposal for project DR-L1046.

⁵³ The IDB approved two new loans between 2014 and 2015: one to modernize the National Superintendency of Customs and Tax Administration and another to implement VUCE.

⁵⁴ Find the single window for foreign trade at <https://www.vuce.gob.pe/>.

⁵⁵ Find the National Superintendency of Customs and Tax Administration, Authorized Economic Operator at <http://www.sunat.gob.pe/orientacionaduanera/oea/>.

located west of the country in the department of Sonsonate, is now the main operating port of El Salvador. In 2008, the Port of Acajutla handled a total of over 4.4 million tons of cargo carried on 625 vessels, including 3.3 million tons of imports and 1.1 million tons of exports (World Port Source, n.d.). El Salvador's Maritime Authority (Autoridad Maritima Portuaria, AMP) has achieved many of its goals, such as opening of Maritime Ship Registry and three new local delegations.

Uruguay's PBL covered two main sub-areas: (i) creating CIACEX and (ii) institutionally strengthening and reforming UXXI, Uruguay's institution responsible for promoting exports and investments. Since the second loan was not processed, some PBL conditionalities, such as the proposed reform of UXXI, were not carried out, which could provide anecdotal support to the notion that Bank involvement is indeed a contributing factor when it comes to completing at least some reforms. However, in this case, a 2013 IDB loan has picked up on this activity and is providing resources to strengthen the UXXI.⁵⁶ This new program has various components, including promoting investments and exports; building capacity for global services, market regulation, and institutional strengthening. **Uruguay's** CIACEX is currently still operating and has been actively involved in negotiating trade agreements.

Assessment of ongoing benefits from these initiatives

The PBLs assessed above have provided timely support for countries facing challenges imposed by the internationalization of the economy. Several of the PBL-sponsored export promotion initiatives in the seven countries continued well past the project's last disbursement. Governments have generally remained committed to facilitating efficient trade (although the evidence is less convincing in Bolivia), as trade is widely recognized to be an avenue of growth for developing countries. The single window automated customs systems implemented by Bolivia, the Dominican Republic, Guyana, and Peru remain operational.

Theme 7: Access to Finance

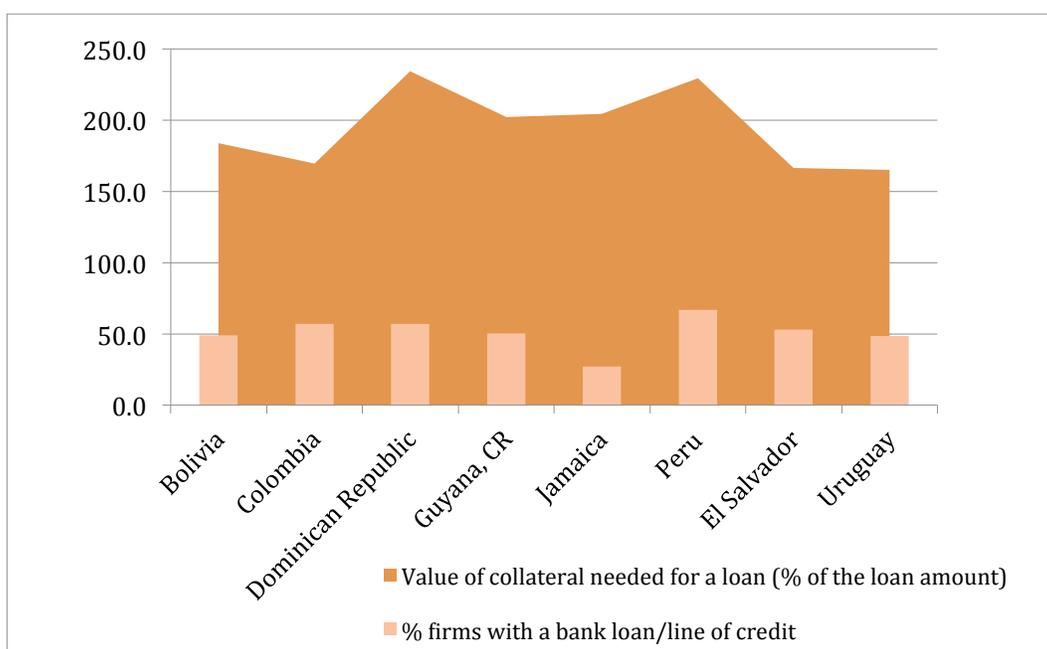
Empirical evidence suggests a strong link between financial depth and national economic growth. Furthermore, research has shown that financial development can generate pro-poor growth and has a considerable impact on poor households and small enterprises (Aterido, Hallward-Driemeier, and Pages, 2007). Ample literature (Beck, Demirguc-Kunt, and Honohan, 2009; Aterido et al., 2007; World Bank, 2008) shows a positive relationship between increasing access to finance and gross domestic product (GDP) growth, allowing for variations according to the size of the economy and the size of the firms. Empirical evidence on similar reforms in LAC suggest that reducing asymmetries in credit information will result in an increase in access to credit for new borrowers and firms (Janvry, McIntosh, and Sadoulet, 2010). In addition, eliminating financial constraints, in particular for smaller firms, tends to lead to an increase in

⁵⁶ Loan Agreement No. 2590 / 0C-UR Program to Support Global Export Services.

profits and returns on capital, with a larger effect on smaller firms (McKenzie and Woodruff, 2008).⁵⁷

The World Bank’s 2010 Enterprise Surveys provide in-depth firm-level data on firms’ use of and access to finances. At least 90 percent of all firms surveyed in the sample countries had a checking or savings account, indicating widespread use of the banking system. Access to finance was, on average, a major constraint for 26 percent of the firms surveyed in the sample countries (LAC’s average was 31 percent). Most firms financed investments internally (58 percent). Figure 4 shows the high value of collateral needed to secure loans for firms surveyed in the sample countries that had a bank loan or line of credit. The average for the LAC region is 204 percent, placing most of these countries, except for Peru and the Dominican Republic, below the regional average.

Figure 4: Value of Collateral Needed for Loans and Percent of Firms with a Bank Loan



Source: The World Bank Enterprise Surveys, 2010.

The various initiatives undertaken by the sampled IDB programs

Financial sector reforms were **included in five of the eight** competitiveness programs reviewed for this paper: Colombia, the Dominican Republic, Guyana, Jamaica, and Peru. The issues addressed included: reforming secured transactions; modernizing insolvency (bankruptcy) law; establishing credit bureaus; promoting mobile (cell phone) banking, payment systems, and small savings accounts; and designing a scheme for reciprocal guarantee societies designed to

⁵⁷ Through a randomized control trial, the study found that financially constrained firms can increase their return on capital (10 to 20 percent for SMEs) when given access to capital. Furthermore, the results show how constraints on finance affect productivity.

facilitate lending to SMEs. The following review focuses on the secured transactions reform, credit bureau, and mobile banking initiatives, one or more of which was supported by the PBLs in Colombia, Jamaica, Guyana, and Peru. Because these PBLs confronted major challenges in these three areas and because IDB and counterpart staff dedicated disproportionate attention to achieve the required reforms, a review of these experiences is particularly useful in providing lessons to carry out similar initiatives in other countries and to overcome impediments to financial sector reforms.

Secured transactions reform. Perhaps the single most important, and certainly most difficult, initiative has been reforming secured transactions. Programs in three countries—**Colombia**, **Jamaica**, and **Peru**—undertook to establish the legal, regulatory, and institutional framework needed for convenient and low-cost use of moveable property guarantees, collateral for loans from commercial banks, and other financial intermediaries. In **Colombia**, the first PBL called for the government to establish a work plan to reform secured transactions based on the background legal and economic analyses that the IDB and other international agencies had sponsored up to that point. The second operation did not follow up on this work plan; however, the Colombian authorities continued to develop the underlying legal and institutional reforms needed to establish a system of moveable property guarantees, and as noted below, the system is functioning very well now.

In **Jamaica**, the series of three CEPs, which spanned roughly six years, from 2008 to early 2014, provided extensive support for the technical analysis and stakeholder sensitization needed to implement reforms to secured transactions. The first program focused on consulting with private sector stakeholders; the second called for Cabinet approval of a position paper officially endorsing the initiative and providing guidelines on how to proceed; the third stipulated further consultation with stakeholders and parliamentary approval of the legislation and implementing regulations, including provisions to establish a notice registry.

The first PBL in **Peru** was a single loan that was disbursed in three tranches. Over the course of this period, background studies and stakeholder familiarization sessions were carried out. The final tranche called for approval of a Law on Secured Transactions (Ley de Garantías Mobiliarias), which in turn made provision for the Registry of Moveable Property Guarantees (Registro Mobiliario de Contratos) to be administered by the National Superintendency of Public Records (Superintendencia Nacional de Registros Públicos, SUNARP).⁵⁸ The law was approved and the final disbursement made; however, a serious flaw in the law allowed the registry to be patterned on all registries existing in Peru, including one that provides legal support for the registrant's claim to the property in question.⁵⁹ Key to a smoothly functioning moveable property regime is a simple notice registry that records the claims of the creditors to the properties pledged in guarantee, but provides no legal recourse in a dispute.

⁵⁸ Law on Secured Transactions (Law No. 28677, February 10, 2006).

⁵⁹ Prior to reforming secured transactions, SUNARP's experience was solely in administration of legal registries.

This flaw was addressed by the subsequent PBL, which supported “...transition to a notice registration system that would reduce times and cut costs, and help improve access to credit in the Peruvian financial system[, including]...(i) presentation...of a proposal for reforming the secured transactions system; and (ii) implementation of improvements to the operation of SUNARP’s Secured Transactions Register,...”⁶⁰ No further initiatives were undertaken in the next operation as it was deemed that the government should independently decide how best to proceed with the reform.⁶¹ By the time of the third PBL, the bill was introduced to Congress. In the meantime, improvements to the registry made before the introduction of the new legislation resulted in a visible improvement in access to credit for SMEs.⁶²

Credit bureaus. Low-cost and rapid access to the credit histories of borrowers is an essential aspect of increased lending to both SMEs and consumers. Where this information is not readily available to banks and other financial intermediaries, they are likely to restrict their lending to their typically larger, better-established and better-known clients (Janvry et al., 2010). Credit bureaus cut the cost to lenders of determining the creditworthiness of potential new, smaller clients. The IDB has sponsored the establishment and improvement of credit bureaus in several countries using both PBLs and technical cooperation loans and grants. In the case of the countries surveyed for this paper, three of the programs included a component to either establish or strengthen and expand credit bureaus.

Guyana’s⁶³ and Jamaica’s⁶⁴ PBLs were instrumental in creating the legal and institutional framework for private credit bureaus to be formed and provide credit information services to clients. **Guyana’s** operation included an investment component that financed technical assistance for the Bank of Guyana (its central bank) to draft “...a legal and regulatory framework for gathering and sharing client credit information among financial institutions, which contemplates the creation of a credit bureau; ii) a report with alternatives and recommendations on the different institutional set-ups for a formal system of gathering and sharing information among financial institutions and a budgeted action plan for the implementation of these recommendations; and iii) the guidelines to develop a formal system of exchange of credit-related client information among financial institutions.”⁶⁵ The policy-based component of Guyana’s operation contained the corresponding conditionality that assured that a legal framework to create a credit bureau would be in place by the end of the program (third tranche, was released in December 2012).

⁶⁰ See the Loan Proposal for the first Program to Enhance Productivity and Competitiveness, paragraph 2.9, p.10.

⁶¹ The Peruvian Government will define the best instrument to implement this reform, which it considers to be of vital importance. See PE-L1098: the Matrix for Sustaining Differences Between Triggers Originally Planned and Commitments for the Second Operation in Appendix II of the Plan of Development (optional).

⁶² For details, see the Project Completion Report for the PBL series PE-L1098.

⁶³ GY-L1006 Loan Proposal, paragraph 2.21, p.20.

⁶⁴ JA-L1001 Loan Proposal, paragraph 1.41; JA-L1010 Loan Proposal, paragraph 1.39; and JA-L1014 Loan Proposal, paragraph 1.32, p.12.

⁶⁵ GY-L1006 Loan Proposal, paragraph 2.21, p.20.

Jamaica's program included conditionality and supplementary technical cooperation funding focused on preparing a draft bill for submission to Cabinet and an action plan for implementation. The final PBL in the three loan series called for enacting the Credit Reporting Bill and regulations, implementing the Bank of Jamaica's action plan for supervision, and issuing two licenses to private credit bureaus.

In **Peru**, the IDB had already been involved in setting up and expanding coverage of the public credit bureau ("central de riesgos") before the first PBL was approved in November 2003.⁶⁶ This operation included conditionality on the standardization of financial statements that further expanded and deepened coverage of the credit bureau managed by the Superintendency of Banking and Insurance (Superintendencia de Banca y Seguros, SBS).⁶⁷ The initiatives materially contributed to the subsequent establishment of viable credit bureaus in Guyana and Jamaica and to the expansion and deepening of the credit bureau industry in Peru, as discussed in the next section.

Mobile banking. Mobile telephony provides new opportunities for economic growth, not only by providing financial services, but also by providing a wider set of externalities (Gencer, 2010). Cell phone coverage is becoming near universal in many countries in LAC and in some cases exceeds 100 percent of the eligible population since numerous customers have more than one cell phone. At the same time, traditional means of payment and withdrawal, such as bank branches, ATMs, and credit and/or debit cards to make point-of-sale charges are limited. Meanwhile in several developing countries outside LAC—notably Kenya, South Africa, and the Philippines—using cell phones to make payments and remittances has become widespread.⁶⁸ While the IDB has supported expanding cell phone banking with a variety of loan and grant programs, among those surveyed for this paper, only **Jamaica's** program included a mobile banking component. The three CEPs accelerated adoption of cell phone banking in Jamaica by sponsoring a large diagnostic study that informed the design of the necessary legal and institutional framework. Specifically, the CEPs called for the preparation and subsequent approval of the *Electronic Transactions Act* and the complementary *National Payments System Act* along with implementing regulations.⁶⁹ The CEPs also called for the design and execution of an action plan to enhance the supervisory capability of the Bank of Jamaica.

Public policy continuity in improving access to finance

As noted above, this review is focused on IDB-sponsored financial sector reform in four countries. Since the conclusion of their PBLs, the countries have experienced varying success in fully implementing the corresponding reforms.

⁶⁶ PR-2796 Proposal for a loan for a competitiveness reform program (PE-0239), approved November 26, 2003.

⁶⁷ PE-0239 Project Completion Report, p.10.

⁶⁸ Several studies (e.g., Amarante Consulting, 2009; Holden, 2008) have found that implementing mobile-banking has a positive impact on a country's economic growth and improves access to finance for the unbanked population.

⁶⁹ See the Loan Proposals for Jamaica's CEP I, II, and III.

Secured Transactions Reform. Using moveable property as collateral for loans has increased in **Colombia**, is just getting underway in **Jamaica**, and has, so far, experienced stunted growth in **Peru**. **Colombia** illustrates what can happen when all interested parties (potential stakeholders) actively collaborate to develop the requisite draft law and notice registry. Following on the work plan developed in 2006 as part of the first PBL, in 2011, the Superintendency of Industry and Commerce (Superintendencia de Industria y Comercio) sponsored a comprehensive diagnosis of the issues and how applying best international practices to secured transaction reform could benefit Colombia (Correa, 2011). A commission of legal experts advised by private sector groups, including Confecámaras (the major business association) and Asobancaria (the major banking association), as well as all of the interested government ministries, then developed a draft law (SSC, 2013). The draft law was endorsed by the Superintendency of Corporations (Superintendencia de Sociedades) in 2012, and approximately one year later, in June 2013, Congress approved the law and the creation of a notice registry (SSC, 2012). After Senate ratification in August,⁷⁰ in February 2014, the law became effective and the registry, operated by the private sector Network of Chambers of Commerce (affiliated with Confecámaras), opened for business (Portafolio, 2014). Within a month, business was booming, with dozens of enterprises and private individuals registering their moveable assets pledged as collateral for a total of more than Col\$86,000 million (roughly US\$43 million) in loans (Dinero, 2014).

The experience in **Jamaica** is equally encouraging. After numerous consensus building workshops and government briefing sessions between 2006 and 2011, as well as the preparation and distribution of background papers showing how reforming secured transactions would benefit Jamaican small businesses and what specific legal changes were needed, a draft law was developed in 2012–13. By the end of 2013, Parliament approved the law⁷¹ as part of a broader set of fiscal and financial sector reforms carried out in the context of an International Monetary Fund (IMF) Extended Fund Facility (IMF, 2013) and CEP III.⁷² The Companies Office of Jamaica was designated administrator of the notice registry⁷³ and set up a website providing detailed instructions on how to register a notice of security interest.⁷⁴ In December 2013, the Minister of Industry, Investment, and Commerce announced the new law and noted that Jamaica’s CEPs had been instrumental in initiating this and several other reforms designed “...to improve the ease of doing business in Jamaica and therefore improve our ranking internationally...”⁷⁵ Commercial banks and micro-finance institutions in Jamaica are welcoming the advent of the new law and associated notice registry (Collinder, 2014), and Jamaica’s Micro

⁷⁰ Colombia Congress. *Law 1676, 2013*. August 20, 2013.

http://www.secretariasenado.gov.co/senado/basedoc/ley_1676_2013.html

⁷¹ Government of Jamaica Legislation Programme 2013–14: Passed by Parliament on December 31, 2013.

⁷² PR-4130 Proposal for a loan for the CEP III approved February 12, 2014.

⁷³ Companies Office of Jamaica, “Security Interests in Personal Property.”

<https://www.orcjamaica.com/uploads/SIPP%20PRESS%20AD.pdf>.

⁷⁴ National Security Interests in Personal Property Registry, “Registering Notices.”

<http://www.nsippregistry.gov.jm/public/howtofilenotices.aspx>.

⁷⁵ Address of The Hon. Anthony Hylton, Minister of Industry, Investment, and Commerce. “Press briefing re Security Interests in Personal Property, Collateral Registry and other legislative matters.” December 19, 2013.

<http://www.miic.gov.jm/sites/default/files/pdfs/SIPP%20and%20collateral%20registry%20final%20and%20delivered.pdf>

Financing Association also expressed the support of its members for secured transactions reform (Henry, 2014).

The Law on Secured Transactions approved with **Peru's** competitiveness PBLs contained a series of provisions that made the progress and implementation of key reforms rather difficult. Additionally, the required intervention of the public notaries to verify the identity of the pledged moveable assets⁷⁶ unnecessarily increased the cost and time required to register assets as collateral. Between June 2006 and April 2008, the Registry registered 99,414 moveable property guarantees, and the vast majority (70,592) were in Metropolitan Lima, thus belying the registry's ostensibly national scope.⁷⁷ Meanwhile it was estimated that a smoothly functioning notice registry would have been able to meet the demand for 300,000 to 500,000 inscriptions during this same two-year period, and up to 1 million inscriptions in the following years.⁷⁸

The hesitant startup and underlying characteristics of the Law on Secured Transactions and the Registry of Moveable Property Guarantees became the subject not only of the Bank-sponsored diagnostic, but also of studies carried out by Peruvian lawyers and other academics concerned about the various provisions of the law and structure of the registry.⁷⁹ This points out another important feature of reforms sponsored by PBLs, namely that they can (as they should) provoke interest and analysis among interested third parties in the host countries. The analysis may make no reference to the specific IDB program that led to the reform under consideration, but the issues being discussed, such as the efficiency of the registry of pledged moveable property, can often be directly traced back to the Bank's interventions. In addition, the second PBL series started in 2010 sustained IDB attention to this area of reform.

The shortfall in the use of the Law on Secured Transactions compared to its potential has also caught the attention of the NCC, which included among the targets in its Competitiveness Agenda 2012–13 doubling the use of moveable property guarantees.⁸⁰ In its March 2014 report, the NCC claimed that usage had increased by 80 percent, although sale of automobiles on credit explained most of this increase. More importantly, the NCC was also able to report that a new draft Law on Secured Transactions had been prepared that would fully authorize an

⁷⁶ Law on Secured Transactions, Article 34, Registration Form. The notary public is responsible for verifying the identity and capacity of the subscribers. For securities, the completeness of Registration Form must be verified and the form must comply with all the requirements indicated in Article 19." In the case of other registrable acts, the notary public will verify compliance with the requirements that SUNARP established for this purpose (*Law 28677*).

⁷⁷ Competitiveness Reform Program (PE-0239, Loan 1503 / OC-PE) Project Completion Report, p.10.

⁷⁸ CEAL Foundation, Peru: Diagnosis and recommendations for improvements to the system of securities guarantees, March 2009, p.35.

⁷⁹ See for example Barron, 2013.

⁸⁰ NCC Competitiveness Agenda 2012–13, p.68.

https://www.cnc.gob.pe/images/cnc/Institucional/Agenda_Competitividad_2012_2013.pdf .

advisory (notice) registry in place of the current quasi-legal one.⁸¹ The draft law was presented to Congress in August 2014.

Thus, although Peru started the process to reform secured transactions earlier than Colombia or Jamaica and achieved partial success in 2006, it now lags both countries in terms of fully implementing the reforms. On the other hand, the stakeholders in Peru clearly understand the deficiencies of the current system and have internalized the need for change. This suggests that when the new law is approved in Peru, adoption and full implementation of the system for agile and low-cost moveable property guarantees will be rapid and widespread.

Credit bureaus. Three of the eight competitiveness programs surveyed—**Guyana, Jamaica, and Peru**—included a credit bureau component. As noted above, the PBLs in the first two countries focused on establishing the legal, regulatory, and institutional framework for establishing and supervising private-sector credit bureaus, while the initiative in Peru strengthened the existing public credit bureau and helped to set the stage for complementary private credit bureaus.

In **Guyana**, the investment component of the IDB’s loan program supported drafting a legal and regulatory framework to gather and share information about client credit histories among financial institutions. By the third (and final) tranche (released in November 2012), the borrower (Guyana) submitted to the IDB the *Credit Reporting Act* approved by Parliament in June 2010 and the associated regulations and fee structures as published in the Official Gazette.⁸² Less than a year later, in September 2013, the first commercial credit bureau, CreditInfo.Inc, opened for business as a subsidiary of a multinational Icelandic firm with operations in 60 countries. According to a report filed at the time, “...the Bank of Guyana sought to identify the most suitable company for Guyana by first inviting six international credit bureau operators to submit a Request for Solution. The Bank of Guyana received four responses and shortlisted two after they were evaluated by the International Financial Corporation and representatives of the Bank of Guyana.”⁸³ This illustrates the important role played by other international development partners in completing the sequence of actions, that the IDB may have begun, that are needed to carry a reform through to completion. As of 2015, the credit bureau’s operations were deemed successful, yet the challenge remained to improve understanding and adoption of the services among the Guyanese populace (Guyana Times, 2015).

In **Jamaica**, the sequence of three PBLs supported a series of measures that led to the enactment of the *Credit Reporting Bill* and implementation of regulations. The measures also included the Bank of Jamaica implementing its action plan for credit bureau supervision. This

⁸¹ NCC, “Presentation of Results of the Competitiveness Agenda 2012–13.” Goal 55: Double the use of the collateral security.” Achievements as of March 2014.

http://www.graduadoscolombia.edu.co/html/1732/articles-142266_Informe_Nacional_de_Competitividad_2013_2014.pdf.

⁸² Report of Compliance with Conditions Precedent to Disbursement of the Third and Last Tranche, para 3.3011.

⁸³ Kaieteur News. August 30, 2013. “Consumers to Benefit Significantly from Credit Bureau”. Available at <http://www.kaieteurnewsonline.com/2013/08/30/consumers-to-benefit-significantly-from-credit-bureau/>.

plan focused on including an awareness campaign on the benefits to private individuals and companies of having their credit histories compiled and made available to potential lenders. The IDB program also called for two licenses to be awarded and for at least one of the licensees to have opened for business. Parliament passed the Act in July 2010⁸⁴ and approved the implementing regulations in January 2011.⁸⁵ Subsequently the Bank of Jamaica established a page on its website explaining how it would carry out its oversight responsibilities,⁸⁶ with links to specific papers and forms needed to establish a credit bureau. The press also carried articles explaining what a credit bureau does and how it works and why it is beneficial to both lenders and borrowers.⁸⁷ On March 7, 2012, the Bank of Jamaica granted the first credit bureau license to CreditInfo, a subsidiary of the same privately owned Icelandic company as was operating in Guyana. The parent company holds an 80 percent share, with the remaining 20 percent held by Coalesce Credit Solutions, a Jamaican company formed in 2010.⁸⁸ On May 1, 2013, the Bank of Jamaica granted a second license to CRIF-NM, which is a joint venture between Neal & Massy (a Trinidad based conglomerate), and CRIF.⁸⁹ Both companies had been actively seeking to increase their coverage of firms and individuals, both those with credit histories at one or more financial institutions and those who may never have borrowed money from a bank but had a history of utility company payments.

In **Peru**, the first credit bureau was a government entity established in the 1990s as a unit within the SBS, now the Superintendency of Banking, Insurance, and Private Pension Fund Administrators (Superintendencia de Banca, Seguros y Administradores Privadas de Fondos de Pensiones).⁹⁰ The credit bureau covered the credit histories of firms and individuals that had received loans from one or more of the financial intermediaries supervised by the SBS. Originally, the coverage was limited to those clients with loan balances above a relatively high threshold. However, with IDB technical cooperation, the threshold was reduced substantially, thereby greatly increasing the coverage of the credit bureau and the number of records stored in its database. The first PBL focused on standardizing the financial statements of the firms covered by the credit bureau. The subsequent PBL included no further conditions regarding credit bureaus; however, the Peruvian government has been active in this area.

The SBS credit bureau has achieved broad coverage, and in Arequipa alone it has records on 325,000 borrowers, most of whom have credit card debt (Urrutia, 2013). Four privately owned and operated credit bureaus complement the public credit bureau operated by the SBS in Peru.

⁸⁴ *The Credit Reporting Act, 2010 (Act 27 of 2010).*

http://www.japarliament.gov.jm/attachments/341_The%20Credit%20Reporting%20Act,%202010.pdf.

⁸⁵ *The Jamaica Gazette Supplement* 134(4A). January 14, 2011. *The Credit Reporting Act, 2010.*

http://www.boj.org.jm/pdf/The_Credit_Reporting_Regulations_2010.pdf.

⁸⁶ Bank of Jamaica. "Credit Reporting Oversight." http://www.boj.org.jm/financial_sys/supervised_cb_overview.php.

⁸⁷ See for example Jamaica Gleaner, 2013.

⁸⁸ CreditInfo. Partners. <http://www.creditinfojamaica.com/home/about-us/partners/>.

⁸⁹ CRIF-NM. About Us. <http://www.crifnm.com/html/>.

⁹⁰ The SBS and the Superintendency of Private Pension Fund Managers (Superintendencia de Administradores Privadas de Fondos de Pensiones, SAFF) were merged in the mid-2000s to form the Superintendency of Banking, Insurance, and Private Pension Fund Managers (Superintendencia de Banca y Seguros y AFPs).

These private firms collect data on client payment performance (delinquencies and delays) on non-financial creditors, such as utilities, department stores, and cable TV.⁹¹

Peru has advanced beyond the other two countries in the sample, but it has been developing its credit bureaus over a much longer period of time. While the public credit bureau has successfully captured data on the borrowers from the financial institutions it supervises (thereby allowing the SBS to gage the soundness of these institutions), it has not inhibited the development of the private credit bureaus. In fact, one could argue that the IDB's support of the SBS credit bureau helped to kick start the establishment of private credit bureaus by acquainting both banks and borrowers with the advantages of transparent credit histories made available at low cost. The private credit bureaus have built on the SBS records by complementing them with client payment histories with non-bank institutions and by offering more sophisticated services, such as credit scoring and expert rules that allow a lender to prequalify potential borrowers based on criteria tailored to the specific circumstances of the lender.⁹²

In short, the credit bureau industry in Peru has become very sophisticated and broadly based. It has dynamic private sector participants that have built on the core competence of the public sector credit bureau. The early and consistent support the IDB gave to the SBS credit bureau, including the condition embedded in the first competitiveness PBL, strengthened and broadened the public credit bureau over the years and helped to lay the groundwork for the complementary private credit bureaus. This in turn contributed to Peru's having the highest rating in access to finance of all Latin American countries evaluated in the World Bank *Doing Business Report* for 2014 (RPP Noticias, 2013).

Mobile banking. Of the eight competitiveness PBLs reviewed for this paper, only **Jamaica's CEP** included a mobile banking component. However this initiative has such potential for implementation in many LAC countries that it is worth mentioning the Jamaican authorities' experience to date in carrying out the Electronic Retail Payment Services. After an extended internal analysis, informed in part by a study funded by the IDB in conjunction with the execution of Jamaica's CEP, the Bank of Jamaica issued final guidelines for retail payment services that were published in February 2013 after extensive consultation and took effect on April 1, 2013 (RPP Noticias, 2013).

Thus within less than a year after the guidelines became effective, the first e-payment platform went live. By the first quarter of 2014, 13 entities had applied for a license, and in July 2016, the country had approved its first mobile wallet license (Jamaica Observer, 2014a). Although still in the early stages of full implementation, two lessons may be drawn from this experience. Care in getting the rules right, as was done by the Bank of Jamaica's extensive review and vetting of the draft guidelines, is well worth the time and effort. Second, once the rules have been well established and understood by potential participants, aggressive early adopters will come

⁹¹ XCHANGE Products and Services. <https://www.xchange.com.pe/t1280a/>.

⁹² *ibid*

forward and expeditiously implement the technology. The CEP was instrumental in the former process by providing a thorough review of the Jamaican legal and regulatory structure in the context of international best practices and providing the Bank of Jamaica with perspectives on alternative regulatory frameworks.⁹³

Assessment of ongoing benefits from these initiatives

The three financial sector initiatives supported by the IDB's PBLs reviewed in this section have provided lasting benefits to the countries. In the most successful cases, the initiatives supported by the PBLs took hold and provided the legal, regulatory, and institutional framework for the private sector actors to become actively involved. The private sector stakeholders embraced the opportunity and, in cooperation with the governments, established viable entities to provide the services anticipated. This happened in Colombia, where the principal business and banking associations collaborated with government departments and legal experts in preparing a draft law and setting up a notice registry operated by a private sector group. The law became effective and the registry opened for business in February 2014. Initial reports suggest that the registry has been well received.

Similarly, in Jamaica, the experience to date bodes well for adoption and use of moveable property guarantees. While close to eight years in gestation (2006 to 2014) and with many delays along the way, the Jamaican experience illustrates that the complex and often novel legal and institutional arrangements needed to reform secured transactions can gain traction and ultimately acceptance in member countries with an English common law heritage. Consistent advocacy by the IDB sustained by not just one, but a sequence of technical assistance programs carried out in conjunction with well-crafted PBL conditionality and complemented by support from other international financial institutions (IFIs), notably the IMF in this case, provided the necessary external impetus to assure that the momentum toward the reform would not be lost.

The experience with credit bureaus in the three countries has been positive and bodes well for their future growth and sophistication. Two very different models were followed: the private sector only approach in Guyana and Jamaica compared to the public led, supplemented by private operators, approach in Peru. One key aspect of assuring ongoing benefits of these initiatives is the sensitivity of the credit bureaus to improvements in international practices.

The detailed approach taken to set up the regulatory framework for mobile (cell phone) banking in Jamaica aims to support sustainable e-payment platforms to be provided by several competing financial service intermediaries. The consultative and consensus building process followed by the Bank of Jamaica is likely to assure a level playing field for all current and prospective participants and protect the rights of the small retail clients, who are the intended primary beneficiaries.

⁹³ Letter dated July 21, 2011, from Mrs. Gayon Hosin, Deputy Governor, Financial Institutions Supervisory Division, to Mr. Joseph Cox, Programme Manager, Jamaica Competitiveness Enhancement Program, The Planning Institute of Jamaica.

Conclusion and Recommendations

Reforms-connected competitiveness-themed PBLs aim to improve the average productivity and competitiveness of firms, which should, in the medium to long run, impact employment growth and long-term economic development. This paper sought to assess whether the reforms embedded in a sample of selected PBLs found continuity over time after the IDB's support ended. Further, it sought to approach the subject of effects or impacts of the PBLs.

Of the 41 thematic initiatives examined, there were 35 initiatives that remained in place after implementation, four that had only achieved partial continuity after implementation, and two that lacked continuity after Bank support ended (Table 4). Most initiatives that had partial or no continuity (four of six) were in Bolivia, which underwent many political and social changes in a short span of years right after the IDB operation concluded. Other than Bolivia, a majority of reforms continued after the Bank's participation was finalized, showing that not only was the Bank catalytic in promoting reforms, but also that the reforms were embraced and institutionalized by the countries. Most of the reforms were carried out successfully and the institutions created or strengthened maintained their functions and operations after the program ended. The relative success of these PBLs lay in the IDB's program design practices, which require, among other factors, consensus building. In competitiveness PBLs, the consequently more robust competitiveness councils provided crucial support for long-term achievement of the reforms.

Table 4: Matrix of Policies per Program

Policy Themes	Bolivia	Columbia	Dominican Republic	El Salvador	Guyana	Jamaica	Peru	Uruguay
1. Public-private sector dialogue	Horizontal lines	Solid	Solid	Solid	Solid	Solid	Solid	Solid
2. Reduction in regulatory costs	Vertical lines	Solid	Solid	Solid	Solid	Solid	Solid	Solid
3. Transparency and competition	Solid	Solid	Vertical lines	Solid	Solid	Solid	Solid	Solid
4. Technological development and innovation	Horizontal lines	Solid	Solid	Solid	Solid	Solid	Solid	Solid
5. Value chains and clusters	Vertical lines	Solid	Solid	Solid	Solid	Solid	Solid	Solid
6. Export promotion	Horizontal lines	Solid	Solid	Solid	Solid	Solid	Solid	Solid
7. Access to finance	Solid	Solid	Solid	Solid	Solid	Solid	Solid	Solid

Source: Authors' compilation

Solid: Overall continuity

Vertical lines: Partial continuity

Horizontal lines: Lack of continuity

A few points about the role of the IDB in processes that lead to successful policy reforms are worth mentioning:

- The Bank (and other international financial institutions) can play a catalytic role in introducing novel and unfamiliar ideas to member countries. As outsiders, they can help overcome the natural inertia. Once the basic ideas are broadly understood and have been

tailored to local circumstances, reforms can grab hold and be warmly embraced by local stakeholders.

- PBLs tend to have the strongest impact when executed in tandem with other Bank instruments such as investment loans. In particular, the Bank's experience with PBLs has shown that parallel reimbursable technical cooperation —sometimes designated sector facilities—are an important tool to support a country's ongoing reform and institutional change, policy dialogue and analysis, and its compliance with the conditions of tranche disbursement. Beyond that, wherever concurrent PBLs and larger investment loans have been in play in one sector—innovation is a clear case—investment programs have contributed to implementing and consolidating reforms included in PBLs, especially in those cases that involve creating institutions or permanent policymaking capabilities, as highlighted below.
- It is imperative to build the capacity of executing agencies to ensure they are able to continue the reform process. Partial successes, such as reform of secured transactions in Peru, can serve to galvanize host-country analytical efforts and policy reforms.
- More often than not, the benefits of Bank-sponsored initiatives do not become evident until months or even years after final disbursement of a series of PBLs.
- IFIs can complement each other in carrying reforms to fruition. For example, the IDB may start the reform process, such as reforming secured transactions in Colombia and Jamaica or setting up the legal and institutional framework for credit bureaus in Guyana. Then another IFI may include complementary conditionality in its program to further support the reform, such as the IMF in Jamaica. In another case, the IFI may provide support for the specific transaction, such as the International Finance Corporation (IFC) helping in the selection process to set up a credit bureau in Guyana.
- The private sector can play a very active role in implementing and sustaining reforms once the rules are well established.
- In most instances, end results do not exhaust the competitiveness policy reform agenda, indicating that further reforms are still needed in many cases.

A particular instance where a lot more needs to be done is innovation policy. Competitiveness PBLs have helped improve innovation policy as a part of overall productive development policy by lending valuable support to the institutional development needed to undertake effective innovation policy. Given the novelty and complexity of the task of developing a fully functioning innovation system (Benavente and Navarro, 2014), this should only be considered a first step in the process of developing an adequate framework for the policy and institutional reforms needed for effective consolidation of an innovation climate, which is a necessary component of an eventual flourishing of knowledge economies in LAC. Hence the notion of an innovation-themed PBL, which would go beyond improvements in business climate to focus on the innovation climate (e.g., intellectual property practices and institutions, specialized human capital for innovation, and the venture capital funding cycle). From this standpoint, including innovation policy reforms in competitiveness-oriented PBLs represents a first step that should probably lead to newly conceptualized PBLs focused on promoting an innovation climate.

As highlighted by the project completion reports, the causality of the outcomes⁹⁴ of the reforms in improving competitiveness cannot be attributed rigorously to IDB involvement through PBL lending. The macroeconomic context affects private sector activity and whole series of additional variables prevent a clear attribution of results. In contrast, output indicators are more often and distinctively achieved, since they are directly linked to conditionalities that trigger the release of future loans.

Still, the fact remains that a clear majority of the policy reforms this paper looked at in the seven important areas observed in the eight countries included in the analysis had the characteristic of taking place or being implemented according to stipulations in the policy matrixes used to structure the PBLs. Then, from the advantage point afforded by the decade or so that has passed since the lending took place, a clear majority of the reforms also look to be sustainable, often among the twists and turns of the political cycle—a notable exception being Bolivia, where the political change was arguably the most pronounced. There is less overwhelming, anecdotal, evidence of the fact that, in cases where IDB support was withdrawn, reforms were suspended or severely delayed.

We assert that PBL lending seems to have acted as an effective tool in providing initiative, strength, and continuity to important competitiveness policy reform or, alternatively, that the IDB was highly skilled in identifying countries and circumstances in which reform programs were good, strong, and well supported across the political spectrum, and able to associate itself with them. Within the methodological constraints of this paper, it is impossible to resolve the well-known attribution problem that plagues the evaluation of the impacts of PBLs.

However, beyond methodological issues that will need to be clarified, a series of practical recommendations could greatly improve, judged from the IDB experience of doing PBLs and reviewing them (this exercise), the evaluability of future competitiveness PBL operations:

- Improve the design of templates for project progress monitoring reports and project completion reports to make extracting comparable data easier. Templates should include independent ratings that may influence the submission of higher quality reports. This would feed into the development of a public database to track ratings of project evaluations, thus contributing to open data initiatives.
- Institutionalize randomized ex post impact evaluations after PBL support has ended in an attempt to assess the depth and effectiveness of the reforms, including efficiency and distributional impacts of completed reforms.
- Put in place a system that tracks the further development of policy and institutional reforms included in PBL operations over the medium and long term to develop further evidence for review exercises such as this one in the future.

⁹⁴ Outcomes mentioned in competitiveness PBLs typically include indicators assessing impact on GDP, inflation, debt-to-GDP ratio, the World Economic Forum's Global Competitiveness Index, and the Doing Business indicators.

In sum, the evidence gathered in this paper supports the conclusion that PBLs achieved concrete lasting benefits, but additional research is required to assess in more detail the size of the impacts and the long-term effects of the reforms on indicators such as economic and productivity growth. “The nature of PBLs continues to evolve with experience, evaluation results, and the changing needs of the Bank’s borrowing member countries” (IDB, 2014), but evidence has shown the strong influence of PBLs in changing policy direction in LAC.

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Appendix I: Political Cycles

Country (Term Length)	Political Administration at Start of PBL	Change in Political Administration During and After PBL	Length of PBLs (First Approval Date)
Bolivia (5 years)	Movimiento Nacionalista Revolucionario (MNR) – President Gonzalo Sanchez de Lozado (2002–Oct 2003)	Oct 2003–June 2005: President Carlos Mesa (former VP under Sanchez) June 2005–Jan 2006: President Eduardo Rodriguez Jan 2006–present: President Evo Morales (Movement for Socialism)	2003–2005 (December 2003)
Columbia (4 years)	Colombia First – President Alvaro Uribe Velez (Aug 2002–Aug 2010)	Aug 2010–present: President Juan Manuel Santos Calderon (National Unity)	2006–2008 (Jul 2006; Dec 2007)
Dominican Republic (4 years)	Dominican Liberation Party – President Leonel Fernandez (Aug 2004–Aug 2012)	Aug 2012–present: President Danilo Medina (Dominican Liberation Party)	2009–2012 (Mar 2009; Oct 2010)
El Salvador (5 years)	National Republican Alliance (ARENA) – President Francisco Flores Perez (1999–2004)	2004–2009: President Antonio Saca (ARENA) 2009–2014: President Mauricio Funes (Farabundo Marti National Liberation Front FMLN) 2014–present: President Salvador Sanchez Ceren (FMLN)	2003–2004 (Nov 2003)
Guyana (5 years)	People’s Progressive Party (PPP) – President Bharrat Jagdeo (1999–2011)	2011–2015: President Donald Ramotar (PPP) ⁹⁵ 2015–present: President David A. Granger (A Partnership for National Unity)	2006–2007 (Jun 2006)
Jamaica (5 years)	Jamaica Labour Party (JLP) – Prime Minister Bruce Golding (Sep 2007–Oct 2011)	2011–2012: PM Andrew Holness (JLP) 2012–present: PM Portia Simpson-Miller (People’s National Party)	2008–2015 (Apr 2008)
Peru (5 years)	Peru Posible – President Alejandro Toledo (2001–2006)	2006–2011: President Alan Garcia (Peruvia Aprista Party) 2011–present: President Ollanta Humala (Peruvian Nationalist Party)	2003–2013 (Nov 2003)
Uruguay (5 years)	Frente Amplio – President Tabare Vazquez (2005–2010)	2010–2015: President Jose Mujica (Frente Amplio) 2015–present: President Tabare Vazquez (Frente Amplio)	2007–2012 (Jan 2007)

⁹⁵ The PPP fell one seat short of a parliamentary majority, winning 32 out of 65 seats, meaning that Ramotar would serve as President while two opposition parties would together hold a majority of seats in the National Assembly.