

RESTRUCTURING OF THE ENERGY SECTOR IN THE CONTEXT  
OF THE PUBLIC ENTERPRISE REFORM PROGRAM

(TC-94-10-50-7)

EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Secretariado Técnico de la Presidencia [Technical Secretariat, Office of the President]

**MIF FACILITY:** Technical Cooperation Facility (Facility I)

<b>AMOUNT AND SOURCE:</b>	MIF (grant):	US\$1,220,000
	Local counterpart funding:	US\$ <u>480,000</u>
	Total:	US\$1,700,000

**OBJECTIVES:** To aid in the establishment of a new legal, institutional, and regulatory framework for the electricity and oil and gas subsectors, to create an enabling climate for effective, competitive private-sector participation. These aims fall into the broad objective of the public enterprise reform program, which is to promote economic efficiency and competition by offering the private sector a stake in the management and ownership of public enterprises. The proposed technical cooperation will assist with the design of strategies for bringing private enterprise into other production sectors served by State enterprises, the implementation of which would be supported by another MIF project in the future.

**DESCRIPTION:** The proposed MIF technical-cooperation resources will fund three components. The first will aid in the restructuring of the electric power subsector, instituting a new regulatory framework and setting up a regulatory body, through consulting and advisory support to draft the required laws and regulations, and with support for equipment procurement and staff training. The second component will assist in the restructuring of the oil and gas industry, developing a new legal and regulatory framework and assisting with the setup of a regulatory agency for this subsector, with the services of consultants and advisors to draft a new Oil and Gas Industry Act, devising the necessary laws and regulations, and helping with procurement of equipment and staff training. The third component will provide technical assistance to assess alternatives and devise a strategy to enable private-sector participation in other production sectors served by State enterprises,

including sugar mills, manufacturing complexes and industrial parks in duty-free zones.

**BANK AND MIF  
STRATEGY:**

The proposed technical cooperation will play an integral part in the Bank's country strategy for the Dominican Republic, which seeks to stimulate the private sector of the economy while reducing excessive State involvement in the production apparatus. It is related to and will complement other operations being prepared by the Bank: (i) the public enterprise reform program (PERP) (DR-0089); (ii) a future MIF technical-cooperation project in aid of the PERP, particularly to help implement programs that promote private-sector participation in the production sectors addressed in the third component of this operation; and (iii) a program for expanding electric power generation with private-sector participation (DR-0080).

**RISKS:**

The main risks that could hinder attainment of the project's objectives would be: (i) lack of experience in carrying out reforms of the type proposed, which is why the operation includes international technical assistance; (ii) a lack of timely action by national authorities in approving the necessary changes in legislation, for which reason the present operation makes disbursements under the first two components conditional upon creation of the respective regulatory agencies; (iii) pressure on the government due to threats of fiscal deficits ensuing from the situation in the electricity and sugar (State Sugar Board) subsectors, which could make for hasty decision-making and hinder the development of a sound strategy for incorporating the private sector; to counter this contingency, the project is designed to require rapid implementation of reforms and close supervision during its implementation; and (iv) a risk that there might not be stable ground rules, which would affect sustainability of the reforms; certainty in this area could only be afforded once the respective laws have been approved by the Congress.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of May 16, 1995, classified this as a Category II operation.

## I. COUNTRY ELIGIBILITY

- 1.1 On September 12, 1994, the Donors Committee declared the Dominican Republic eligible for all forms of funding from the Multilateral Investment Fund (MIF).

## II. THE PROJECT

### A. Frame of reference

- 2.1 In 1990, the Government of the Dominican Republic undertook a sweeping program of economic stabilization measures and structural reforms designed to reduce inflation, improve the external accounts and restore economic growth. The program included measures to bolster the public finances, narrow the fiscal deficit, improve monetary management and seek to close the gap between exchange rates. The results have been positive, including significantly lower inflation, dropping from 100% in 1990 to single-digit rates in 1993, elimination of the public-sector deficit and, by 1992, a resumption of growth in GDP.
- 2.2 From late 1994 until the transfer of power to the newly elected government in 1996, the outgoing administration remained committed to redoubling its stabilization efforts under the 1990 plan. Yet despite the attempt at discipline, the economy continued to have its weak spots - particularly in the area of fiscal management. The outsized State presence in the productive sector as the operator of loss-making enterprises, intervening in markets, channeling credit and agricultural commodity marketing, and owning over 40% of the country's producing land, is still a structural barrier to economic growth and a contributor to fiscal deficits, all of which adds to the challenges of the current macroeconomic, social, productive, institutional, environmental and international climate.
- 2.3 The energy sector, and the electricity subsector in particular, account for much of the problem with macroeconomic stability. As a result of inefficiencies in the State-run electrical utility, deficits in this subsector have climbed to US\$20 million per month. In the oil and gas subsector, the absence of a sound regulatory framework has led to an inefficient pricing system which is not giving off signals of due economic efficiency, and leaves no real room for participation by the private sector, owing to the absence of clear and stable ground rules.
- 2.4 Economic inefficiency and excessive tax burdens ensuing from the State's involvement in the economy are not unique to the energy industry, however. They extend to other production sectors served by State enterprises, among them the sugar mills owned by the State

Sugar Board (CEA), industrial complexes owned by CORDE, and industrial parks in duty-free zones owned by the CFI. For historical reasons, at the end of the Trujillo dictatorship, the wealth he had amassed reverted to the State, which thereupon became the major owner of the country's means of production. This process dovetailed with the development model pursued in the 1950s, 1960s and 1970s, which advocated heavy State intervention in the economy.

- 2.5 The new administration which took office on August 16, 1996, has placed before Congress a public enterprise reform bill designed to redefine the State's role and make public enterprises more efficient by bringing in the private sector. This law will provide a solid legal framework for evaluating the various alternatives and a means of ensuring the transparency of processes whereby private enterprise is brought into these spheres.

1. The electricity subsector

- 2.6 Electric power in the Dominican Republic is supplied by Corporación Dominicana de Electricidad (CDE), which does not have enough serviceable capacity to meet demand, resulting in permanent rationing of electricity. Thanks to plant renovations currently under way and the addition of a number of units, CDE will have the capacity to meet system needs, although the risk of rationing will remain high because of the low levels of reserve capacity.
- 2.7 There is a consensus that unless the subsector is reorganized, the benefits ensuing from the CDE renovation program cannot be sustained for long. Accordingly, in October 1992 the government adopted a strategy to restructure the electricity subsector to allow private-sector participation. An Electric Power Industry Act was drafted with IDB support, the objectives of which are to (i) determine the government's role in policy formulation and regulation; (ii) promote competition and private investment; (iii) establish rules for pricing and rate-setting; (iv) draft regulations governing operations in the subsector and rules for the installation of electrical services; and (v) require that both concessionaires and policy-making bodies adhere to environmental protection standards in operations in this sector. The bill calls for the creation of three new agencies for the sector: a National Energy Commission, to institute strategies and policies for the sector; a Superintendency of Electricity (SIE), for oversight and control; and an Electric Power System Coordinating Agency (OCSE).
- 2.8 As the electric power industry bill makes its way through the Congress, work has begun on reorganizing CDE, splitting it into three generating companies (two for thermal and one for hydro-electric power), one transmission company, and three regional distribution utilities. Once these companies are set up, steps would begin to bring private equity capital into the distribution and thermal power generation utilities, and to involve private enterprise in the transmission company through a management

contract. There will need to be a transition period for the revamping of the electricity subsector to achieve the type of competitive scheme being proposed, during which interval the private sector will need to regain efficiency levels, particularly in distribution systems.

- 2.9 The bill has been under consideration by Congress since December 1993, and it is not certain whether it will be passed in 1997. In view of the pressing need for restructuring this subsector, the government has looked at taking actions permitted under the existing legal framework, to start the process of incorporating the private sector. To that end, a CDE Restructuring Committee was created within CDE by a resolution of its Board, and the decision was made to proceed with the agency's internal reorganization and begin the process of bringing private business into distribution and thermal generating operations.
- 2.10 This process will go hand in hand with the rewriting of the subsector's regulatory framework, by means of an executive order creating the Office of the Superintendency of Electricity (SIE), and through the issuance of legal provisions similar to those contained in the Electric Power Industry bill. The SIE, which will begin operating under this framework, will have essentially the functions provided for in the Electric Power Industry Act, and thus can readily adapt when the law is enacted.
- 2.11 The government has requested the Bank's support for the reforms that are to be introduced, by executive order, in the existing legal framework. The Bank recognizes the effort that has been made over the past three years in the thus-far unsuccessful attempt to secure approval of the legal framework envisaged in the Electric Power Industry Act. And though a framework instituted by decrees may not have the solidity of a new legal framework, it is a valid transitional solution until the law is passed. For this reason, the Bank has agreed to the request to provide support, under ongoing loan 585/OC-DR, for activities for the internal restructuring of CDE and private-sector involvement in its operations. In addition, it is proposed that this technical cooperation be used to help develop a body of regulations once the regulatory agency has been created by the above-mentioned decree.
- 2.12 The support proposed herein will supplement assistance provided to date for reform of the electricity subsector, including: resources from the current IDB operation that has financed work to draft the Electric Power Industry Act and is funding the rehabilitation of CDE; a contribution from the World Bank's Japanese Grant Fund, which financed the CDE restructuring study, the transmission system expansion plan, and other advisory support; and a USAID grant used primarily to pay for prequalification processes, preparation of bid documents for a new plant under a build-own-operate arrangement, and an environmental study for the electricity subsector, and also

will fund the creation of an Environment Unit within the Office of the Superintendency and development of environmental standards.

## 2. The oil and gas subsector

- 2.13 Refinería Dominicana S.A. (REFIDOMSA), a semipublic company 50% of whose shares are held by the State and the other 50% by Shell Oil which manages the company, is the leading player in this subsector. REFIDOMSA imports crude oil and petroleum products at the rate of 65,000 barrels per day to meet demand for its products (fuel imported by power generating companies totals 25,000 barrels per day). A contract was signed recently between the Dominican government and Esso for an oil terminal at Puerto Plata for importation of petroleum products.
- 2.14 The hydrocarbons subsector is vital to the country's macroeconomic health. While inflation and GDP growth have shown signs of improvement in 1996, the existence of multiple exchange rates, insufficient public revenues – in part the result of rising oil prices – and the country's highly inefficient energy and transport sectors have made it difficult to maintain macroeconomic stability. Since a one-dollar increase in the international price of oil has the effect, *inter alia*, of pushing treasury revenues down US\$14 million, the 1996 oil-price hike of close to US\$5 a barrel has had a huge impact on the economy, and could worsen in 1997 if current prices persist. Hydrocarbon imports will cost US\$800 million in 1996 (compared to US\$604 million in 1995), which represents over 5% of GDP and approximately equals the value of exports of goods.
- 2.15 Upon taking office, the present government set up a committee to assess the oil and gas subsector and recommend ways in which the government can restructure its management of this industry, including possible changes in the government's stake in REFIDOMSA, review of the company's articles of association, and alternatives for creating a regulatory body independent of the refinery. The reforms proposed by the committee include immediate action on fuel prices and a new way to calculate the oil differential, creation of an Oil and Gas Superintendency (SIH) by decree, and development of a new legal framework for this subsector.
- 2.16 The Bank considers this a sound strategy for revamping the subsector, since it permits a modern legal framework to be devised to liberalize the fuel market and promote private sector participation under competitive conditions, while simultaneously taking steps to correct economic distortions caused by the current pricing system and quickly provide the subsector with a regulatory body.
- 2.17 On December 20, 1996, the government took steps to adjust fuel prices to reflect changes in the cost of oil on international markets. At the same time, a proposal has been placed before the Congress, as part of a series of changes to the Tax Code, for

permanent replacement of the oil differential with a flat-rate excise tax. This action on the price front goes hand in hand with the resolve to create the SIH, to perform regulatory and sectoral planning functions that until now have fallen to REFIDOMSA.

- 2.18 The go-ahead has been given to create the SIH by means of an executive decree. The Committee drew up a draft decree to create the SIH as an autonomous, permanent body which will include a ministerial-level National Oil and Gas Industry Council and an operational arm headed by the Superintendent. The SIH will serve a function analogous to that of the SIE planned for the electricity subsector under the Electric Power Industry bill currently before the National Congress. This arrangement may be followed eventually by the creation of an umbrella body, the National Energy Commission, over the two superintendencies. The Bank reviewed the draft decree and made recommendations which primarily sought to clarify the concept of market liberalization and help avert excessive State intervention. The SIH's mandate will be to (i) monitor price trends and market conditions; (ii) oversee petroleum-related operations and facilities in the country, particularly compliance with provisions governing public safety and the environment; (iii) devise and administer the system of licenses and permits, with emergency provisions and contingency planning to ensure supply; and (iv) develop and implement a new legal and regulatory framework for the subsector.
- 2.19 To ensure that the sector is soundly structured for purposes of market competition, the government is assessing its own role in the subsector's commercial operations. Its first step was to review the contract with Shell Oil, and it plans to rework the August 9, 1996, agreement between the previous administration and Esso Standard Oil for construction and operation of a fuel terminal in the northern part of the country. Irrespective of the government's decision to hold onto and/or restructure its stake in REFIDOMSA, that company is to function as a private operator, its regulatory duties being removed and reassigned to the planned Superintendency.

### 3. The public enterprise reform program

- 2.20 The State Sugar Board (CEA) owns a total of 10 poorly operated sugar mills which have run up heavy debts with banks, suppliers and cane-growers, and require sizable transfer payments to make up their cash deficits. The critical state of the CEA and the government-run sugar industry is evident from the decline in sugar production, from 821,000 metric tons in 1984 to only 210,000 metric tons in 1996. The new CEA management has launched a program to open the mills to private enterprise.
- 2.21 Corporación Dominicana de Empresas Estatales (CORDE) is a holding corporation with 26 companies, only 14 of which are currently in operation (7 having been closed recently by the new administration - some after lying idle for several months). A number of

these companies have sizable debts. CORDE's present management is trimming some payrolls and assessing the feasibility of restarting several of the closed companies.

- 2.22 Other enterprises in which the State has a heavy equity share could also benefit from greater private-sector participation. One of these, the Industrial Development Corporation (CFI), has raised the possibility of transferring duty-free zones to the private sector, perhaps starting with some zones whose construction is now nearing completion.
- 2.23 The operation proposed herein will provide technical assistance to assess alternatives, prioritize actions, and design a strategy to bring private enterprise into these spheres. Implementation of the strategies - to boost private involvement in CEA sugar mills, CORDE industrial parks and CFI free-zone industrial parks - would be supported by a future MIF technical-cooperation project, now being prepared in conjunction with the public enterprise reform program (DR-0089).

B. Objectives of the technical cooperation

- 2.24 The objective of the technical cooperation is to help set in place a new legal, institutional, and regulatory framework for the electricity subsector and oil and gas subsector, so as to create conditions for effective and competitive private-sector participation. These aims fall into the general objective of the public enterprise reform program, which is to foster economic efficiency and competition by offering the private sector a stake in the management and ownership of public enterprises. The technical cooperation will support the design of strategies for bringing private enterprise into other production sectors also served by State enterprises, which another MIF project in future will help implement.

C. Components and activities

- 2.25 The MIF technical-cooperation resources would fund three components, which are described in detail in the technical annexes. Detailed terms of reference have been drawn up for most of the required consultants, along with preliminary descriptions of the scope of work for the other consulting assignments.
- 2.26 The **first component** will help restructure the electricity subsector, instituting a new regulatory framework and setting up a regulatory agency, with the help of consultants and advisory support to determine the needed laws and regulations and with assistance for equipment procurement and staff training. The **second component** will help with the restructuring of the oil and gas subsector, developing a new legal and regulatory framework and helping set up a regulatory body, using consulting and advisory



support to help draft an Oil and Gas Industry bill, develop necessary laws and regulations, help procure equipment and train personnel. The **third component** of the technical cooperation will fund an examination of avenues and devise a strategy for private-sector participation in other production sectors in which public enterprises are operating, among them sugar mills, industrial parks, and free-zone manufacturing complexes.

COMPONENT I: Regulatory framework for the electricity subsector

- 2.27 This component will help establish a new regulatory framework for the electric power industry and place the sector regulatory agency in operation. The legal, regulatory, and institutional framework devised for this subsector includes creation of the SIE as an independent regulatory body, to offer the assurances needed to attract private investment to the power industry. The technical assistance will take the form of the following activities, in support of the restructuring of the subsector:
- 2.28 (i) Hiring of experienced international and local consultants to help set up and organize the regulatory agency. Activities will include: preparation of the first budget and devising legal arrangements for taking receipt of initial contributions from companies; design of the organizational structure, corporate by-laws and sound information systems, including an administrative structure, manuals and budgeting system, so the agency's administrative apparatus is in place within the year following its creation.
- 2.29 (ii) Hiring of international consultants to complete work on devising rate schedules, transmission charges, initial contracts between the power generators and distribution companies hived off from the CDE, and rules of operation for the restructured sector in the first years. The analytical work done by previous consultants will be built on to come up with rate schedules for end users, transmission company rates, distribution service value added, block-sale pricing, and dispatch rules for contracts in the first years of operation. The findings of these studies are to be made available six months after the project begins.
- 2.30 (iii) Technical assistance on the operational side for the Superintendency of Electricity, under a contract with a firm, regulatory body or panel of international consultants experienced in regulation, calling for regular visits as well as spot assistance for development and application of the various regulatory procedures to be implemented. This will include, *inter alia*, developing rules for the expansion, operation, dispatch, and other technical procedures required in the system; tariff and price review procedures; accounting and audit requirements and controls on monopolistic practices of power utilities; quality-assurance standards for electricity services at the different stages and

environmental standards to be instituted and enforced, to be developed with USAID assistance. This technical assistance for the SIE will last one year.

- 2.31 (iv) Preparation and delivery of a training program, procurement of computer equipment, and installation of appropriate information systems for the SIE. The training program will be conducted mostly by international consultants and regulators hired to provide on-the-job training for the Superintendency of Electricity during its first year of operation under the new institutional framework. There also are plans for exchange programs with other Latin American regulatory agencies.

COMPONENT II: Legal and regulatory framework for the oil and gas subsector

- 2.32 This component will help develop a legal and regulatory framework for the hydrocarbons subsector, including support to start up the regulatory body. Its main activities are as follows:
- 2.33 (i) Technical assistance from local and international experts engaged to help with the establishment and start-up of the Oil and Gas Superintendency and development of regulations for the transitional period. The consultants' work will be performed in the first six months of the project.
- 2.34 (ii) Hiring of international experts to develop the new Oil and Gas Industry Act and enabling regulations, during the first 12 months of the project.
- 2.35 (iii) Hiring of international experts on oil industry regulation and logistics of oil and gas supply and marketing, to study alternatives for restructuring the industry and determining the State's role in commercial operations therein. Time line for recommendations and decision concerning the State's role in commercial operations: six months after the start of the project.
- 2.36 (iv) Hiring of international consultants to devise environmental regulations for the oil and gas subsector over the first six months of the project.
- 2.37 (v) Development and delivery of a technical training program for SIH staff and procurement of computer hardware and software for the Superintendency during the first year of its operations. The training program will be carried out by international consultants and regulators hired to give on-the-job training for the Superintendency during its first year of operation.

COMPONENT III: Promoting private investment in public enterprises

- 2.38 This component will help the government carry out specific actions to develop a strategy to encourage private-sector participation in

the various public enterprises now run by the State. The technical assistance will fund the first stage of the public enterprise reform program, specifically the following activities:

- 2.39 (i) Hiring of international consultants with experience in restructuring and privatization processes, well versed in the sugar industry, to help evaluate alternatives and design a strategy to interest private enterprise in CEA-owned sugar mills. In addition to assessing the PAPC leasing program proposed by the CEA management, and options available under the existing legal framework, the consultants will analyze alternatives that might be implemented once the Public Enterprise Reform Act is passed. Based on this analysis, they will propose a strategy for implementation.
- 2.40 (ii) Hiring of international consultants with experience in restructuring and privatization of manufacturing companies, to help CORDE evaluate options and design a strategy for giving the private sector an ownership stake in its companies. The consultants are to assess the current status of the companies, examine alternative approaches, and propose a strategy.
- 2.41 (iii) Hiring of international experts with experience in restructuring and privatization processes to help evaluate options and design a strategy for giving the private sector an ownership stake in CRI duty-free zones. These consultants will evaluate the current status of the companies and analyze different implementation options.

D. Cost and financing

- 2.42 The total cost of the project will be US\$1,700,000, of which the MIF will contribute a grant of US\$1,220,000. The project budget is set out in Table II-1 below; an itemized breakdown appears in Annex II.

TABLE II-1 PROJECT BUDGET (US\$000)			
	MIF	LOCAL COUNTERPART	TOTAL
<b>COMPONENT I: Regulatory framework for the electricity subsector</b>			
1. Technical assistance for establishment and start-up of regulatory agency for the electricity subsector	99.8	26.4	126.2
2. Consultants to devise tariffs, draft contracts between generators and distributors, and draft dispatch rules in initial stage	68.7	26.6	95.3
3. Operational advisory support to develop regulations and operating procedures for the power industry regulatory body	167.6	53.3	220.9
4. Technical training program for staff and purchase of equipment for regulatory body of the electricity subsector	139.0	95.0	234.0
<b>TOTAL FOR FIRST COMPONENT</b>	<b>475.1</b>	<b>201.3</b>	<b>676.4</b>
<b>COMPONENT II: Legal and regulatory framework for the oil and gas subsector</b>			
1. Technical assistance for establishment and start-up of regulatory body for the oil and gas subsector, and development of transitional legal/regulatory framework	110.2	24.2	134.4
2. Drafting of new Oil and Gas Industry Act and regulations thereunder	84.8	12.3	97.1
3. Analysis of options for restructuring the industry and determining the role of the State in commercial operations	51.5	9.2	60.7
4. Drafting of environmental regulations	38.9	12.3	51.2
5. Technical training program for staff and purchase of equipment for oil and gas industry regulatory body	100.0	80.0	180.0
<b>TOTAL FOR SECOND COMPONENT</b>	<b>385.4</b>	<b>138.0</b>	<b>523.4</b>
<b>COMPONENT III: Promoting private investment in public enterprises</b>			
Consultants to help develop and design a strategy for private-sector participation in various public enterprises, and help coordinate the program	202.1	85.9	288.0
<b>TOTAL FOR THIRD COMPONENT</b>	<b>202.1</b>	<b>85.9</b>	<b>288.0</b>
Contingencies	157.4	54.8	212.2
<b>PROJECT TOTAL</b>	<b>1,220.0</b>	<b>480.0</b>	<b>1,700.0</b>

- 2.43 The local counterpart funding will total US\$480,000, estimated on the basis of local professional expertise and administrative support staff required for the consulting work planned in the project. The counterpart will be drawn mainly from the new Electricity Superintendency and Oil and Gas Superintendency, with a portion to come from the budgets of the Technical Secretariat of

the Office of the President (STP), CEA, CORDE and CFI. Funding for the Superintendencies will be assured through an up-front government contribution to set up these regulatory bodies, and by their own internal cash generation under the respective laws requiring specified contributions from the companies they regulate.

E. Organization and execution of the project

- 2.44 The Technical Secretariat of the Office of the President (STP) will act as executing agency vis-à-vis the Bank, as follows: (i) for component I, coordinating with the Superintendency of Electricity; (ii) for component II, coordinating with the Oil and Gas Superintendency; (iii) for component III, executing the work directly, in coordination with the different public enterprises involved (CEA, CORDE, CFI). The STP will appoint a general coordinator for the project.
- 2.45 The project will be supervised by the Bank's Country Office in Santo Domingo, in coordination with the project team and by reference to expected outputs, as specified for each activity in Annex I and in the action plan required in accordance with paragraph 2.46. Supervision of the project will: (i) provide data on progress, outcomes and difficulties encountered in each of the activities; (ii) monitor the quality of the project activities and ensure proper use of MIF resources; (iii) provide feedback for the executing agency, Dominican authorities and the Bank, on technical elements required for achieving the objectives of the technical cooperation; and (iv) provide input for the design of actions to ensure that activities can continue in the long term.

F. Disbursements

- 2.46 The technical-cooperation funds will be disbursed over a period of 12 months, following procedures established by the Bank. Prior to the first disbursement, the executing agency must provide the Bank with a detailed plan of action for execution of the project, including a timetable and consultants' terms of reference. A condition for disbursements to begin under components I and II will be creation of the respective regulatory body (the Superintendency of Electricity for Component I, and the Oil and Gas Superintendency for Component II).

G. Monitoring

- 2.47 The executing agency will be required to produce semiannual progress reports, to adequately monitor the project. The first report must demonstrate the effective start-up of the Superintendencies of Electricity and Oil and Gas, and present analyses done of alternative avenues for promoting private-sector participation in the State enterprises. Subsequent reports are to show that the regulatory bodies are well-organized and functioning properly, provide a detailed summary of activities carried out, evaluate the

project, and present recommendations to the government as to the long-run management of the project. There will be flexibility to propose changes, when deemed necessary by the project supervisors, within the amount allocated for each component, reallocating funds, with prior approval from the Office of the MIF.

#### H. Feasibility and risks

- 2.48 The design of this technical cooperation includes the activities needed to achieve its proposed objectives, but is flexible enough to ensure that the project can be successfully carried through. The government has indicated its commitment to revamping the energy sector and to the public enterprise reform program, and its resolve to set up the proposed new regulatory agencies for the electricity and the oil and gas industries. The sound operation of these regulatory bodies is an essential condition for encouraging private-sector involvement in the power industry and guaranteeing efficient, competitive oil and gas markets.
- 2.49 Basic principles underlying this operation to heighten efficiency and build a heavier private-sector presence in the industries in question are as follows: (i) establishment of sound legal frameworks; (ii) operation of independent regulatory and oversight bodies with the required technical expertise; (iii) in the electricity subsector, splitting of CDE into autonomous corporations, and promoting private-sector participation in all power industry operations; (iv) in the oil and gas sector, restructuring current commercial operations and redefining the role of the State; and (v) in general, designing transparent and competitive procedures that will attract the private sector.
- 2.50 The main risks that might hamper achievement of the project's objectives are as follows: (i) lack of experience in carrying through reforms of the type proposed, which is why there is provision in the operation for international technical assistance; (ii) a lack of timely action by national authorities in approving the necessary legal amendments, for which reason disbursements under the first two components of the operation would be conditional upon creation of the respective regulatory agencies; (iii) excessive pressure on the government owing to the threat of public deficits caused by the situation in the electricity and sugar (State Sugar Board) subsectors, which could prompt hasty decisions, hampering efforts to develop a sound strategy for incorporating the private sector; to counter this possibility, the project is designed to require rapid implementation of reforms and close supervision during the execution phase; and (iv) risk that there might not be stable ground rules, which would affect sustainability of the reforms; certainty in this area could only be afforded once the respective laws have been approved by the Congress.

### III. FULFILLMENT OF PROJECT ELIGIBILITY CRITERIA

#### A. General project eligibility criteria

- 3.1 This technical cooperation, designed as it is to further efforts to modernize and promote private-sector participation in the electricity subsector, is fully consonant with the general objective of the MIF, which is to strengthen investment and expand the private sector as a means of accelerating economic growth and social development within each country.

#### B. Project eligibility criteria under the Technical Cooperation Facility

- 3.2 The present proposal is consistent with the criteria for approving funding under the Technical Cooperation Facility, as set forth in Article III, Section 2(c) and (d), of the Agreement Establishing the MIF, under the terms of which resources may be provided to governments in order to finance consulting services required to establish and strengthen regulatory bodies, and to advise on the design and implementation of privatization programs. The proposal is likewise consonant with the priorities set out for the Technical Cooperation Facility by the MIF Task Force, which stated, in its final report, that the Facility should continue to support the "development of a legal, regulatory, contractual and supervisory environment that promotes private investment in infrastructure and public services...".
- 3.3 One noteworthy consideration here is that, as part of the program to help spur private investment in infrastructure, the Technical Cooperation Facility is currently funding 24 similar projects in 17 countries of the region. In 12 of these the MIF projects are specifically aimed at developing legal and regulatory frameworks for the energy sector.

### IV. CONCORDANCE WITH THE BANK'S COUNTRY STRATEGY

- 4.1 This operation is consonant with the Bank's strategy for the country. The Dominican Republic country paper states that the Bank will help fund programs to consolidate economic infrastructure in the transportation, ports, and energy sectors, with a view to promoting regional trade and physical integration of the country, and to further the expansion of these sectors with private-sector participation.
- 4.2 The proposed technical cooperation dovetails with other operations currently being prepared by the Bank, notably: (i) the public enterprise reform program (PERP) (DR-0089); (ii) a future MIF

technical-cooperation project in aid of the PERP, especially to help implement programs promoting private-sector participation in the areas addressed in the third component of the present operation; and (iii) a program to expand electric power generation with private sector participation (DR-0080).

## V. AVAILABILITY OF MIF RESOURCES

- 5.1 Funding for this project will be in the form of a grant, based on the following considerations: (a) on September 12, 1994, the Donors Committee declared the Dominican Republic eligible for all forms of MIF financing; (b) section III of the country eligibility memorandum states that the Dominican Republic meets conditions for grant eligibility; and (c) the proposed project will serve as a strong catalyst for investment flows, as required under Article III, Section 5(a), of the Agreement Establishing the MIF, its objective being to build an enabling climate to boost private investment.

## VI. EVALUATION

- 6.1 Progress and outcomes of this technical cooperation will be evaluated by the project team against the operation's specific objectives. Annex I presents the expected outputs for each activity, which will serve as benchmarks for monitoring the project's progress against its objectives, from progress and consultants' supervision reports.



<b>DOMINICAN REPUBLIC</b> <b>MIF - FACILITY I</b> <b>RESTRUCTURING OF THE ENERGY SECTOR IN THE CONTEXT OF THE PUBLIC</b> <b>ENTERPRISE REFORM PROGRAM</b>		
<b>Overall objective of the project</b> To promote economic efficiency and competition, supporting the reforms undertaken by the government in order to encourage private-sector participation in sectors traditionally served by State enterprises.		
<b>Specific objective of the project</b> To create an enabling climate for private-sector participation by establishing a new legal, institutional and regulatory framework in the electricity and oil and gas subsectors, and providing support to begin bringing private enterprise into other State-owned companies.		
Components	Activities	Expected outputs
I. Regulatory framework of the electricity subsector	Technical assistance for establishment and start-up of a regulatory agency for the electricity subsector, including its organizational design, by-laws and information systems.	The new regulatory agency for the subsector will have been created and will begin operating in the first year of the project.
	Devising tariffs, drawing up initial contracts and defining rules for operation of the restructured sector in its first years.	Consultants' work will be completed and findings available within six months after the start of the project.
	Consultant to develop regulations and operating procedures for the electricity industry regulatory agency.	This technical assistance will be carried out during the first 12 months of operation of the regulatory agency.
	Development and delivery of a basic training program for staff of the regulatory agencies and other entities involved, and purchase of computer equipment and installation of appropriate information systems.	These tasks are to be carried out during the first year of operation of the new institutional framework.
II. Regulatory and legal framework of the oil and gas subsector	Technical assistance for establishment and start-up of a regulatory agency for the oil and gas industry, and development of transitional regulations.	The regulatory agency for the subsector will have been created and will begin operating in the first year of the project.
	Drafting an Oil and Gas Industry Act and enabling regulations.	This technical assistance will be carried out during the first 12 months of operation of the regulatory body.
	Analysis of alternatives for restructuring the industry and determination of the State's role in commercial operations.	Recommendations and decision as to the State's role in commercial operations within six months after the start of the project.
	Drafting of environmental regulations for the subsector.	Consultants' work will be completed and findings available within six months after the start of the project.
	Technical training program for staff; purchase of equipment for the oil and gas regulatory agency.	These tasks are to be carried out during the first year of operation of the new institutional framework.
III. Promoting private equity investment in State enterprises	Consultants to help develop and design strategies for promoting private-sector participation in various State enterprises.	Evaluation of alternatives and determination of strategy for CEA, CORDE and CFI within six months after the start of the project.

**DOMINICAN REPUBLIC**  
**(TC-94-10-50-7) - MIF**  
**RESTRUCTURING OF THE ENERGY SECTOR IN THE CONTEXT OF THE**  
**PUBLIC ENTERPRISE REFORM PROGRAM**  
**(US\$000)**

BREAKDOWN OF PROJECT BUDGET	Person-months	MIF	LOCAL COUNTERPART
<b>COMPONENT I: Regulatory framework for the electricity subsector</b>			
1. International and local consultants for creation and organization of regulatory body Travel and other expenditures	8.7	77.0 22.8	26.4
2. International consultants to determine tariffs and draw up initial contracts between generators and distributors Travel and other expenditures	4.5	50.0 19.0	26.6
3. International consultants, firm, or organization for support for regulatory procedures and standards Travel and other expenditures	10.8	131.3 36.3	53.3
4. Training program		99.0	55.0
Purchase of equipment and software		40.0	40.0
<b>COMPONENT II: Legal and regulatory framework for the oil and gas subsector</b>			
1. International and local consultants to organize, determine activities and draw up the budget of the regulatory body Travel and other expenditures	4.4	38.4 12.0	13.2
International experts on oil industry regulation to draft transitional regulations Travel and other expenditures	1.3	23.2 6.7	5.5
International experts in logistics and pricing to devise transition period Travel and other expenditures	1.3	23.2 6.7	5.5
2. International experts to draft the new Oil and Gas Industry Act and regulations Travel and other expenditures	6.1	66.7 18.1	12.3
3. International consultants and legal experts to help assess alternatives for commercial operations Travel and other expenditures	3.6	35.7 15.8	9.2
4. Consultant to draft environmental regulations for the subsector Travel and other expenditures	2.6	26.4 12.5	12.3
5. Training program		60.0	40.0
Purchase of equipment and software		40.0	40.0
<b>COMPONENT III: Promoting private investment in public companies</b>			
Consultants to evaluate alternatives and design a strategy for CEA Travel and other expenditures	5.7	66.1 22.1	18.4
Consultants to evaluate alternatives and prioritize activities for CORDE Travel and other expenditures	4.0	57.2 16.9	12.3
Consultants to evaluate alternatives and prioritize activities for CFI Travel and other expenditures	2.3	29.7 10.0	9.2
Program coordination	8.0		46.0
Contingencies		157.4	54.8

PROPOSED RESOLUTION

REPUBLICA DOMINICANA. NONREIMBURSABLE TECHNICAL COOPERATION FOR  
RESTRUCTURING THE ENERGY SECTOR IN THE CONTEXT OF THE  
PUBLIC ENTERPRISE REFORM PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República Dominicana and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-\_\_\_\_\_, with respect to a technical cooperation program for restructuring the energy sector in the context of the public enterprise reform program.

2. That up to the amount of US\$1,220,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.