

# PROJECT TO CONSOLIDATE REFORM AND MODERNIZATION OF THE POTABLE WATER AND SANITATION SECTOR

(DR-0123)

## EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	The Dominican Republic	
<b>Executing agency:</b>	<p>Secretaría Técnico de la Presidencia (STP) [Technical Secretariat of the Office of the President] through the potable water and sanitation reform executing unit (PWSREU) (paragraph 3.1), with the participation of the following operators: Corporación de Acueductos y Alcantarillado de Santo Domingo (CAASD), Corporación de Acueductos y Alcantarillados of Santiago (CORAASAN), Corporación de Acueductos y Alcantarillados of Moca (CORAAMOCA), Corporación de Acueductos y Alcantarillados of Romana (COAAROM) and Instituto Nacional de Agua Potable y Alcantarillados (INAPA) [National Potable Water and Sanitation Authority] (paragraphs 3.1 and 3.9). The Oficina Nacional de Política y Planificación de los Servicios de Agua Potable y Saneamiento (ONAPAS) [National Potable Water and Sanitation Services Policy and Planning Office] (the lead agency), and the Consejo Nacional de Regulación de Servicios de Agua y Saneamiento (CORSAS) [National Water and Sanitation Regulatory Council] (the regulatory agency) will also take part when the two become operational (paragraph 3.1).</p>	
<b>Amount and source:</b>	IDB: (OC)	US\$59.2 million
	OC/IFF:	US\$11.8 million
	Local counterpart:	<u>US\$18 million</u>
	Total:	US\$89 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Disbursement period:	5½ years
	Grace period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1% of the loan
	Credit fee:	0.75 %
	Currency:	US\$ from the single currency facility.

**Objectives:**

The main objective of the project is to provide potable water and sanitation services nation-wide with the coverage and quality levels established by the competent authority, at the lowest possible cost and under plans that are financially and environmentally sustainable. To achieve this objective, the project proposes that the companies operating the services act as private suppliers on competitive markets.

Specifically, the project is intended to transform the metropolitan companies (CAASD, CORAASAN, CORAAMOCA, COAAROM) into government-owned stock companies, with participation on their boards of directors by civil society, and to include the private sector through management contracts for CORAAMOCA and COAAROM. INAPA will gradually be decentralized into autonomous regional units. INAPA operating units capable of exercising financial autonomy will be identified and the management of rural water supply systems will gradually be transferred to users.

**Description:**

The project will finance management and coordination activities as well as the following three components: (a) demonstration and emergency works; (b) technical assistance; and (c) investments in infrastructure. Loan proceeds will be made available in three stages, subject to eligibility conditions, with a view to ensuring steady progress in reforming the sector.

a. Demonstration and emergency works (US\$8.6 million)

These investments will address some of the most visible and urgent problems in water and sanitation services, whose execution can be completed in under a year and will be accompanied by training in system management. They are intended to rapidly improve the operation of the systems and address critical sanitary needs, thereby gaining credibility for the companies and for the reform process. They will also serve to introduce new operating practices in the companies, marked by efficiency, quality and financial sustainability.

b. Technical assistance (US\$15.8 million)

This component is intended to strengthen the ability of service providers to perform in the new institutional and regulatory framework. Technical assistance will focus on modifying their corporate structure and better enabling their managers to meet the demands for operating and commercial efficiency typical of competitive companies. The goal is for the companies to develop

the following profiles:

- i. Their structure will give them managerial and financial independence so that the companies serving metropolitan areas can become stock companies. Each company will have bylaws establishing its independence and empowering its general shareholders meeting, board of directors, and managers to take decisions on the basis of operational and commercial considerations. CORAASAN, will be used as the model for each company to ensure participation in its board by civil society and municipal representatives and avoid political interference in its day-to-day management.
- ii. The management of each company will prepare a business plan which includes a program for the delivery of services, an investment plan, and financial projections. The business plan should be based on the goals established in the contract (or license) under which the companies will provide services. This information will permit company management to make commitments to the competent authorities to achieve annual targets in areas such as coverage, quality of service, physical efficiency, commercial efficiency in billing and collections, operating costs, and financial self-sufficiency. These targets should be compatible with the goals agreed upon with the Bank in the action plans (paragraphs 2.10 and 2.11).
- c. Investments in infrastructure (US\$45 million)

Includes prefeasibility and feasibility studies and the execution of:

- i. **Investments in works (US\$42 million)** to rehabilitate existing works, to be allocated as follows: (i) 33% for CAASD for works to optimize systems, rehabilitate storage tanks, and metering; (ii) 33% for INAPA for optimization of infrastructure and metering; (iii) 19% for CORASAAN for works to optimize the distribution system, extend the drainage system, and metering; (iv) 10% for CORAAMOCA for water treatment, optimization of the system and metering; and (v) 5% for COAAROM for rehabilitation works. In the event that any of the companies is late in presenting investment projects and is not in a position to use the funds in the agreed period, a company that used its entire allocation may present additional projects and use the funds that are still available.
- ii. **Support for community management of rural water supply systems (US\$3 million).** Two main actions are

involved: (i) strengthening for INAPA's regional units in the areas of promotion, technical assistance and training in methodologies for full community participation; and (ii) financing for investments in rural water supply systems. There will be about 20,000 beneficiaries, or less than 1% of the rural population

**Environmental and social review:**

The overall socioenvironmental impact of the project will be highly positive. The new institutional framework and modernization of the way in which the operators are organized will improve the quality of services, increase their coverage, and reduce water pollution. The direct negative impacts of the investments in emergency works and rehabilitation of potable water and sewer systems have been identified and detailed measures to mitigate them have been included in the ESIR. Program funds will also be used to finance two environmental audits. The first will verify the performance of the ad hoc mechanism for environmental evaluation and control after the emergency works are completed. The second will evaluate implementation of the recommendations to be included in the environmental studies and will be performed during execution of the investments in infrastructure (paragraph 3.26).

**Benefits:**

The project will help to improve national potable water and sanitation services in the medium term, with the levels of coverage and quality established by the component authority, at the lowest possible cost, under financially and environmentally sustainable systems that will reduce dependency on government transfers to finance investments in the sector.

To achieve these objectives, the project will help convert the operators into government-owned stock companies able to perform as private companies on competitive markets. This will encourage participation by the private sector in operating potable water and sewage systems in the short term and will facilitate their involvement in management and investments in the long term.

**Risks:**

The main risks of this operation stem from the reform process and include the following.

1. Difficulties in getting the framework law through congress

The process of reform in the sector requires a broad consensus from the main political parties and power groups on the national level. Congress, which must pass the legislation required for the reform, is controlled by the opposition. Also, presidential elections will be held in June 2000. Although it is acknowledged

that the reform program is based on the initiative of experts in the sector and is not politically motivated, certain important aspects, such as residential metering and rate increases, could be placed on the agenda for political debate.

To counteract adverse reactions, the Technical Secretariat of the Office of the President, with support from the technical-cooperation project on reform of the sector, will organize events to obtain a consensus from key power groups, including parliamentarians and the leaders of political parties (paragraph 1.32). The parallel MIF technical-cooperation project to install the new legal framework will also carry out a campaign to promote the program to reform the potable water and sanitation sector (annex III). The present project will also contribute to these initiatives, seeking support from all the players involved, and will include campaigns to raise user awareness. Also, the three-stage design of this operation, with eligibility criteria linked to progress in implementing the reform, is intended to foster continuity in the process. Accordingly, initial financing will be provided for emergency works and institutional development to produce a visible impact in the short term. The larger disbursements for rehabilitation and expansion of infrastructure will be contingent on the passage and enactment of the new legal framework for the sector.

2. Inconsistencies in rate levels and government transfers to the operators

If the operators are to become financially viable, they will have to make significant improvements in efficiency and their rates will have to be readjusted, supplemented by central government transfers. To minimize the possibility that the executive branch will postpone the necessary increases in rates or be reluctant to make the transfers to operators, the contracts with the operators (which will be public) will establish authorized rates to be charged to users and the corresponding transfers from the government to the operators.

3. Interference with independent management by the operators

The most delicate risk will be persistent interference by the authorities in the technical and administrative management of the operators. This risk will be mitigated by establishing lead and regulatory agencies, organizing the main operators as stock companies with representatives of civil society on their boards of directors, and establishing contracts between the operators and the

pertinent authorities. Failure to meet the contract targets will be an early indicator that such interference continues to exist. If the performance of any company is unsatisfactory (i.e., if it fails to comply with its action plan) and/or if the authorities opt to concede the services to private operators, the Bank would support the concession process under an operation with MIF funding. The MIF operation would cooperate with the authorities throughout the entire process, including preparation for bidding by private companies, an active search for interested parties and contract preparation.

**Exceptions to  
Bank policy:**

None

**Relationship of  
the project to  
Bank country  
and sector  
strategy :**

The project is consistent with Bank and country strategy to promote the modernization and reform of public services and foster private-sector participation and decentralization as instruments to expand the coverage and improve the quality of public services.

**Poverty  
targeting and  
social equity  
classification**

This operation qualifies as a social equity project as described in the key objectives of Bank activity set forth in the Report on the Eighth General Increase in the Resources of the Bank (document AB-1704) (see paragraph 4.29). It does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.29). However, the improvements in the coverage and quality of potable water and sanitation services will particularly benefit people with limited access to those services living in marginal urban zones, small towns and rural areas, whose incomes are generally below the national average (paragraph 4.30).

**Procurement**

Contracts for works, consulting services and equipment financed with proceeds from the Bank loan will be let through bidding that conforms to Bank rules and procedures. International competitive bidding will be held for: (a) **civil works** costing US\$1.5 million and over; (b) **consulting services** worth more than US\$200,000; and (c) **equipment** worth US\$250,000 and over. For bids and purchases below these limits, the procedures established in paragraph 3.22 will be followed.

**Special  
contractual  
conditions**

Once the Bank's standard conditions precedent to the first disbursement have been met, up to US\$500,000 from the loan could be disbursed for any of the project activities included in the item 'management and coordination'.

The Conditions precedent to the disbursement of up to an

additional US\$1.4 million for project management and coordination; up to US\$10.9 million for the technical assistance component; up to US\$8.6 million for the demonstration and emergency works component; and up to US\$3 million for support for community management of rural water supply systems under the infrastructure investment component are as follows:

1. Submission of the framework law regulating the potable water and sanitation sector (framework law) to congress (paragraphs 1.28 and 3.4).
2. Contracting of the firm that will act as the principal executing unit (PEU), including an environmental specialist (paragraphs 3.4 and 4.6);
3. Entry into force of the Operating Regulations for the investment and infrastructure component; and
4. Individual authorization for disbursements of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when the pertinent corporation has complied with the following conditions, in addition to those stipulated in 1, 3 and 3 above:
  - a. Signature by the corporation and the government of action plans establishing benchmarks (efficiency, quality of service and commitments to rate adjustments and restructuring of the suppliers and the institutional framework for the sector) (annex IV), as agreed in advance with the Bank.
  - b. Placement in effect of the following legal documents signed by the corporation and the borrower: (i) the respective provisional performance contracts; and (ii) agreements on the transfer of project funding to the corporations. The transfers should be made in the form of loans, under terms agreed upon in advance with the Bank, except for the funds for INAPA for management and coordination, technical assistance and investments in rural systems, which will be nonreimbursable (paragraphs 2.11, 3.4 and 3.19).

Conditions precedent to the additional disbursement of up to US\$12 million for the infrastructure investment component:

1. Entry into force of the framework law (paragraph 3.7);
2. Individual authorization for disbursement of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when the corporation concerned has complied with the following conditions, in addition to those stipulated in paragraph 1 above: (a) the corporation has become a stock company, except for INAPA, which should be operating on the basis of independent units, in accordance with its business plan; (b) the corporation has signed its license contract with the government; (c) the objectives and commitments established in the action plans agreed upon in advance with the Bank (annex IV) have been fulfilled; and (d) the ad hoc mechanism for environmental evaluation and control is operating properly (paragraphs 3.7, 4.5 and 4.6).

Conditions precedent to the additional disbursement of up to US\$23 million for the infrastructure investment component:

1. ONAPAS and CORSAS, or the lead and regulatory agencies of the sector concerned, are operating and carrying out the functions established in the framework law (paragraph 3.8).
2. The rate and investment policies necessary to guide the operation of the sector regulatory agency have been approved and placed in effect (paragraph 3.8).
3. Individual authorization for disbursement of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when, in addition to complying with the conditions mentioned in paragraphs 1 and 2 above, the corporation concerned: (a) has complied with the goals and commitments established in the action plan agreed upon in advance with the Bank (annex IV); and (b) the ad hoc mechanism for environmental evaluation and control is operating properly (paragraphs 3.8, 4.5 and 4.6).

Other conditions:

1. During the project, the government undertakes to cover the corporations' losses through transfers, until the new rate policy and rate increases, coupled with improvements in efficiency, permit the operators to be self-sustaining (paragraphs 3.19 and 4.24).



2. CORAAMOCA and COAAROM agree to hire a private party to manage each company's operations prior to the third year of this program, thus complying with the efficiency and performance goals agreed to with the authorities in their provisional contracts or licenses, as pertinent (paragraph 2.11).

The loan contract will also contain the Bank's standard conditions precedent to the first disbursement, its standard conditions for operations of this kind, and its normal requirements regarding auditing, reports, periodic meetings, inspections, maintenance, and procurement.

Compliance with all the conditions will be verified during the administrative and evaluation missions.

## I. FRAME OF REFERENCE

### A. Overview of public sector reform

- 1.1 The macroeconomic situation in the Dominican Republic has improved markedly in recent years. The economy grew by 7.3% in 1996, 8% in 1997 and overall growth of 7.5% is projected for 1998. In 1997, consolidated public sector finances posted a deficit of just 1% of GDP. Prudent management of public funds has permitted the government, for the first time in many years, to cover all its programmed external commitments. This has undoubtedly helped to consolidate the country's macroeconomic stability.
- 1.2 Measures to bring about these economic improvements have included major efforts to modernize and reform the public sector. These efforts began at the start of this decade when the government embarked on a national reform and modernization program to change the profile of public administration, strengthen the performance of functions that cannot be delegated, grant the local levels of government autonomy to solve their problems, and promote a businesslike approach to public sector economic activities.
- 1.3 The current government, which took office in 1996, continued the process of structural reform, establishing a Presidential Commission for Reform and Modernization of the State (CPRME), which reports directly to the president, to lead the process. Since then, the CPRME has been instrumental in obtaining passage of a set of major amendments to legislation. In 1997, congress passed an act on capitalization of government-owned companies, intended to make room for private capital in the Corporación Dominicana de Electricidad (CDE) [Dominican Electric Power Corporation], the Consejo Estatal de Azúcar (CEA) [State Sugar Council] and the Corporación Dominicana de Empresas Estatales (CORDE) [Dominican State-Owned Companies Corporation]. Legislation on export promotion, a monetary and financial code, a general electricity act, a water act, a health code, and an environmental quality and protection act is in the process of being passed.
- 1.4 In the area of public services, the reform seeks to simplify the current organization, separating the functions of sector policy, regulation and direct delivery of services, and also envisages the involvement of private agents in their delivery, reserving policy and regulatory functions for the government. The potable water and sanitation sector has not been bypassed by these changes. The movement to reform the sector gained momentum during the first congress of the Dominican Association of Sanitary Engineers held in 1996, when professionals from the sector, most of whom work with the operators, spoke out publicly on behalf of a thorough-going reform.

**B. Institutional framework and problems in the potable water and sanitation sector**

- 1.5 In the Dominican Republic this sector has all the features of the 'old agenda'. Services are provided by state-owned companies with high levels of political interference, scant financial independence and poor efficiency and quality indexes. The legal and institutional framework is marked by much overlapping of functions, the lack of independent policy-making bodies, the absence of effective mechanisms to regulate prices and quality and to clearly allocate the water resource to suppliers.<sup>1</sup> This translates into deficient services and low health indicators, despite large public investments in the sector.
- 1.6 The main actors in the sector are: Corporación de Acueductos y Alcantarillado de Santo Domingo (CAASD) [Santo Domingo Water and Sewerage Corporation], Corporación de Acueductos y Alcantarillados de Santiago (CORAASAN) [Santiago Water and Sewerage Corporation], Corporación de Acueductos y Alcantarillados de Moca (CORAAMOCA) [Moca Water and Sewerage Corporation], Corporación de Acueductos y Alcantarillados de Romana (COAAROM) [Romana Water and Sewerage Corporation], and the Instituto Nacional de Agua Potable y Alcantarillados (INAPA) [National Potable Water and Sanitation Authority], which covers the rest of the country.<sup>2</sup> INAPA was established as the governing body for the sector, with powers to set policy, regulate, plan and deliver services. Subsequently, CAASD and CORAASAN were created as entities with the same powers in their respective jurisdictions. These operators were established as autonomous public corporations with a manager or executive director appointed by the central government. INAPA sits on the boards of directors of CAASD, CORAASAN, CORAAMOCA and COAAROM, but most of the other members are appointed directly or indirectly by the executive branch.
- 1.7 Despite the large investments in the sector (between 1.6% and 1.8% of annual GDP at the beginning of this decade) and high potable water coverage indexes in Santo Domingo and Santiago, indicators of the quality of the service point to problems. There are major shortcomings in the continuity of service and water quality and, as a result, 37% of the urban population is forced to buy bottled water.

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<sup>1</sup> The public institution with general responsibility for water resources is the National Water Resources Authority (INDRHI). Water is allocated by a committee chaired by INDRHI, with members from the Dominican Electric Power Corporation, the Ministry of Agriculture, the Central Bank, irrigation boards and the National Potable Water and Sanitation Authority (INAPA). A water code has been submitted to congress, which proposes to make INDRHI responsible for allocating water resources, with powers to collect the rates charged for water sold in blocks.

<sup>2</sup> The corporations CORAAPLATA and COAAROM have recently been established as part of the process of decentralizing INAPA. COAAROM will begin to operate in June 1999.

- 1.8 Potable water supplies are particularly unsatisfactory in rural areas, where 37% of the population lives (some 3 million people). Just 56% of rural households have access to water and only 22% of the water supplied is treated. Consequently, some 2.3 million people in rural areas do not have access to water of acceptable quality.
- 1.9 National coverage of sanitation services is estimated as 11%. Just 26% of the city of Santo Domingo has sanitary sewers and just 5% of sewage is treated.<sup>3</sup> Coverage is somewhat better in Santiago, where 49% of households have sewer connections and 33% of the sewage is treated. In Moca, coverage is 50% and 36% is treated. The sanitation situation in rural areas is critical. Over 50% of the population uses latrines, many of which are in poor condition. Less than 12% of sewage from households with sewer connections is treated.
- 1.10 As a result of this situation, it is not surprising that health indicators linked to water and sanitation in the Dominican Republic are very poor. Infant mortality is 65 per thousand live births, and children under five suffer an average of seven bouts of diarrhea each year.<sup>4</sup>
- 1.11 These shortcomings are largely due to the management model in effect. Strategic decisions on investments, employment, wages and rates are generally arbitrary and are guided more by political considerations than by considerations of business efficiency, particularly in the cases of INAPA and CAASD. The presence of representatives of municipalities and civil society on CORAASAN's board of directors has allowed for greater autonomy in its decision making, which has contributed to more efficient management of that company.
- 1.12 System administration is very inefficient, with more employees than are necessary, physical losses of over 50% in all the systems, many illegal connections, and poor commercial efficiency (Table I-1). Users in some sectors with good service waste large amounts of water, since only Santiago has reasonable coverage of residential metering.
- 1.13 Accounting and administration systems and procedures are out of date, which makes it difficult to produce management reports for decision making. This problem is more acute in the case of INAPA, since it has no regional accounting.

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<sup>3</sup> CAASD operates 20 plants, five of which are septic tanks with filters. Only four of the other 15 plants are in operation and the rest have been abandoned or are out of service.

<sup>4</sup> PAHO, *Health Conditions in the Americas*, 1994.

**Table I-1**  
**Efficiency indexes (1998)**

Index	CAASD	CORAASAN	CORAAMOCA
Employees per 1,000 formal connections	14.1	12.7	25.2
Employees per 1,000 total connections	8.1	10.4	11.1
Illegal connections	46%	19%	57%
Physical losses	58%	53%	60%
Collections/billing	64%	79%	84%

- 1.14 Since these shortcomings make it impossible to generate sufficient funds internally, the companies depend on central government transfers to finance their investments and part of their current costs. They also receive large hidden subsidies because they do not pay for electric power. Rates, with the exception of CORAASAN, are far below the levels needed to cover operating and maintenance costs, and clients are charged on the basis of estimates and not on metered consumption. Since the financial situation of the companies is largely unrelated to water production and sale, their management focuses more on negotiating subsidies and politicking than on improving services (Table I-2).

**Table I-2**  
**Financial indicators**  
**(US\$ millions)**

Item	CAASD		CORAASAN		CORAAMOCA		INAPA	
	1997	1998	1997	1998	1997	1998	1997	1998
Income	23.3	23.2	9.8	10.8	—	0.6	12.1	12
Transfers	15.1	14.3	1.7	1.5	0.5	1.3	57.6	41
Costs	46.1	44	11.4	11.9	—	2.1	72.2	55.7
Balance	-7.7	-7.5	0.1	0.4	—	-0.2	-2.5	-2.7

- 1.15 In the rural area, INAPA is the main water operator, with 280 systems out of a total of 400. The other systems are managed by NGOs as part of the program to decentralize their administration. Some of these latter systems have been successful, thanks to full community participation and international financing. Under that approach, the community participates right from the outset of the works and is trained in system management, operation and maintenance and protection of water sources. The NGOs also monitor management. In most of these systems, the rates paid by the community are sufficient to cover operating and maintenance costs, and 90% of users are up-to-date in their payments.

### **C. Concept and principles of reform in the potable water and sanitation sector**

- 1.16 The strategic problems that need to be solved were identified at a workshop sponsored by INAPA and the IDB in March 1997 with the institutions involved in sector reform. A sector analysis prepared by an inter-institutional technical committee and the Presidential Commission for Reform and Modernization of the

State, with support from PAHO, the IDB and UNICEF, proposed basic guidelines in 1997 to steer the process of reform in the sector, including:

- a. Establishment of a single policy body for the sector on the national level.
- b. Creation of an independent regulatory agency.
- c. Restructuring of the service providers to ensure their financial and administrative autonomy and promote the delivery of efficient, good-quality services.
- d. Promotion of community and user participation, particularly in rural systems.

## **1. Proposed sector reform**

- 1.17 In 1998, the Bank financed a technical-cooperation project (ATN/SI-5962-DR) to assist the government in preparing a strategy to reform the sector, based on the sector analysis guidelines and including an acceptable institutional and regulatory plan, a proposal to modify the corporate structure of the public service providers and a draft framework law for the sector. The main components in the strategy are outlined below.
- 1.18 **Lead agency:** Creation of a lead agency (ONAPAS) which reports directly to the Secretariado Técnico de la Presidencia (STP) [Technical Secretariat of the Office of the President], to prepare sector policies and plans and allocate public funds for investments to improve the coverage and quality of services. ONAPAS will be responsible for policy decisions on service coverage and quality goals. Since it will be responsible for service delivery, ONAPAS will negotiate contracts with the different suppliers that will include specific goals and sources of financing to achieve them.
- 1.19 ONAPAS will also be responsible for establishing the rate and subsidy policies to be applied to water and sanitation services. The rate policy will consider the marginal cost of providing the service and will be designed to maintain financial viability. The subsidy policy will seek to facilitate access by the very poor to basic services.
- 1.20 **Regulation:** The establishment of an independent regulatory agency, the National Water and Sanitation Regulatory Council (CORSAS) to ensure that the rate policies and efficiency and quality goals are met. CORSAS's mission will be to mitigate the inefficiencies caused by the monopolistic position of the suppliers and ensure that users receive service under the agreed terms. It will have the function of enforcing the framework law and its enabling regulations, preparing methodologies and formula for calculating rates, approving the rate schedules and prices of services and revising or adjusting them, regulating service contracts in conformity with the law, and monitoring compliance with plans to improve and expand the

service. CORSAS will also be responsible for ensuring that the service providers comply with drinking water standards (PAHO standards) and the standards for effluents from sewage treatment plants (Standard 436 of the Directorate General of Standards and Systems – DGNS). As for industrial effluents, the framework law contains sanctions for industries that do not comply with the standards for waste dumped into the sewer system that could have a negative impact on sewage treatment plants. The regulatory agency will also provide technical support for the lead agency in making decisions on service levels and determining the impact on rates of different options for developing the systems. If the regulatory agency is to perform its functions properly, it must have financial and institutional independence and, given its highly technical nature, it must have permanent staff whose jobs are not affected by political cycles.

- 1.21 **Service providers:** CAASD, CORAASAN, CORAAMOCA and COAAROM. The reform includes restructuring the municipal operating companies, transforming them into stock companies operating under the corresponding commercial system. Each of these suppliers will negotiate a license or contract with the lead agency, defining its coverage and quality goals and also specifying goals for its commercial and financial management. As the basis for negotiations, draft contracts have been prepared for each company, based on an engineering analysis and financial projections for each system, including improvements in efficiency as a result of its restructuring and investment plans (see the project technical files).
- 1.22 Once they have been restructured as stock companies, they will be subject to the laws and rules governing private commercial activities and although initially their stocks will continue to be owned by the government, it is expected that this change will allow for greater distancing in dealings between the company and the political authorities.<sup>5</sup> To safeguard that distance, the model calls for balanced participation by civil society in the companies' boards of directors (replicating the successful experience of CORAASAN).
- 1.23 In the cases of CORAAMOCA and COAAROM (recently created and in the process of getting organized) and of other nonmetropolitan operators which have recently been, or are in the process of being disassociated from INAPA, the strategy also includes management contracts with private operators to develop a new management model based on the objectives and goals of the sector reform program. These pilot projects will make it possible to compare the efficiency levels of private and public management, teaching lessons that could be replicated in other operating units. To launch this strategy, CORAAMOCA and COAAROM will contract

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<sup>5</sup> At present, public water and sanitation companies are not subject to legal restrictions on hiring or dismissing employees or on subcontracting services with private parties. However, there is heavy political interference in their decisions, which results in very high employment levels. Furthermore, the power to contract services with private parties is not used very often. Contracts are generally limited to physical works and are awarded directly, without bidding, once again as the result of political influence.

private parties to manage their operations prior to the third year of this project, thus complying with their efficiency and performance commitments.

1.24 **INAPA.** The reform of INAPA is based on three key points:

- a. *A process of gradual decentralization into regional units with independence in managing their income, costs and decisions.* INAPA is organized into eight zones and operates 380 systems throughout the country (100 urban and 280 rural). To address immediate problems and facilitate the transition process, INAPA's performance will be improved through partial internal restructuring to delegate greater autonomy to different operational zones. INAPA will agree upon a provisional service contract with the lead agency that includes specific goals for each zone.
- b. *Identification of operating units capable of operating independently and with financial autonomy.* INAPA will identify six independent systems that could be conceded to private companies or operated under private management contracts. It will prepare a business reform plan to identify operating units capable of operating independently and with financial autonomy (based on technical, economic, financial, social and environmental criteria). In the short term, INAPA will continue to be formally answerable to the lead agency for providing services in those communities and for complying with the goals agreed upon with it. The objective is to demonstrate the viability of the systems as independent commercial units. In the long term, INAPA will cease to be involved in these services, and the lead agency will formalize management contracts or concessions directly with private companies, which will take over provision of the service.
- c. *Gradual transfer of management of rural systems to users.* Successful transfers of rural water and sanitation systems to communities demonstrate that community management can be viable when based on the following guidelines: participation in programming by the community from the outset of the process of constructing or rehabilitating systems up to their operation and maintenance; use of appropriate technologies; follow-up after construction; protection of the water resource; training in the operation, maintenance, management and proper use of the sanitary infrastructure; and training in gender perspective. Through the proposed participative programming, users chose the levels of service and type of management they want and pay for it in function of the economic situation in the community and the type of management selected. Special stress will be laid on the promotion of programs, community organization, educational messages and protection of natural resources, design of systems tailored to community expectations, training and monitoring.



- 1.25 The type of reform supported by the proposed project turns the operators into companies capable of acting like private companies. It also encourages private sector participation in operating water and sanitation systems in the short term and makes it feasible for them to participate in management and investments in the long term. The quest for efficiency will induce the managers of the companies to turn to private contractors for support, when appropriate. Private entrepreneurs will be interested in becoming involved as the uncertainties associated with the technical and financial weaknesses of the companies are reduced and the legal, institutional and regulatory framework is improved.
- 1.26 The proposed plan is compatible with different forms of private participation, ranging from contracts for specific services to contracts for the management of an entire operation, and even sharing in the ownership of the stock companies. If the performance of any company is unsatisfactory (it fails to comply with its action plan) and/or if the authorities opt to concede the services to private operators, the Bank would support the concession process under an operation with MIF funding. The MIF operation would cooperate with the authorities throughout the entire process, including laying the groundwork for bidding by private companies, an active search for interested parties and contract preparation.

## **2. Progress in implementing the reform**

- 1.27 A lead office for the reform and modernization of the potable water and sanitation sector (ORRMSAPS) has been created under a presidential decree issued in June 1998. The office has formalized the functions of the inter-institutional technical committee and will disappear when the framework law is promulgated and the lead and regulatory agencies begin to operate.
- 1.28 A consensus exists between the government and the operators on the implications of the reform process. The executive will submit a framework law on the water and sanitation sector to congress in the second half of 1999, based on the drafts prepared under the technical-cooperation project to reform the sector. To obtain the political consensus and support from civil society necessary to get the legislation through congress in three to six months, the technical-cooperation program includes actions to publicize and promote the proposed reform among relevant power groups.
- 1.29 Progress has also been made in decentralizing rural water supply systems under a process that began in 1997. To date, 22 rural water associations have been established to manage the services in the communities. A program has been prepared to rehabilitate systems and the process of transferring them has begun, based on a participative methodology developed by the Department of Health and Social Welfare (SESPAS) and INAPA, with support from the United States Agency for International Development (USAID). Thirty-five water supply systems have been rehabilitated in the first two years. A pilot project has also been launched in Hato Mayor province, costing RD\$21 million. The national decentralization

strategy will be based on the results of the pilot project and implemented over the next three years.

### 3. Project execution period

- 1.30 In the period prior to passage of the framework law and the start up of the new agencies (regulatory, lead), improvements in service will be promoted under provisional contracts between the existing institutions and the Technical Secretariat of the Office of the President (STP). The goals of the contracts will be designed to ensure continuous improvements that are consistent with the funds available for the institutions. The STP will monitor compliance with the goals, and independent audits of performance will be conducted by international consultants.
- 1.31 When the provisional contracts and licenses are signed, the companies and the government will also sign action plans with the Bank. The plans will establish coverage, quality and efficiency goals that can be achieved by the operators with no extra funding other than the funds from the present project, and the government will commit the support necessary to correct the operating deficits of the companies, under the established efficiency conditions, in addition to minimum targets for rate increases.

### D. Bank support for sector reform

- 1.32 The Bank is supporting the reform process through three technical-cooperation projects:
- a. **The technical-cooperation project to reform and modernize the potable water and sanitation sector** – ATN/SI-5962-DR – begun in May 1998 with financing from the Spanish Fund has prepared a proposal for reform and a draft framework law (see the project technical files) and amendments to existing laws to establish a modern regulatory framework and a new corporate structure for the operators. In the final stage, it will promote political consensus on the reform project. The consultant presented a draft final report in October 1998.
  - b. **Technical-cooperation assistance for preparation of the project to consolidate reform and modernization of the potable water and sanitation sector** – ATN/JF-5961-DR – begun in June 1998 with financing from the Japanese Fund, has worked with the operators to design the present lending operation.
  - c. In parallel with the loan, the Bank is processing a third **technical-cooperation project to install the new legal and institutional framework for the potable water and sanitation sector**, which will produce the final design for the institutional mechanism, contribute to the start up of the lead

and regulatory agencies and promote the sector reform program. Financing has been requested from MIF for this project (see Annex III).

## **E. Other lending institutions and donors**

- 1.33 Apart from IDB assistance, the Dominican Republic is also receiving support in the water and sanitation sector from the World Bank, the French aid agency L'Agence française de développement, the European Union and USAID. There is general agreement between these institutions and the Bank on the content of the proposed reform of the sector. Also, these entities and other international cooperation agencies have expressed their intent to carry out complementary operations in the sector, as progress is made in sector reform.

### **1. World Bank**

- 1.34 The World bank is preparing two operations, which will be subject to the same institutional framework and policies proposed in the project:
- a. **Privatization of water and sanitation services in tourist areas (US\$105 million).** A program to privatize services in Puerto Plata, Sosua, Cabarete, Boca Chica, Juan Dolio, Guayacanes, Airport of the Americas, Samaná, Las Terrenas, Punta Cana, Bávaro and Barahona. Management contracts will be established initially and will later be turned into fully fledged concessions. The World Bank will finance investments in works, provided that management of potable water, sanitation and trash collection services is contracted with the private sector.
  - b. **Privatization of the commercial area of CAASD and installation of water meters in Santo Domingo (US\$85 million).** Under this program, which is in the design stage, a service contract will be established with the private sector for commercial operation of the company, including billing and collection. The project calls for the installation of 105,000 meters (5,000 commercial and 100,000 domestic) in Santo Domingo over the next five years.

### **2. Agence française de développement**

- 1.35 This agency is considering two operations: (a) **A valve curtain for CAASD (US\$3 million)** involving a loan to purchase valves and parts for a curtain needed to control pressure in low-lying areas in Santo Domingo; and (b) **windmills for INAPA (amount not determined)** involving a loan to purchase and install windmills to pump drinking water in small rural communities.

### **3. European Union**

- 1.36 The European Union has expressed interest in water and sanitation projects in marginal areas and in sewage treatment projects in the Zurza area in Santo

Domingo. It held coordination meetings with other lending agencies in August 1998 and decided to wait for the results of the master sewerage plan for Santo Domingo before proceeding. The EU has also supported INAPA with investments and technical assistance for the decentralization of rural water supply systems.

#### **4. USAID**

- 1.37 USAID is cooperating with INAPA in a pilot project to decentralize rural water supply systems in Hato Mayor, where a management model involving a community company is being tested. The community takes part in all decisions on investments and operations.

#### **F. Bank strategy and experience in the sector**

- 1.38 The reform strategy being promoted in the Dominican Republic reflects the experience built up by the Bank in many countries of the region. Since many of the problems stem from institutional weaknesses in the sector, the strategy stresses the creation of a legal, institutional and regulatory framework with suitable incentives for the efficient delivery of services, their long-term sustainability, quality and access. To achieve these objectives the strategy is based on the separation of the planning and policy, regulatory, and service delivery functions, competition among various local providers of the service, and the establishment of clear rules to curb the possibilities for opportunistic behavior. Passage of the framework law for the sector is a condition precedent to disbursement of the investment funds. Prior to passage of the law, the operation will be limited to providing technical assistance for the reform and to carrying out demonstration and emergency works.
- 1.39 The strategy includes different management models to ensure that business decisions are taken on a strictly commercial basis. It also includes the conversion of public companies into commercial companies, the use of management contracts and the transfer of rural systems to community companies. From this standpoint, suppliers are required to work according to mercantile principles, producing and selling water and sanitation services and charging rates that will be sufficient to pay the total cost (including capital costs). This will help them develop the capacity to obtain financing on private markets in future. The reform strategy also includes the use of residential meters to allow for an efficient rate structure. CAASD, CORAASAN, CORAAMOCA and COAAROM will sign contracts with the government, designed to imitate the requirements of a contract between the government and a private supplier. They will pay real interest rates on any new capital funds provided by the State. For their part, CORAAMOCA and COAAROM will hire private operators to comply with the contractual guidelines.

## **II. THE PROJECT**

### **A. Objectives**

- 2.1 The final objective of the sector reform project is to provide potable water and sanitation services nation-wide with the coverage and quality levels established by the competent authority, at the lowest possible cost and under plans that are financially and environmentally sustainable. To achieve this objective, the Bank is supporting the country with two parallel and highly complementary operations – the project proposed here and a parallel MIF technical-cooperation project.
- 2.2 The present project will contribute to reform of the sector on the level of the operators of the water and sanitation services. Its goal is for the operators to act like private companies on competitive markets. As a result of that behavior, the efficiency, quality and coverage of water and sanitation services will improve, and dependency on government transfers to finance investments in the sector will be reduced.
- 2.3 The parallel MIF technical-cooperation project has been designed to complement the main project. Its purpose is to start up the new institutional and legal framework for the sector. This means that the lead and regulatory agencies will operate independently and carry out the functions established in the framework law backing the reform.

### **B. Project description**

- 2.4 The project consists of three components, apart from support for its own management and coordination: (a) demonstration and emergency works (11% of project funds); (b) technical assistance (27%); and (c) investments in infrastructure (62%). Loan proceeds will be made available in three stages, subject to eligibility conditions. The stages and conditions are described in chapter III. The project will be chiefly targeted to completing or rehabilitating abandoned works, optimizing the operation of works already built, promoting the independence of the operators and ensuring their financial viability.

#### **1. Project administration and coordination (US\$5.5 million)**

- 2.5 This involves the installation and start up of the main entities responsible for project management and coordination. It includes operating costs for the five years of the project for personnel from the Technical Secretariat of the Office of the President (STP) in charge of project management, the principal executing unit (PEU), which will report to the STP, and executing units in the corporations (CEUs).
- 2.6 The budget for the STP (US\$1.8 million) includes funds to cover the operating costs of ONAPAS and CORSAS, which will operate independently once they have

been established by law. In the case of CORSAS, the budget only covers three years, since after the law is passed, it will be self-sustaining through transfers linked to rates. The loan resources will also be used to finance a mid-term evaluation, financial, operational and environmental audits of the project, ad hoc consulting services and assistance in the bidding and award of contracts. The corresponding funds are included in the STP budget.

- 2.7 The amount budgeted for the PEU (US\$1.6 million) includes funds to assist the corporations by contracting specialized technical assistance in the bidding and award of works and contracts. This assistance will supervise the bids tendered by the corporations and offer seminars to train their personnel in IDB procurement procedures.
- 2.8 The budget for the executing units in the corporations includes US\$1.2 million for CAASD, CORAASAN, CORAAMOCA and COAAROM. INAPA will receive US\$900,000 for the central unit and the staff of its regional units responsible for rehabilitation of rural water supply systems and their transfer to the communities.

## **2. Demonstration and emergency works (US\$8.6 million)**

- 2.9 These investments are intended to solve the most visible and urgent problems in water and sanitation services, whose execution can be completed in under a year. They will be accompanied by training in system management. These investments are intended to rapidly improve the operation of the systems and address critical sanitary needs, thereby gaining credibility for the supplier companies and for the reform process. They will also serve to introduce new operating practices into the companies, marked by efficiency, quality and financial sustainability.
  - a. For CAASD, three works (US\$1.4 million): (i) to establish two pilot zones for loss control and residential metering programs; the initial improvement in the quality of the service, accompanied by user awareness campaigns, will make wide-spread metering feasible; the introduction of master meters and the installation of valve curtains will control physical losses and make flows available for other parts of the city; (ii) to recoup the capacity ( $4\text{m}^3/\text{s}$ ) of the Haina-Managuayabo water treatment plant by changing the sand in the filters; and (iii) to rehabilitate two sewage treatment plants to allow the company to begin taking responsibility for the quality of effluents.
  - b. For CORAASAN (US\$3.3 million) chiefly to rehabilitate the Pastor intake and the water treatment plant at El Nibaje with a capacity of  $1\text{m}^3/\text{s}$  and also to renew the electromechanical equipment at the Rafey and Cienfuegos sewage treatment plants at a cost of US\$145,000.
  - c. For CORAAMOCA (US\$900,000) to build a trunk sewer to collect sewage that is currently dumped into open canals and restore the full sewage treatment capacity of the La Dura and La Colina plants. Also to provide the

company with a laboratory to monitor drinking water quality and basic equipment for operations, transportation and administration.

- d. For COAAROM (US\$200,000) to renew pumping equipment and for rehabilitation and maintenance.
- e. For INAPA (US\$2.8 million), to renew electromechanical equipment to ensure water treatment quality at 18 plants and to decentralize six rural water supply systems.

### **3. Technical assistance (US\$15.8 million)**

2.10 Strengthening the service providers to enable them to perform in the new institutional and regulatory framework promoted by the reform is the key to its success. Technical assistance will focus on changing the corporate structure of the companies so they can act subject to the typical incentives and penalties that apply to private activities. It will also strengthen their management capacity to enable them to respond to the demands for operational and commercial efficiency typical of competitive companies. The goal is for the companies to develop the following profiles:

- a. Their structure will give them managerial and financial independence so that companies serving metropolitan areas can become stock companies. Each company will have bylaws establishing its independence. They will be written to reflect the agreed framework (see the project technical files) to enable the general meeting, the board of directors and managers of each company to take decisions on the basis of operational and commercial considerations. CORAASAN will be used as the model for ensuring that representatives of civil society and the municipalities sit on the boards of directors of the companies, in an effort to prevent political interference in their day-to-day management. As stock companies they will be subject to the Labor Code (or commercial system) with respect to personnel management. This will facilitate the contracting of employees based on company needs.
- b. The management of each company will prepare a business plan which includes a program for the delivery of services, an investment plan, and financial projections. The business plan should be based on the goals established in the contract (or license) under which the companies will provide services. This information will permit company management to make commitments to the competent authorities to achieve annual goals in areas such as coverage, quality of service, physical efficiency, commercial efficiency in billing and collections, operating costs and financial self-sufficiency.

- 2.11 The contractual instruments under which the operators will provide water and sanitation services are as follows: (a) A provisional contract as a transitional instrument until the reformed institutional framework is introduced and then a license contract. The provisional contract will be between the operator and the STP. The document will be a commitment containing institutional, operational and investment indicators and timetables to be complied with in moving toward the reform. The licenses will replace the provisional contracts and will be between the new stock companies and the lead agency in the sector. The licenses will grant the operators the right to provide water and sanitation services in a given geographic area and will stipulate their obligations. They will also give operators the right to use the installed infrastructure. The licenses will define performance indicators and the way in which they will be published for public information; (b) an action plan agreed to by the government and the corporations with the Bank. The plan will establish coverage, quality and efficiency targets for the operators, contingent on the commitments made by the government with regard to rate readjustments and transfers of funds, particularly to finance priority investments (Annex IV).
- 2.12 In the case of nonmetropolitan operators which have recently been or are in the process of being disassociated from INAPA, the technical-assistance component will support management contracts with private companies to assist the operator in complying with the provisions of its provisional contract. The component will also support other initiatives, such as the preparation of studies and the start up of new management systems.
- 2.13 The **technical-assistance component** includes the following specific activities:
- a. **Preparation of business plans for CAASD, CORAASAN, CORAAMOCA and COAAROM (US\$800,000).** These tasks will be covered in a single consulting contract to prevent duplication and ensure the consistency of the proposals. The plans should include the following components: (i) restructuring plan with a corporate design for each company, its bylaws and regulations and terms of reference for its general and financial managers; (ii) investment, operating and financial plans, determining rates, subsidies and transfers over a five-year horizon; (iii) model contracts for outside services; and (iv) model license contract and proposals for revising the provisional contract prior to becoming a stock company.
  - b. **Preparation of a reform plan for INAPA (US\$800,000).** In addition to the tasks listed for the business plans of the other corporations, six systems will be selected as pilot projects, on the basis of their potential for operating as independent **units** and their representative geographic distribution in the zones serviced by INAPA. Management contracts will be prepared for those systems under different terms and conditions that are the most favorable for users. The idea is to contract operators to provide management capacity but to use INAPA's operating personnel. The operators will not assume



commercial risks, and their remuneration will include bonuses for exceeding the goals established in their contracts.

- c. **Development of management systems (US\$1.8 million).** Integrated systems will be designed that use modern technology for compiling information and for administering the commercial, accounting and financial systems of CAASD, CORAASAN, CORAAMOCA and INAPA.
- d. **Studies (US\$4 million).** Two studies are essential for establishing the companies' investment plans. The first is the master sewerage plan for Santo Domingo, where coverage is just 26% and treatment is less than 5%. Investment requirements are large, and the problems of storm drains and sewage treatment must also be addressed. The master plan should balance investment priorities against the company's financial capacity, which is limited by the extent to which user rates can be increased and by the funding that can be provided by the central government. The second study will be on sectorization of the potable water system in Santo Domingo. It will develop a mathematical model of the distribution system, including the installation of valve curtains, and prepare the bid documents for the first stage of execution, to be financed by the project.
- e. **Environmental management (US\$400,000).** The PEU should establish procedures to ensure that adequate consideration is given to environmental issues and the risks to project activities from hurricanes and other natural disasters, and environmental units should be established in the companies. A study is also required on the disposal of sludge from the treatment plants and a program of participative education on health the environment should be carried out.
- f. **Systems modernization (US\$8 million).** Once the framework law has been passed by congress, the technical assistance will finance the modernization of management systems (administrative and automatic data processing) for the water and sanitation companies (CAASD, CORAASAN, CORAAMOCA and INAPA). The same company that designed the systems should supervise this task. The costs for the six urban systems belonging to INAPA and run under private management contracts have not been included, since they are expected to be self-financing, i.e. to cover the costs of management strengthening out of their surpluses.

#### 4. **Investments in infrastructure (US\$45 million)**

2.14 These investments cover just a fraction of the sector's needs (Table II-1) and have been divided into two subcomponents:

- a. **Investments in works (US\$42 million).** This sum includes the estimated cost of the different studies that are required, including environmental and

social feasibility studies, for the investments to be requested by the companies. The studies will be contracted out through bids let by the companies. This component will not finance new works. Instead, it will rehabilitate existing works and the funds will be used as follows: (i) 33% for CAASD for works to optimize systems, rehabilitate storage tanks, and metering; (ii) 33% for INAPA for optimization of infrastructure and metering; (iii) 19% for CORASAAN for works to optimize the distribution system, extend the drainage system, and metering; (iv) 10% for CORAAMOCA for water treatment, optimization of the system and metering; and (v) 5% for COAAROM for rehabilitation works. In the event that any of the companies is late in presenting investment projects and is not in a position to use the funds in the agreed period, a company that used its entire allocation may present additional projects and use the funds that are still available.

- b. **Support for community management of rural water supply systems (US\$3 million).** Two main actions are involved: (i) strengthening for INAPA's regional units in the areas of promotion, technical assistance and training in methods for full community participation; and (ii) financing for investments in rural water supply systems. There will be about 20,000 beneficiaries, or less than 1% of the rural population. Under participative programming, users choose the level of service and type of management they want, and pay the corresponding cost. Social, technical and financial feasibility is analyzed to ensure project sustainability. All project components are designed on the basis of those analyses. This methodology stresses a gender approach, promotion and community organization, educational messages, natural resource protection, the design of systems based on community preferences, training and follow-up, all of which contribute to its success.

## C. Scale

- 2.15 An estimate has been made of the investments needed to enable CAASD, CORAASAN and CORAAMOCA, at a rate of 22 m<sup>3</sup>/s, to achieve reasonable coverage and quality for drinking water and sewer service in their regions by the year 2025. The amount required for the rest of the country that is currently the responsibility of INAPA and COAAROM, operating at a rate of about 23 m<sup>3</sup>/s by 2025, will be comparable, but no exact estimates are available.

**Table II-1**  
Investments identified in selected areas  
(US\$ millions)

Institution	Up to 2025		The first five years			
	Potable water	Sanitation	Potable water	Sanitation	Total	Project contribution
CAASD	579	452	136	42	179	14
CORAASAN	162	154	35	46	81	8
CORAAMOCA	54	37	12	8	20	4
TOTAL	795	643	183	96	280	26

- 2.16 The project will finance just a fraction of the investments required by the water and sanitation sector, as can be seen from Table II-1. These investments have been scaled to address the most pressing needs of the systems over the next five or six years, as a complement to operations to be financed by the World Bank in particular (some US\$180 million) and other international agencies (about US\$20 million) over the same period.

## D. Cost and financing

### 1. Cost analysis

- 2.17 The project will cost US\$89 million, including financial costs, contingencies and escalation, and has the following financing structure (Table II-2):

**Table II-2**  
Cost summary  
(US\$ thousands)

Component	IDB	Counterpart	Total	%
<b>1. Administration and coordination</b>	<b>1,900</b>	<b>3,600</b>	<b>5,500</b>	<b>6.2%</b>
1.1 STP (PWSREU)	200	1,600	1,800	
1.2 PEU	1,110	500	1,600	
1.3 CEUs	600	1,500	2,100	
<b>2. Technical assistance</b>	<b>10,900</b>	<b>4,900</b>	<b>15,800</b>	<b>17.8%</b>
2.1 Corporate business plans	600	200	800	
2.2 Reform of INAPA	600	200	800	
2.3 Accounting/financial admin. System	1,200	600	1,800	
2.4 Studies and designs	3,000	1,000	4,000	
2.5 Environmental management	0	400	400	
2.6 Systems modernization	5,500	2,500	8,000	
<b>3. Emergency works</b>	<b>8,600</b>	<b>0</b>	<b>8,600</b>	<b>9.7%</b>
<b>4. Investments in infrastructure</b>	<b>38,000</b>	<b>7,000</b>	<b>45,000</b>	<b>50.6%</b>
<b>Subtotal</b>	<b>59,400</b>	<b>15,500</b>	<b>74,900</b>	<b>84.2%</b>
<b>5. Unallocated</b>	<b>1,100</b>	<b>1,000</b>	<b>2,100</b>	<b>2.4%</b>
<b>6. Financial costs</b>	<b>10,500</b>	<b>1,500</b>	<b>12,000</b>	<b>13.5%</b>
<b>Total</b>	<b>71,000</b>	<b>18,000</b>	<b>89,000</b>	<b>100.0%</b>
<b>Percentage</b>	<b>80%</b>	<b>20%</b>	<b>100%</b>	

## 2. Project financing

- 2.18 **IDB financing.** The Bank's total financing will be US\$71 million from the ordinary capital and US\$11.8 million from the IFF, in United States dollars (single

currency facility). This represents 80% of the total cost of the operation. The grace period will be five years and the amortization period 20 years.

- 2.19 **Local counterpart.** The local counterpart is US\$18 million or 20% of the total. **These funds will come from** the country's general budget and will be included in **the amounts to be transferred** by the central government to the companies, which in recent years have varied between US\$80 million and US\$120 million per year

### **III. BORROWER, EXECUTING AGENCIES AND PROJECT EXECUTION**

#### **A. The borrower and the executing agencies**

- 3.1 The borrower will be the Government of the Dominican Republic. The process of reforming the sector will be carried out under the supervision of the Technical Secretariat of the Office of the President (STP) through a potable water and sanitation sector reform executing unit (PWSREU) established for this purpose and headed by the advisor to the Secretary. The corporations providing water and sanitation services (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA), and the lead and regulatory agencies (ONAPAS and CORSAS), once they become operative, will participate in execution.

#### **B. The reform process and coordination of project execution**

- 3.2 The PWSREU will be responsible for actions to move forward in the reform process. It will assist the STP in contracting and supervising the firm that will execute the project and in carrying out the parallel MIF technical-cooperation project to install the new legal and regulatory framework for the water and sanitation sector. The PWSREU will also act as interlocutor with the Bank, representing the STP, and will oversee timely compliance with the eligibility requirements for the different stages of the project and the technical assistance. To carry out these functions, the PWSREU will need to have qualified staff, work in close coordination with all the entities involved, have suitable legal and operating instruments, and be guided by an operating plan to ensure that the key activities are carried out on schedule.
- 3.3 Once the technical-cooperation agreement is signed with the MIF and the conditions precedent to its first disbursement have been met, the funds for the **first stage of the technical-cooperation operation (US\$400,000)** will be made available to finance promotional activities, regulations to the law, the draft license contract for the future companies, studies on rate and investment policies, and the design and installation of a national water information system.
- 3.4 When the Bank's standard conditions prior to the first disbursement of the loan have been complied with, up to US\$500,000 will be made available for any of the activities under the project 'management and coordination' categories. When the executive branch has submitted the bill on the framework law to congress, the firm that will act as the PEU has been hired, and the Operating Regulations for the investment and infrastructure component have entered into force, up to US\$23.9 million in additional funds will be released from the loan for stage one of execution, works and technical assistance. Corporations that have agreed to action plans and signed provisional performance contracts and agreements on the transfer of funds will be eligible for these resources and may apply for financing to: (a) operate their own executing units; (b) hire consulting firms or individual experts to support the

reform of the operating companies under the new institutional framework for the sector, as an initial part of the technical-assistance component; (c) invest in the demonstration and emergency works component; and (d) invest in rural systems (INAPA).

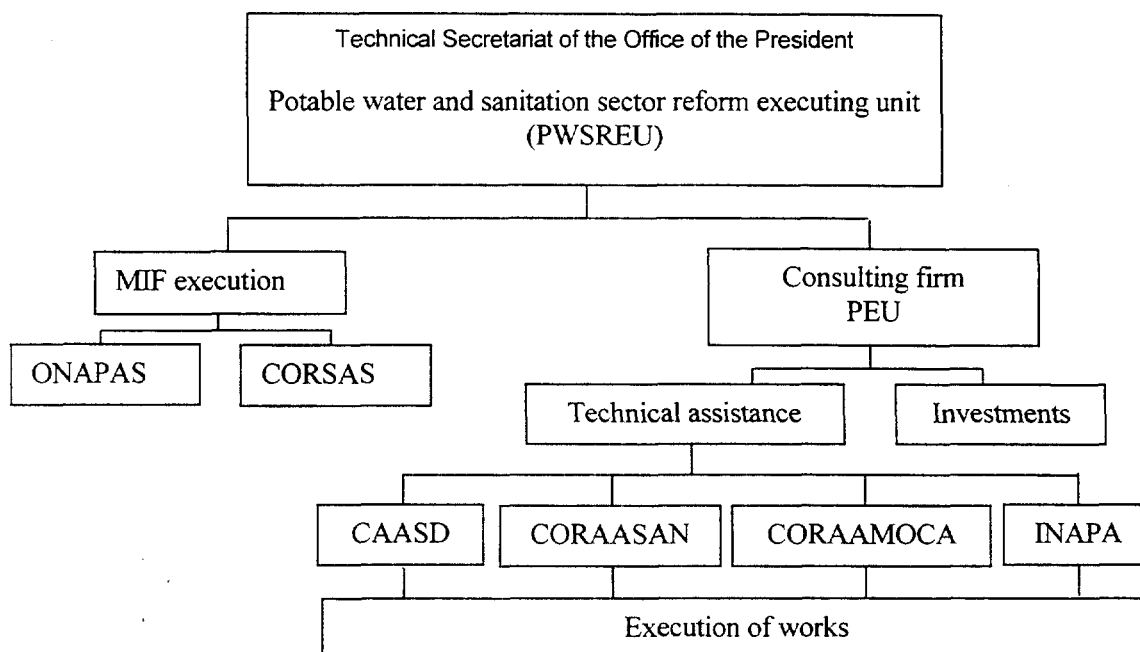
- 3.5 These activities will provide the tools for taking the first steps toward reform and are expected to require between 12 and 20 months to complete, which is a reasonable period for complying with the conditions for obtaining additional funds.
- 3.6 When the framework law has come into effect, disbursements will be made under **stage two (US\$1.18 million) of the parallel MIF TC operation** to: make adjustments in the regulations to the law after it is passed; prepare the internal regulations and manuals for the lead and regulating agencies; train their staff; and conduct studies to obtain basic information for the supervision of the operators and installation of the systems. These activities will place the two agencies in a position to operate and carry out their functions.
- 3.7 To accede to additional funds of up to US\$12 million in **stage two of the project investment component**, it will also be necessary for the framework law to be passed by congress. For the corporations to be eligible for these resources, they must have been transformed into stock companies (except for INAPA) and have complied with the goals for rates and physical and commercial efficiency set out in their action plans. Also, based on the new framework law, the corporations will be required to sign license contracts approved by the lead agency to replace their provisional contracts. When these conditions are complied with, the Bank will release funds to finance works under the criteria stipulated in the Operating Regulations.
- 3.8 To obtain additional funds of up to US\$23 million under **stage three of the project investment component**, evidence must be presented that the lead and regulatory agencies are operating and that the rate and investment policies have been approved by the authorities and are in effect. For the corporations to be eligible, they must continue to comply with the stipulations of paragraph 3.7, specifically with respect to achieving the rate and physical and commercial efficiency goals established in the action plans, and the ad hoc environmental evaluation and control mechanism must be functioning adequately. It is expected that these conditions will be met within 18 months at most.

### C. **Project execution**

- 3.9 The Technical Secretariat of the Office of the President is responsible for project execution through its PWSREU, which will hire a consulting firm to act as the principal executing unit (PEU) (Table III-1). The PEU will coordinate the project, supervise the technical-assistance component and the environmental action plan, administer the investment components, maintain records of its activities, and prepare and submit the required progress reports. The investment works contracts

will be awarded through competitive bidding by CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA. INAPA will also be in charge of the investments in rural water supply systems. The PWSREU will be responsible for contracting the consulting services financed by the MIF, the operational and financial audits of the project and the mid-term evaluation.

**Table III-1**  
**Organization chart for execution**



- 3.10 Owing to the project's complexity and the fact that it will be executed parallel to a reform process, the personnel of the PEU should have broad experience in the water and sanitation sector, project administration and execution, and coordination with many entities. The unit should have a minimum of six professionals (including a team leader, an environmental specialist and an accountant) plus the necessary support staff. It will plan its activities over the five years of execution, reducing its efforts and personnel in the fourth and fifth years, once the technical assistance has been completed and most of the investments in infrastructure have been committed.

#### **D. Execution mechanism**

- 3.11 The project will be executed as described below.

## **1. Technical-assistance component**

- 3.12 This component is made up of four main actions: (a) studies of business plans; (b) preparation of the provisional contracts and the management contracts; (c) design and implementation of management systems; and (d) consulting services and smaller studies to support the operators during their transition to stock companies.
- 3.13 The above-mentioned studies and consulting services will be contracted through bids tendered by the STP according to a planned timetable and they will be supervised in conjunction with the beneficiary corporations. The consultants will be paid by the STP through the PEU, once approval has been obtained from the corporations.
- 3.14 With respect to the business plan for INAPA, in the same way as for the management contracts, the results of the study will also be referred to the lead agency and, until it is created, to the PWSREU, which will perform technical supervision together with the PEU. The management systems will be subject to joint technical supervision with the operators (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) that will be implementing the systems. Last, the smaller consulting contracts will be supervised jointly with the pertinent beneficiaries.

## **2. Investment component**

- 3.15 The investment component will be administered by the PEU, but the operators who will award contracts for the different projects will be directly responsible for the investments. The funds for this component will be regulated in the Operating Regulations which will contain all the specific criteria for their use, for example eligible investments, minimum and maximum investments, etc. (see chapter II on the infrastructure investment component). The five operators that will be the beneficiaries of these funds will submit their requests to the PEU for: (a) works, which will be accompanied by studies on economic, institutional, financial, technical and environmental feasibility; (b) feasibility studies to determine the viability of the works for which financing will subsequently be requested (as a condition for the financing of feasibility studies, the operator will undertake to finance the works using the funds allocated for this component); and (c) proposals for the rehabilitation or construction of rural water supply systems. The content and form of each application will be specified in the Operating Regulations.
- 3.16 Upon receiving the investment requests, the experts in the PEU will examine the feasibility studies to ensure they comply with the parameters and criteria established in the Operating Regulations. If they do, the operators will be authorized to proceed with bids for the work and a bank will be selected to deposit the necessary funds. The design and supervision costs will represent between 7% and 10% of the entire cost of each work. Once the contract for the work has been



awarded, the PEU will authorize release of up to 25% of the cost of the contract to the operator. This advance will be replenished against evidence of payments made to the contractor. This methodology will permit the PEU to supervise execution of the component and will allow the operator to control execution of each of its own works. If the request is for studies, the PEU will examine the terms of reference, consulting on any questions with the operator, and will give its approval for the bid process. Disbursement procedures will be the same as for works. If there are differences of opinion between the PEU and the operator regarding approval of a request, they will be settled through a tripartite meeting that will include the PWSREU.

- 3.17 For rural water supply systems, INAPA will present its requests for system financing together with feasibility studies and a mechanism for community maintenance and management. The PEU will authorize the Bank to deposit the investment funds and advance 20% of the sum to INAPA, which will contract NGOs to carry out the works. The design costs will account for between 4% and 7% of the total for the works and the costs of execution and monitoring will be about 15%. The activities carried out by NGOs will be closely linked to the **strengthening of community organization**. The works will be supervised by INAPA and their progress will be tracked by the PEU. The balance of 50% will be released to INAPA when the work is 80% completed, and the NGOs will be paid when the works have been delivered and operate to the communities' satisfaction.
- 3.18 Each operator will mount a small company executing unit (CEU) composed of employees from the different branches and units involved in the works (engineering finance, administration, legal), which will be responsible for preparing the requests and for tendering, awarding and monitoring the works. The unit will be headed by a contracted specialist who will report directly to the director of the company. Each company will have the obligation of keeping separate accounts to identify all the costs of each work and of submitting that information to the PEU for the purpose of consolidating the records for the project. For rural water systems, INAPA already has a unit with a staff of 12. The unit will be strengthened with full-time specialists and will take charge of the execution of this component, based on the established criteria.

### **3. Debt service**

- 3.19 The aim is to treat the corporations in the same way as companies on competitive markets. Therefore, it is recommended that the funds transferred to each company for emergency investments and infrastructure be subject to debt service terms comparable to those charged on the financial market. The terms will be compatible with the terms for the IDB loan. For interest rates, it is estimated that a spread of 1.5 percentage points will be sufficient to: (a) establish a small reserve to compensate for late payments; and (b) cover the administration costs of the loans. With rates for IDB ordinary capital loans at about 7.5% per annum, the loans to the corporations would charge interest of about 9% a year. The loans will be made in

United States dollars equivalent to the official exchange rate, and the exchange risk will be assumed by the companies. The companies will be exempt from the repayment of funds for technical assistance and, in the case of INAPA, for investments in rural infrastructure. The companies will repay the loans directly to the government. As a condition precedent to the first disbursement of the IDB loan, onlending agreements must be signed by the government and the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA). The agreements will also stipulate the government's obligation to make up for the corporations' annual losses through direct transfers, until such time as the new rate policy and increases and the improvements in efficiency permit the operators to become self-sustaining.

**E. Channeling of funds**

- 3.20 The loan will be channeled through the Central Bank and will be deposited in separate accounts in a local bank. The funds for the investment component will be deposited in an account to be managed in accordance with the Operating Regulations. After receiving approval from the PEU, that bank will commit and disburse the funds to the corporations, which will execute the works through contractors. In no event will the PEU issue cheques drawn on that account directly to suppliers or contractors. The funds for the other two components will be deposited in a separate account and will be managed and disbursed by the PEU with prior approval from the corporations, as progress is made in executing the project and the studies, in order to ensure good performance by the consultants. The funds for the PEU will be kept in a separate account in the Central Bank or in another bank and will be managed by the PWSREU. The counterpart funds will be deposited in the same banks, but in separate accounts.

**F. Disbursement schedule**

- 3.21 The project will be executed over five years after the loan contract becomes effective. Sufficient time has been allowed to comply with the conditions precedent to the first disbursement, call for bids, contract and execute the works, and carry out supervision and other consulting services. However, to facilitate execution and the establishment of the executing unit, the Bank may disburse up to US\$500,000 of the loan upon compliance with the standard conditions precedent to the first disbursement. Table III-2 presents the estimated disbursement schedule

**Table III-2**  
**Disbursement schedule a/**  
**(US\$ millions)**

	1	2	3	4	5	Total
<b>IDB</b>	7.3	7.1	18.4	14.3	12.3	59.4
<b>Counterpart</b>	1.7	1.7	4.7	4.8	2.6	15.5
<b>Total</b>	9	8.8	23.1	19.1	14.9	74.9

a/ Excluding unallocated funds

## **G. Procurement**

- 3.22 Contracts for works, consulting services and equipment financed from the Bank loan will be awarded through bids following Bank rules and procedures. (a) **Civil works** costing US\$1.5 million and over will be awarded through international competitive bidding (ICB); those worth between US\$150,000 and US\$1,499,999 will be awarded through local competitive bidding (LCB) and those worth less than US\$150,000 will be awarded through limited bidding based on five quotes presented by qualified contractors. Contracts for works will be awarded to firms that present the lowest bid that is technically acceptable. (b) **Consulting services** worth more than US\$200,000 will be contracted through ICB; those worth between US\$50,000 and US\$200,000 will be awarded under LCB; and those worth less than US\$50,000 under limited bidding with a short list of not less than three and not more than six technical and economic quotes presented by consulting companies. (c) **Equipment** will be procured with ICB for US\$250,000 and over, LCP between US\$100,000 and US\$249,999 and with five quotes from suppliers for contracts under US\$100,000. The bidding and procurement plan is presented in Annex II.

## **H. Monitoring and evaluation**

- 3.23 Implementation of the sector reform program requires continuous monitoring to ensure due coordination between the institutional transformation of the operators promoted under this project and the establishment of the institutional framework for the sector with the lead and regulating agencies promoted under the parallel MIF operation. The first level of monitoring will be carried out by the PWSREU, which will have direct control over the management and coordination of both operations.
- 3.24 The Bank will monitor the project through its Country Office and annual missions to evaluate progress in the sector reform program and project execution through meetings with the STP, INAPA, CAASD, CORAASAN, CORAAMOCA, COAAROM and the lead and regulatory agencies, once they are created. The meetings will review compliance with the difference contractual clauses, particularly the physical and financial goals established in the contracts and action plans, government transfers to the operators, and the functioning of the ad hoc mechanism for environmental evaluation and control, with a view to adjusting aspects of the project. Compliance with the action plans and the different components can also be verified through special missions requested by the

authorities and the mid-term evaluation. On such occasions, future goals may be modified based on changes in externalities affecting the companies, particularly actual government contributions as compared to the sums required for the operating balances of the companies, which are set out in the action plans.

- 3.25 A mid-term evaluation will be conducted by external consultants at the end of the third year, whose main objective will be to review and evaluate the process of restructuring the corporations, provided that all the systems and consulting services have been executed and are in operation and the new entities have sufficient capacity and are using the policy and legal tools established under this project and the parallel MIF operation. Depending on the results of that evaluation, adjustments can be made in the goals and objectives of the sector reform program and of this project in particular. Last, under Bank requirements, the borrower will present the annual financial statements of the project audited by an independent firm acceptable to the Bank.
- 3.26 Two instruments will be used to monitor the environmental recommendations. The Bank missions will examine the ad hoc mechanism for environmental evaluation and control (see paragraph 4.7). The second instrument will be two environmental audits. The first will evaluate the ad hoc environmental evaluation mechanism and will be conducted upon completion of the emergency works component. The second audit will evaluate implementation of the measures included in the environmental studies and will be conducted two years after execution of the infrastructure investments begins.

## **IV. PROJECT FEASIBILITY**

### **A. Technical feasibility**

- 4.1 The project was formulated on the basis of proposals by the Dominican Association of Sanitary Engineers (ADIS), which were reflected in guidelines for sector reform, as part of the sector analysis prepared by the inter-institutional technical committee and the Presidential Commission for Reform and Modernization of the State in 1997. The reform strategy proposed as part of this project is consistent with the underlying principles of the public sector reform program on the national level. Furthermore, the strategy draws on lessons learned by the Bank in sector reform processes in the Dominican Republic and other Latin American countries.
- 4.2 The investments in emergency works and in the rehabilitation or expansion of service infrastructure will focus on repairing installations that have deteriorated owing to lack of maintenance, completing unfinished works and recouping lost capacity. Special stress will be placed on the use of proven technologies tailored to the operating capacity of the companies supplying water and sanitation services. Also, the proposed plan for community participation in rural systems will make it possible to identify the most appropriate technical solutions, based on the preferences and ability to pay of each community.

### **B. Environmental and social feasibility**

#### **1. Environmental and social impact**

- 4.3 The project involves institutional reform in the water and sanitation sector and is focused on modernizing the way in which service operators are organized. Although it includes investments in emergency works and rehabilitation of systems, the direct negative impacts of these activities and known and mitigation measures have been described in detail in the ESIR. The overall socioenvironmental impact of the project is positive. The new institutional framework and modernization of the way in which operators are organized will improve the quality of services, increase their coverage and reduce water pollution. As a result of the emergency and rehabilitation investments, drinking water quality will be able to comply with PAHO standards and treated sewage with Standard 436 proposed by the Directorate General of Standards and Systems, which reports to the country's Department of Industry and Commerce, which are similar to the parameters established by the EPA in the Clean Water Act. From the social standpoint, the project will help meet the potable water and sanitation needs of the public and will improve the quality of life and reduce water-borne diseases, particularly for the low-income population.

## **2. Ad hoc environmental impact evaluation procedures**

- 4.4 Although the country has more than 350 legal texts on the protection of natural resources and the environment and at least 12 different institutions involved in particular aspects of environmental management, the Dominican Republic's legal and institutional environmental framework presents weaknesses. Different committees have been created by presidential decree to address specific environmental issues, without adequate institutional stability and at considerable risk of disappearing at any time and, in some cases, without budgets and/or staff. At present, the main institution responsible for environmental management is the National Environmental Protection Authority (INPRA), created in 1998 by presidential decree to take over the powers of the three previous environmental committees.
- 4.5 Given the country's institutional and legal framework for environmental management and with a view to ensuring that steps are taken to mitigate and monitor the negative environmental impacts of infrastructure works in the water and sanitation sector, the project will establish and fund an ad hoc evaluation and monitoring system.
- 4.6 The system will consist of environmental units in the service providers, which will prepare environmental reports and EIAs based on the complexity of the work and reports on implementation of the recommendations contained in the assessments. Environmental units will be established in the companies that do not have them (CAASD, CORAAMOCA, COAAROM and INAPA). The design and control of the quality of the environmental studies and monitoring of the implementation of mitigation measures will be carried out by the principal executing unit (PEU). Contracting of an environmental specialist for the PEU is a condition precedent to the first disbursement.
- 4.7 Under the ad hoc procedures, the individual projects presented by the service providers must comply with the following requirements: (a) drinking water quality must be in accordance with the PAHO standard; (b) the quality of effluents from sewage treatment plants must be in accordance with Standard 436; (c) emergency works, repairs, system maintenance, installation of residential meters and valves must show evidence that the environmental specifications have been included in the technical specifications; (d) projects to construct storage tanks must present studies on alternative sites and show that the environmental specifications have been included in the technical specifications; (e) environmental impact assessments (EIAs) will be required for the master sewerage plan, water lines and sewers more than 1 km long and for the construction of sewage treatment plants; (f) studies on alternative sites must be conducted for water treatment plants, which must also have management plans; (g) management plans must be prepared for water lines and sewers under 1 km long and management plans must be available for new laboratories; (h) works to rehabilitate sewage and water treatment plants must

incorporate the mitigation measures described in the Environmental and Social Impact Report (ESIR).

- 4.8 Approval by the PEU of the different environmental studies described above is a **condition precedent** to the first disbursement of the subloans. Mitigation measures will be implemented by the service providers and will be supervised by the PEU, which is a sufficiently independent body.

### 3. Community consultation

- 4.9 The community consultations carried out when this project was being prepared were based on focus groups and involved about 300 people divided into 25 groups. The groups, representing different socioeconomic levels, included unorganized residential users, organized residential users, business groups, women's groups and employees of the country's four main potable water and sanitation companies (CAASD, CORAASAN, CORAAMOCA and INAPA).
- 4.10 The main community concerns regarding the sector were: (a) installation of **residential meters** should be preceded by an improvement in service and a public awareness campaign; (b) most of the groups linked the shortcomings in service to political interference in the companies; (c) an information campaign will be necessary on the institutional reforms proposed for the water and sanitation sector; (d) the communities' priority is good quality drinking water as part of acceptable service. The groups attach secondary importance to sewer systems and sewage treatment, which they consider to be a government responsibility.
- 4.11 The project was designed to address these concerns, as follows: (a) installation of residential meters will begin in areas with good water service and will be preceded by a public awareness campaign; (b) the institutional reform of the sector promotes the use of commercial criteria in service delivery and the separation of system operation from regulation and policy making, which are actions that will reduce opportunities for political interference in the water companies; (c) an information campaign on the proposed reform has been included in the technical-cooperation project to reform and modernize the sector (ATN/SI-5962-DR) which is under way and in the parallel MIF operation that forms part of the present program; and (d) the environmental action plan includes an environmental education component that stresses basic sanitary education.

### 4. Community participation

- 4.12 Community participation will be encouraged during the project through the following mechanisms: (a) users will be informed and consulted on the investment, operating and financial plans of the water companies; (b) the program to transfer the rural systems to the communities for management provides for community involvement from the outset, including community organization, participation in defining the technical and management designs of the systems, and training in their

operation and maintenance; and (c) the parallel MIF operation includes preparation of a plan to include marginal urban communities in formal water and sanitation services.

## **5. Resettlement**

- 4.13 The emergency and rehabilitation work on the water and sanitation systems does not call for resettlement. However, in the event that the investments to be financed under the project are different from those foreseen and resettlement is required, terms of reference for the preparation and implementation of a resettlement plan have been included in the ESIR, based on Bank policy. Also, in such cases, the resettlement plan will have to be approved by the PEU before the subloans are disbursed for such works.

## **6. Employment**

- 4.14 Improvements in efficiency will be accompanied by the growth of services, particularly in sanitation, and therefore employment projections show a very moderate and gradual decline in CAASD and CORAASAN (Table IV-1). The employees whose jobs with the metropolitan operators are cut can easily be absorbed by attrition and the additional jobs to be created to expand the urban and rural services currently under INAPA's jurisdiction.

## **C. Institutional feasibility**

- 4.15 Since this project is part of the program to reform the water and sanitation sector, it should move forward in tandem with the changes in the legal and institutional framework to be implemented with support from the parallel MIF operation. Supervision on very senior levels and mechanisms capable of maintaining separate, but closely-coordinated execution of these two operations are required to assist in compliance with the conditionalities in the different stages.
- 4.16 To achieve the necessary coordination, it is proposed that the Technical Secretariat of the Office of the President (the highest executive level) direct the reform process. In this way, a broad and overarching vision of the entire process will be maintained. The STP will execute the MIF operation to start up the lead and regulatory agencies for the sector through the PWSREU. The STP will also be in charge of project execution. To that end, it will hire the services of a company with extensive experience in the sector to act as specialized manager and will delegate management of the financial resources to local banks. The PWSREU will work in close cooperation with the future lead and regulatory agencies, and some of its staff will be transferred to them. This will separate the policy and regulatory functions from project execution but will preserve the institutional memory and experience gained during the process.



**Table IV-1**  
**Employment projections**

Company or system	1999	2000	2001	2002	2003	2004	2010
CAASD	2,928	2,890	2,849	2,801	2,747	2,686	2,906
CORAASAN	1,132	1,261	1,220	1,171	1,117	1,055	1,152
CORAAMOCA	255	254	250	243	234	222	258
San Juan de la Maguana	61	72	82	93	104	115	130
Sombrero and El Llano	10	9	9	8	8	7	7

- 4.17 A timetable for activities and goals has been established for each participating entity, including contractual conditions to assure that certain actions will be carried out before proceeding to the next stage. This mechanism minimizes risks and permits actions to be taken that are independent but framed in the process of moving ahead in the reform project.

#### **D. Financial feasibility**

- 4.18 The companies are currently operating at a deficit and their financial sustainability depends on government contributions and subsidies. This is due to serious operating inefficiency (see chapter I) and the low rates charged, which are below the average in other Central American countries. Both problems have been addressed in this project through the conditionalities.
- 4.19 The corporations depend on the government for their investment requirements as well as their operational sustainability. As a result of the companies' dependence, their infrastructure is deteriorating steadily, since the government is unable to finance the investments necessary to maintain and expand the sector. The one corporation that recovers its operating costs and only depends on the government for its investment needs is CORAASAN. This can mainly be put down to three factors: (a) less political interference in its decisions; (b) rates that are relatively higher than those charged by the other corporations; and (c) active participation by civil society in its board of directors.
- 4.20 To analyze the financial viability of the operators, the financial projections considered the investments needed in water and sanitation over the next 25 years, using realistic scenarios for improvements in efficiency. The main parameters were:
- To reduce unbilled water from over 60% in 1998 to under 35% by 2010.
  - To improve commercial efficiency (billing/collections) from 64%-89% to 90%-95% by 2005.
  - To reduce the number of employees per connection from 8-11 in 1998 to fewer than six by 2015.

4.21 Improvements in efficiency alone are not sufficient to make the sector financially viable. The 25-year projection showed that the present value of the income generated by the above-mentioned improvements in efficiency would be US\$70 million (at an annual discount rate of 12%), while total requirements are over US\$300 million. This makes it indispensable to raise rates and introduce a new rate and subsidy policy, which is included in the reform and the loan conditions.

4.22 Table IV-2 shows the rate increases needed to achieve financial balance in the main companies over the long term, under three scenarios: (a) if investments are made in potable water and sanitation; (b) if investments are only made in potable water; (c) if the efficiency goals are not achieved.

<p align="center"><b>Table IV-2</b>  <b>Average long-term rates</b>  <b>RDS/m<sup>3</sup> potable water <u>a/</u></b></p>			
	<b>CAASD</b>	<b>CORAASAN</b>	<b>CORAAMOCA</b>
Average rates in 1998	2.11	3.17	1.38
(1) Investments in water and sanitation	7.34	4.74	5.20
Required increase (%)	248	50	277
(2) Investments only in water	5.90	3.43	3.89
Required increase (%)	180	8	182
(3) Efficiency goals not achieved <u>b/</u>	11.23	5.52	5.89
Required increase (%)	432	74	327
<u>a/</u> Exchange rate, RD\$15.25 = US\$1			
<u>b/</u> Investments in water and sanitation			

4.23 The results are very sensitive to investments in sanitation. The average long-term costs of the companies are from 15% to 30% lower if investments are only made in potable water. The results are also very sensitive to achievement of the efficiency goals projected for each company and, in particular, to the commercial efficiency goals. CAASD is particularly sensitive in this regard, since its average costs rise by more than 50% if it fails to improve its efficiency. In short, the projections indicate that if the companies are to be financially independent, apart from making improvements in service quality and coverage, it will be necessary to apply major increases in the average rates charged to users.

4.24 As the above table indicates, the rate increases would be substantial, and therefore a policy of gradual increases should be applied, until a balance is achieved. This means that the government will have to continue to subsidize the service until a long-term equilibrium is reached. By way of example, the financing required up to the year 2005 if rates are not increased would be in the order of US\$1.2 billion (including INAPA). If rate increases average 20% a year until an equilibrium is achieved, the requirement would drop to US\$619 million, and all the corporations would achieve a financial balance by 2009.

4.25 Recognizing that it may be politically difficult to get the public to accept rate increases of the size necessary, it is recommended that a strategy be followed,

combining some of the following measures: (a) introduce the rate increases in each locality only after there has been an improvement in the quality of service; this would lead users to identify higher rates with better quality; (b) establish a rate structure in rising blocks, where the first basic block would be offered at a price that is more accessible to low-income families; and (c) introduce a direct subsidy program targeted to low-income households. The strategy will be determined in the rate and subsidy policy study included in this operation and its application forms part of the conditions for the loan. In all events, the action plan for the companies (a condition for each disbursement) includes specific rate increases for all the suppliers to enable them to become financially self-sustaining.

#### **E. Economic feasibility**

- 4.26 The economic feasibility analysis examined overall returns from the investment plans of the operators over 25-year horizons, in a context of improvements in efficiency linked to a broad reform process. The reform of the water and sanitation sector entails the simultaneous introduction of legal and institutional changes in the agencies and operating companies, combined with the execution of investment plans to improve the service infrastructure. A large part of the benefits, particularly savings in unit costs, will be linked to the changes in the institutional and legal framework necessary for sector reform. The present operation has the flexibility to finance any of the many investment requirements, provided they form part of the investment plan of an operator and comply with the conditions established in the project Operating Regulations.
- 4.27 On the basis of these considerations, a global analysis has been performed of the socioeconomic feasibility of the investment plans over a 25-year horizon. The plans and complementary reforms have been designed to achieve progress in efficiency and coverage based on the parameters presented in Table IV-2. Therefore, the total costs were estimated considering all the costs that would be incurred by the operators to achieve the efficiency and coverage goals. The costs include investments, the operating and maintenance costs associated with them, and other costs to strengthen and reform the operators. Total savings from more efficient operation were also taken into account. A correction was made to the market prices of materials and equipment to compensate for the 8% sales tax. The benefits accruing from expansion in coverage and improvements in quality of the services were also estimated.
- 4.28 The investment plans include investments to: (a) improve the efficiency of the systems by reducing physical losses, installing master and residential meters, increasing storage capacity and eliminating direct connections to the water mains; (b) renew assets based on their useful life; (c) cover increases in demand caused by natural population growth; (d) restore the capacity of drinking water and sewage treatment plants; and (e) gradually increase the coverage of the sewer systems and sewage treatment capacity. In principle, secondary treatment will be provided for waste dumped into surface sources. Waste dumped into the sea will receive

preliminary treatment and will be disposed of through underwater outfalls built to meet international standards for coastal water quality.

- 4.29 Two functions for water demand – one linear and one isoelastic – were estimated to quantify the benefits. The latter presented price elasticity of -0.43, which is in the expected range (-0.4 to -0.5) for functions of this kind. The beneficiaries were classified into groups depending on the type of benefit received – continuous, metered service for users who had previously been rationed, metered service for users not previously connected to the system, and metered service for users who were previously not metered.
- 4.30 The analysis did not consider the benefits from the installation of sewer systems and the environmental disposal of sewage, whose quantification would require specific studies, possibly using willingness-to-pay techniques. Therefore, two internal rates of return were calculated for each case. The first considers the costs of supplying potable water and the corresponding benefits (investments in water). The second (investments in water and sanitation) also includes the investment and operating costs of sewer systems, but continues to consider only the benefits from potable water supplies, and therefore underestimates the rate of economic return. In the case of INAPA, which is responsible for water and sanitation services in all the areas not covered by the other suppliers, the exercise was restricted to a smaller city, which was selected as typical (San Juan de la Maguana).

**Table IV-3**  
**Water and sanitation efficiency and coverage parameters**

	Efficiency parameters			Coverage parameters			
	Employees per 1,000 connections	Unbilled water %	Business efficiency %	Illegal connections %	Potable water %	Sewerage <sup>a/</sup> %	Residential metering %
<b>CAASD</b>							
1998	8.1	64	64	46	95	9	1
2005	6.0	44	90	10	95	34	53
2010	6.0	34	90	10	95	50	90
2020	6.0	35	90	10	95	75	95
<b>CORAASAN</b>							
1998	10.4	60	79	19	95	49	71
2005	6.0	46	95	10	90 <sup>b/</sup>	56	76
2010	6.0	33	95	10	95	60	90
2020	6.0	33	95	10	95	72	95
<b>CORAAMOCA</b>							
1998	11.1	72	84	57	64	36	0
2005	6.0	49	95	10	71	53	59
2010	6.0	35	95	10	80	60	90
2020	6.0	35	95	10	90	70	95
<b>San Juan</b>							
1998	1.7	83	89	78	95	13	0
2005	4.0	44	95	10	95	33	53
2010	4.0	44	95	10	95	50	90
2020	4.0	44	95	10	95	75	95
<b>Sombrero</b>							
1998	6.8	21	73	0	98	0	0
2005	4.0	23	95	0	98	0	0
2010	4.0	25	95	0	98	0	0
2020	4.0	25	95	0	98	0	0
<sup>a/</sup>	In the cases of CORAASAN and CORAAMOCA, sewer service coverage rates refer only to the cities of Santiago and Moca, since no investments in sewers are planned in the rest of the provinces of Santiago and Espaillat.						
<sup>b/</sup>	Coverage drops because the service area is expanded to cover the whole province of Santiago, where current coverage does not even serve all of the capital.						

- 4.31 The high rates of return (Table IV-4) confirm the size of the economic benefits compared to the cost of modernizing the potable water services. The rates of return drop substantially if sewage disposal costs are also considered and the corresponding benefits are not included. This open underestimation of economic returns is particularly critical for San Juan de la Maguana, where adequate sewage disposal provides more direct benefits to the users of potable water themselves, owing to the smaller scale of the systems.

**Table IV-4**  
**Internal rates of return for investments in water and sanitation**

	Investments in water		Investments in water and sanitation	
	Linear demand	Isoelastic demand	Linear demand	Isoelastic demand
CAASD	164%	30%	125%	17%
CORAASAN	267%	48%	76%	20%
CORAAMOCA	253%	44%	125%	25%
San Juan	56%	12%	43%	6%

#### **F. Social equity and poverty reduction classification**

- 4.32 This operation qualifies as a project targeted to social equity and poverty reduction as described in the Bank's key objectives set forth in the Eighth Replenishment (document AB-1704), since it is chiefly intended to provide potable water and sanitation services. It does not qualify as a poverty-targeted investment (PTI).
- 4.33 No attempt has been made to demonstrate that the project brings special benefits to low-income groups since no precise information is available on the social characteristics of project beneficiaries. The project does not establish explicit performance indicators to measure poverty reduction or improvements in social equity. However, since the project involves thorough-going reform of the sector on the national level, it is clear that the improvements in the coverage and quality of potable water and sanitation services will particularly benefit people whose access to these services is currently restricted. These are mainly people living in marginal urban areas, in small towns and rural areas, whose incomes are generally below the national average.

#### **G. Project risks**

- 4.34 The process of reform in the sector requires a broad consensus from the main political parties on the national level. Congress, which must pass the legislation required for the reform, is controlled by the opposition. Also, presidential elections will be held in May 2000. Although there is acknowledgement that the reform program is based on the initiative of experts in the sector and is not politically motivated, it has some prominent features, such as residential metering and rate increases, that could be placed on the agenda for political debate.
- 4.35 To counteract adverse reactions, the Technical Secretariat of the Office of the President, with support from the technical-cooperation project on reform of the sector, will organize events to obtain a consensus from key power groups, including parliamentarians and the leaders of political parties. The parallel MIF technical-cooperation project to install the new legal framework will also carry out a campaign to program the program to reform the potable water and sanitation sector. The project will contribute to these initiatives, seeking to obtain support from all the players involved, and will include campaigns to raise the awareness of users. Also, the two-stage design of this operation, with eligibility criteria linked to progress in

implementing the reform, is intended to foster continuity in the process. Accordingly, initial financing will be provided for emergency works and institutional development to obtain a visible impact in the short term. The larger disbursements for rehabilitation and expansion of infrastructure will be contingent on the passage and start up of the new legal framework for the sector.

- 4.36 One essential feature of the reformed sector will be to assure the financial viability of the operators. That viability assumes that the government will transfer sufficient funds to the operators to enable them to cover their debt service and current costs until such time as their authorized rates permit them to cover all those costs, under an efficient operating program. To minimize the possibility that the executive branch will postpone the necessary increases in rates or be reluctant to make the transfers to operators, the contracts with the operators will be made public. They will establish authorized rates to be charged to users and the corresponding transfers from the government to the operators, if the rates authorized are lower than those calculated by the regulatory agency.
- 4.37 The most sensitive risk will be stubborn interference by the authorities in the technical and administrative management of the operators. This risk will be mitigated with the establishment of supervisory and regulatory bodies, with representatives of civil society in the boards of directors and the signature of contracts between the operators and the pertinent authorities. Failure to meet the contract targets will be an early indicator that such interference continues to exist. If the performance of any company is unsatisfactory (it fails to comply with its action plan) and/or if the authorities opt to concede the services to private operators, the Bank would support the concession process under an operation with MIF funding. That operation would cooperate with the authorities throughout the process, including laying the groundwork for bidding by private companies, an active search for interested parties and contract preparation.

**LOGICAL FRAMEWORK**  
**PROGRAM TO CONSOLIDATE REFORM AND MODERNIZATION OF THE POTABLE WATER AND SANITATION SECTOR IN**  
**THE DOMINICAN REPUBLIC**

Objectives	Indicators	Means of verification
Improve environmental and health conditions	<ul style="list-style-type: none"> <li>Morbidity and mortality rates are brought down to international levels</li> <li>Surface and coastal water pollution is below the maximum levels permitted in domestic regulations</li> </ul>	<ul style="list-style-type: none"> <li>Department of Health surveys</li> <li>Reports by the national environmental authority</li> </ul>
Expand water and sanitation services operating effectively throughout the country	<ul style="list-style-type: none"> <li>National policies are complied with in: <ul style="list-style-type: none"> <li>Water and sanitation coverage indexes</li> <li>Quality of water and sanitation services (water quality, pressure, continuity of service, attention to customer complaints, quality of sewage effluents)</li> </ul> </li> <li>Water and sanitation services are provided efficiently, i.e. at minimum cost</li> <li>Water and sanitation services are financially sustainable</li> </ul>	Reports by the sector regulatory agency
Strengthen institutional and legal framework for the sector operating	<ul style="list-style-type: none"> <li>The lead and regulatory agencies carry out the functions established in the proposed law</li> <li>Investment programs are executed in accordance with the respective master plans</li> <li>The companies comply with the physical and financial goals established in their contracts</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the Technical Secretariat of the Office of the President</li> <li>Reports by the regulatory agency</li> </ul>
Water and sanitation companies rehabilitated in Santo Domingo, Santiago and Moca		
Water and sanitation systems financially self-sustaining and operating independently	<ul style="list-style-type: none"> <li>The number of water and sanitation systems operating independently and self-sustainable grows as planned</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the Technical Secretariat of the Office of the President</li> </ul>
Rural water and sanitation systems operated and maintained by the community in operation	<ul style="list-style-type: none"> <li>The number of rural water and sanitation systems operated and maintained by the community grows as planned</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the Technical Secretariat of the Office of the President</li> </ul>



**LOGICAL FRAMEWORK**  
**INSTALLATION OF THE NEW INSTITUTIONAL AND LEGAL FRAMEWORK OF THE POTABLE WATER AND SANITATION**  
**SECTOR**  
**(TC-90-01-00-5)**  
**MIF**

Objectives	Indicators	Means of verification	Assumptions
Water and sanitation services are provided adequately throughout the country	<ul style="list-style-type: none"> <li>National policies are complied with in: <ul style="list-style-type: none"> <li>Water and sanitation service coverage indexes</li> <li>Quality of water and sanitation services (water quality, pressure, continuity of service, attention to customer complaints, quality of sewage effluents)</li> </ul> </li> <li>Water and sanitation services are provided efficiently, i.e. at minimum cost</li> <li>Water and sanitation services are financially sustainable</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the regulatory agency</li> </ul>	
Strengthening of institutional and legal framework for the sector in the country	<ul style="list-style-type: none"> <li>The lead and regulatory agencies carry out the functions established in the proposed legal framework</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the Technical Secretariat of the Office of the President</li> </ul>	<ul style="list-style-type: none"> <li>The water and sanitation companies in Santo Domingo, Santiago and Moca are rehabilitated as planned</li> <li>The number of water and sanitation systems operating independently and self-sustainably grows as planned</li> <li>The number of rural water and sanitation systems operated and maintained by the community grows as planned</li> </ul>
Components to promote the water and sanitation reform program	Activities to promote and disseminate the reform program are carried out as programmed:	<ul style="list-style-type: none"> <li>STP reports</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
to support the establishment of the regulatory agency	<ul style="list-style-type: none"> <li>Regulations prepared for the framework law</li> <li>Manuals of procedures and operations for the regulatory agency completed</li> <li>Basic information prepared for the operators</li> <li>Training program developed</li> <li>Priority studies completed</li> </ul>	<ul style="list-style-type: none"> <li>STP documents and reports</li> </ul>	
to support the establishment of the lead agency	<ul style="list-style-type: none"> <li>Final design of the lead agency completed</li> <li>Training program carried out</li> <li>National water information system installed</li> <li>Strategy for serving marginal sectors prepared</li> </ul>	<ul style="list-style-type: none"> <li>STP documents and reports</li> </ul>	

**LOGICAL FRAMEWORK**  
**PROJECT TO CONSOLIDATE REFORM AND MODERNIZATION IN THE POTABLE WATER AND SANITATION SECTOR**  
**(DR-0123)**

Objectives	Indicators	Means of verification	Assumptions
water and sanitation services ing adequately throughout the	<ul style="list-style-type: none"> <li>National policies are complied with in: <ul style="list-style-type: none"> <li>Water and sanitary sewer coverage indexes</li> <li>Quality of water and sanitation services (water quality, pressure, continuity of service, attention to customer complaints, quality of sewage effluents)</li> </ul> </li> <li>Water and sanitation services are provided efficiently, i.e. at minimum cost</li> <li>Water and sanitation services are financially sustainable</li> </ul>	<ul style="list-style-type: none"> <li>Reports by the regulatory agency</li> </ul>	
se ter and sanitation operators act as rcial companies on competitive	<ul style="list-style-type: none"> <li>CAASD, CORAASAN, CORAAMOCA, CORAAROM and INAPA comply with the physical, financial and investment goals established in their contracts. This means that at the end of the five-year execution period for the project, the following, at a minimum, will have been accomplished: <ul style="list-style-type: none"> <li>The companies will be covering their operating and maintenance costs</li> <li>The volume of water not billed will have decreased by 20 percentage points in all of the urban systems</li> <li>The collection rate (receipts/billing) exceed 90%</li> <li>Household metering will exceed 53% in the urban systems</li> <li>Average water and sewerage rates will exceed US\$0.31/m<sup>3</sup> in each urban systems</li> <li>More than 60% of the connections will be receiving continuous service</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Reports by the regulatory agency</li> </ul>	<ul style="list-style-type: none"> <li>The new legal and institutional framework for the sector operates as planned. The lead and regulatory agencies carry out their functions</li> </ul>

Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>The number of water and sanitation systems disassociated from INAPA that operate self-sustainably grows as programmed</li> <li>The number of rural water and sanitation systems operated and maintained by the community grows as planned</li> </ul>		
<b>Components</b>			
Demonstration and emergency works	<ul style="list-style-type: none"> <li>The demonstration and emergency works budgeted for in the program are carried out in stage one in accordance with the Operating Regulations</li> </ul>	<ul style="list-style-type: none"> <li>STP reports</li> </ul>	<ul style="list-style-type: none"> <li>The central government transfers to the operators the funds committed in the respective contracts</li> </ul>
Technical assistance	<ul style="list-style-type: none"> <li>During stage one, the following are completed as planned: <ul style="list-style-type: none"> <li>Restructuring of CAASD, CORAASAN, CORAAMOCA, CORAAROM and INAPA</li> <li>Management contracts for six of INAPA's urban systems</li> <li>Development of management systems in the operators</li> <li>Feasibility studies</li> <li>Other activities</li> </ul> </li> <li>During stages 2 and 3 of the project the following are completed as planned: <ul style="list-style-type: none"> <li>Installation of the new management systems in the operators</li> <li>Operation of project executing units</li> </ul> </li> </ul>		
Investments in infrastructure	<ul style="list-style-type: none"> <li>During stage 3 of the project, the investments in infrastructure budgeted for the project are executed</li> </ul>		

**PROCUREMENT PLAN  
(US\$ THOUSANDS)**

Category	Amount US\$	Type of contract	Date
<b>1. EXECUTING UNITS</b>			
Principal executing unit to administer the project	1,600	International competitive bidding	Year 1
Procurement of equipment for the executing units in the companies and the PWSREU	60	Local competitive bidding	Year 1
Procurement of vehicles for the executing units	115	Local competitive bidding	Year 1
<b>2. TECHNICAL ASSISTANCE</b>			
<b>Consulting services</b>			
a. Corporate business and investment plans for CAASD, CDE, CEA, CORAAMOCA, CORAAROM, CORAASAN	800	International competitive bidding	Year 1
b. Preparation of a business reform plan for INAPA	800	International competitive bidding	Year 1
c. Administrative and management systems for the corporations and their implementation	1,800	International competitive bidding	Year 1-3
d. Master sewerage plan for Santo Domingo	3,000	International competitive bidding	Year 1
e. Study on sectorization of the water system in Santo Domingo	1,000	International competitive bidding	Year 1
f. Computer equipment for the study <u>a/</u>		International competitive bidding	Year 3
<b>Investments in works</b>	53,600	<u>a/</u>	Year 1-5
<u>a/</u> The Bank procedures described in paragraph 3.22 of the loan proposal will be used for these works.			

## INSTALLATION OF THE NEW INSTITUTIONAL AND LEGAL FRAMEWORK FOR THE POTABLE WATER AND SANITATION SECTOR

(TC-99-01-00-5)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	Secretariado Técnico de la Presidencia (STP) [Technical Secretariat of the Office of the President] through the potable water and sanitation reform executing unit (PWSREU)
<b>Beneficiary:</b>	The Dominican Republic
<b>Objectives:</b>	The objective is to place the new institutional and legal framework for the potable water and sanitation sector in operation on the national level. The start up of the lead and regulatory agencies promoted under this operation will complement the actions of loan DR-0123 to consolidate potable water and sanitation reform, which supports reform of the operating companies.
<b>Description:</b>	<p>To achieve this goal, this technical-cooperation project will finance three components: (i) preparatory actions for implementing the new institutional framework for the potable water and sanitation sector; (ii) establishment of the regulatory framework and start up of the regulatory agency (US\$700,000); (iii) establishment of a policy framework and start up of the lead agency (US\$480,000).</p> <p>The first component includes activities for promotion of the reform, support for regulating the framework law, and rate and investment policy studies. The second involves actions to support the operation of the regulatory agency, through studies, technical assistance and training. The third component relates to support for the operation of the lead agency, through studies, technical assistance and training. The project will be executed in two years and the disbursement period will be 30 months.</p>
<b>Environmental and social review:</b>	The overall socioenvironmental impact of sector reform will be highly positive. The new institutional framework and modernization of the companies' operations will promote better quality services, broader coverage and a reduction in water pollution.

<b>Financing:</b>	Modality:	donation
	Beneficiary:	US\$720,000
	MIF:	<u>US\$1,080,000</u> (TC window)
	Total:	US\$1,800,000

**Special contractual clauses:**

The conditions precedent to the first disbursement of component 1 (preparatory actions for the introduction of the new institutional framework for the potable water and sanitation sector) will be the Bank's standard conditions.

The conditions precedent to the disbursement of component 2 (start up of the regulatory agency) and component 3 (start up of the lead agency) will be the entry into effect of the framework law plus compliance with the conditions mentioned in the preceding paragraph (see paragraph 4.2).

**Exceptions to Bank policy:**

None.

RGII-DR101P  
DR-0123  
Original: Spanish

## PROPOSED RESOLUTION

REPUBLICA DOMINICANA. LOAN \_\_\_/OC-DR TO THE REPUBLICA DOMINICANA

(Project for the Consolidation of the Reform and Modernization in Potable Water and Sanitation)

The Board of Executive Directors

### RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republica Dominicana as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Project for the Consolidation of the Reform and Modernization in Potable Water and Sanitation. Such financing will be for the amount of up to seventy one million dollars of the United States of America (US\$71,000,000), from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Financial Terms and Conditions" and to the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.



RGII-DR103P  
DR-0123  
Original: Spanish

**PROPOSED RESOLUTION**

**REPUBLICA DOMINICANA. PARTIAL PAYMENT OF INTEREST ON  
LOAN No. \_\_\_/OC-DR TO THE REPUBLICA DOMINICANA**

**(Project for the Consolidation of the Reform and Modernization in Potable Water and Sanitation)**

The Board of Executive Directors

**RESOLVES:**

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República Dominicana, as Borrower, and to adopt such other measures as may be necessary to utilize the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of up to US\$11,800,000 of the loan authorized by Resolution DE-\_\_\_/\_\_\_, in accordance with applicable Bank policy.