

# SUPPORT FOR THE PUBLIC ENTERPRISE REFORM PROGRAM

(TC-97-01-097)

## EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Comisión para la Reforma de la Empresa Pública (CREP)

**BENEFICIARY:** Dominican Republic

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

|                        |                            |                      |
|------------------------|----------------------------|----------------------|
| <b>PROJECT AMOUNT:</b> | MIF:                       | US\$2,500,000        |
|                        | Local counterpart funding: | <u>US\$1,250,000</u> |
|                        | Total cost:                | US\$3,750,000        |

**OBJECTIVES:** The general objective of the project is to provide support to the public enterprise reform program, which is intended to achieve decisive private sector participation in public enterprises' management and equity structure. The specific objectives of the project are to strengthen the recently-created Comisión para la Reforma de la Empresa Pública [Public Enterprise Reform Commission] (CREP) and to support measures to secure private sector participation in State-owned sugar refineries, industrial enterprises and hotels.

**DESCRIPTION:** There are two components to this technical cooperation proposal. The first would provide technical assistance to the CREP in conducting studies, audits, advisory services and evaluations needed to prepare and design strategies for private sector participation in public enterprises, as well as supplying equipment and training for their personnel. The second would support execution of specific transactions to arrange private sector participation in public enterprises, through contracts with investment banks or consortia of companies that have privatization experience. The resources of this component, and contributions from the CREP budget, will be used to establish a contingent-recovery line of credit (CRLC) to finance these steps. The CRLC would be replenished from repayments of the financing provided; these in turn would be contingent on the success of the efforts to attract private participation in the various enterprises. The amounts financed would be repaid by the private firm that wins the bidding in each case, and a provision to this effect would be included in the

bidding documents. This CRLC is intended to offer a rapid and flexible instrument that can meet the reform program's priorities, and can be adapted to the changing needs of the process.

**IDB AND MIF  
STRATEGY:**

This technical cooperation represents an integral part of the Bank's country strategy, which seeks to encourage private sector participation and to reduce the State's disproportionate role in the nation's producing sectors. It also forms an integral part of the Bank's support for the Public Enterprise Reform Program (PREP), which includes funding for the Dominican Electricity Corporation's restructuring and privatization program under loan 585/OC-DR and support for the establishment of a new legal, institutional and regulatory framework for the electricity and hydrocarbons subsectors with technical cooperation under ATN/MT-5522-DR, in the amount of US\$1.5 million, approved by the Donors Committee on April 24, 1997. Lastly, the Bank currently has under consideration a sector loan in support of the PREP (DR-0089).

**RISKS:**

The major risks to achievement of the project's objectives are the lack of suitable institutional structures for managing reforms such as those proposed, and the lack of experience in their execution. To mitigate these risks, a high-level agency (CREP) has been set up as the supreme authority for managing the reform process; it has jurisdiction over all the entities slated for reform, and its president has the rank of State Secretary. In terms of the second risk, the project will provide the CREP with international technical assistance. An additional risk arises from the fragility of the political consensus in support of the PREP, and the danger that the fiscal deficit pressures facing the government could result in hasty decisions that would compromise the shaping of a sound strategy for private sector participation. Requirements to avert this risk will be swift implementation of the reform and close supervision during the project's execution.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

- a. Before the first disbursement, the executing agency must present to the Bank: (i) a detailed action plan for the first year of the project (paragraph 3.18 (i)), and (ii) rules for utilization of the CRLC resources, including the proceeds from loan repayments (paragraphs 3.12 and 3.18 (ii)).
- b. In addition to the conditions necessary for execution, the agreement will provide for

monitoring and evaluation of the program (paragraphs 3.15, 3.18 and 7.1), the submission of financial statements, and the use of MIF and Bank procedures for procurement of goods and services and for the contracting of consulting services.

**EXCEPTIONS TO BANK  
POLICY:**

In the selection of consulting services, the least-cost method will be used. Under this method, technical and financial proposals are submitted in two separate envelopes, and a "minimum acceptable technical level" is established for the technical proposals to qualify. The technical proposals are opened and evaluated first. Those that do not meet the minimum acceptable level are rejected, and financial proposals are opened only for the remaining submissions. The company offering the lowest price is then selected. The minimum level will be stated clearly in the invitations for proposals (paragraphs 3.16 and 3.17).

**ENVIRONMENTAL  
REVIEW:**

On February 13, 1998, the Committee on Environment and Social Impact approved this technical cooperation and its transmittal to the Public Information Center once information on the terms of reference and timetable for environmental and social studies had been revised.

## I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee declared the Dominican Republic eligible for all forms of MIF financing on September 12, 1994.

## II. BACKGROUND

### A. Frame of reference

- 2.1 The Dominican State's involvement in the country's productive structure is far-reaching. The State owns many public enterprises, including Corporación Dominicana de Electricidad [Dominican Electricity Corporation] (CDE), 50% of Refinería Dominicana S.A. (REFIDOMSA), 10 sugar refineries belonging to Consejo Estatal del Azúcar [State Sugar Board] (CEA), 26 industrial plants of Corporación Dominicana de Empresas Estatales [Dominican Public Enterprise Corporation] (CORDE), 12 free-zone industrial parks belonging to Corporación de Fomento Industrial [Industrial Development Corporation] (CFI), 14 hotels belonging to Corporación de Fomento de la Industria Hotelera [Hotel Industry Development Corporation] (CORPHOTELS), the gold mines of Rosario Dominicana, and various others. Many of these properties were inherited at the end of the Trujillo dictatorship, when the properties that he had amassed passed over to the Dominican State, thus in effect turning the State into a business operator. Other holdings reflect the concept of development that prevailed from the 1950s to the 1970s, which encouraged heavy State intervention in the economy.
- 2.2 The State's disproportionate presence in the country's productive activities is the major structural factor holding back economic growth and generating fiscal imbalances, and it exacerbates the current challenges facing the country on the macroeconomic, social, institutional and environmental fronts. The State runs money-losing enterprises, intervenes in markets, channels credit and markets agricultural output, and it owns more than 40% of the country's productive land. This situation has engendered considerable economic inefficiency that undermines the Dominican economy's competitiveness and its prospects for integration into the new international order. As a result of this inefficiency, the public enterprises are in a precarious financial situation that in 1996 implied central government transfers to public enterprises of US\$362 million, equivalent to 2.7% of GDP (with CDE and CEA alone accounting for 1.2%), and 17.9% of the government budget. The relative weight of these transfers and their implications in terms of distributional equity can be appreciated from the fact that they represented fully half of social spending in 1995 and exceeded spending on health, education and social welfare, individually, for that year.

B. The Public Enterprise Reform Law

- 2.3 The new administration that took office in August 1996 submitted to Congress the Ley de Reforma de la Empresa Pública [Public Enterprise Reform Law] (LREP), the primary objective of which was to redefine the State's role in the productive economy. That law, approved by Congress in June 1997, seeks to make public enterprises more efficient by engaging decisive private sector participation in their management and equity structure. The law has been designed along the lines of the so-called "recapitalization model" used in Bolivia, whereby the private sector is invited, through international bidding, to increase the share capital of the newly created enterprise with injections of fresh funds that would be used to finance the enterprise's investment program. For those cases where use of this recapitalization procedure is not appropriate, the law allows for other forms, such as concessions, sales of assets or shares, etc. The enterprises to which the LREP applies are CDE, CEA, CORDE and CORPHOTELS.
- 2.4 The law created a high-level agency, the Comisión de Reforma de la Empresa Pública [Public Enterprise Reform Commission] (CREP) as the supreme authority for managing the reform process, and gave it jurisdictional powers over all the entities slated for conversion. The Commission has four members and a president, who enjoys the rank of State Secretary. The members of the CREP have already been nominated by the President of the Republic and ratified by the Congress. The CREP has its own operating budget for 1998, and has already begun to function.
- 2.5 The CREP will be expected to follow the LREP guidelines in the process of engaging the private sector in these enterprises. On the basis of one or more audits commissioned through international bidding, the Commission will determine the capital structure and the market value of each of the enterprises to be recapitalized. The Executive Branch will contribute the assets and rights of the public enterprises to constitute the paid-in capital of the new *sociedades anónimas* [corporations]. It will also have to issue a decree authorizing the recapitalization of each new or existing corporation. Workers who elect to participate in the recapitalization of their enterprises may do so as individuals, or they may form their own legal entity. Workers who do not wish to participate as shareholders in the new corporations will receive pay-outs of their benefits in accordance with the Labor Code.
- 2.6 Article 13 (I) of the LREP stipulates that these corporations are to be recapitalized through a capital increase, with the new funds coming from private investors, either domestic or foreign. Investors in enterprises recapitalized according to these provisions are to be responsible for their management and administration, and a contract is to be signed among the parties to this end. In cases where the CREP judges that the recapitalization method provided for in the law is inappropriate or too restrictive

for achieving the purposes intended, the law authorizes the Executive Branch to use arrangements of the following kinds: administration or management contracts, leasing, licensing and concession agreements; transfer of shares or assets; and ultimately, sale of assets.

- 2.7 The law provides that private investors, Dominican or foreign, who contribute these new capital resources are to be selected through a public bidding process, subject to prequalification, in which the selection criteria will include such factors as the amount of the contribution and the number of jobs to be created, the domestic value-added of output, tax revenues, construction or repair of national development infrastructure, environmental impact, the contribution to improving education levels, and the transfer of technology implied by the investment. Bidding documents and investment contracts will indicate the guarantees and surety demanded by the Dominican State to ensure that contractual commitments will be faithfully performed. The law also provides that all State shareholdings in the recapitalized enterprise, as well as revenues, profits and dividends are to be placed in a Fondo Patrimonial [capital fund] for development. Finally, the law provides that the CREP is to be dissolved once the process of reforming and converting the public enterprises is completed.

C. State enterprises covered by the law

- 2.8 The Dominican Electricity Corporation (CDE) is a vertically integrated State enterprise responsible for the bulk of electricity activity in the Dominican Republic. Because of its inefficiency, CDE has been running deficits of as high as US\$20 million a month. There is a consensus that, without a thorough reorganization of the industry and the involvement of the private sector, it will be impossible to bring about and sustain the needed long-term improvements. The process of restructuring and recapitalizing the CDE has been in the hands of the CDE's Restructuring Commission, with support from the Bank and MIF. The CREP, which is to be strengthened with assistance under this technical cooperation proposal, will take over responsibility for this process from the CDE, and once outstanding matters are addressed, it expects to complete the process of recapitalizing the distribution and thermal generation enterprises by the middle of 1998.
- 2.9 The State Sugar Board (CEA) was created by Law 7 of August 18, 1966, to take over the activities previously performed by Corporación del Azúcar de República Dominicana [Dominican Sugar Corporation]. The sugar refineries are poorly run; they have built up substantial debts to banks, suppliers and sugar workers, and have required major fiscal transfers to cover their cash shortfalls. Using funds initially provided under ATN-MT/5522-DR, the CREP is hiring international consultants with experience in restructuring and privatization and a knowledge of the sugar industry, to help evaluate options and design a strategy for

private sector participation in the CEA sugar mills. In addition to evaluating the program proposed by CEA's management and the alternatives available under the current legal framework, the various options that could be implemented once the LREP is approved will also be analyzed. The resulting strategy selected will be carried through with support under this cooperation project.

- 2.10 The Dominican State Enterprises Corporation (CORDE) is an autonomous State agency with its own legal status and capital, established on an independent and permanent footing by Law 289 of June 30, 1966. CORDE manages 25 enterprises, which are classified according to their area of activity into six groups: mining, industry (including paints, paper, tobacco, chocolate and glass), food products (including flour mills, salt and oil), services (including an airline, an insurance company and a real estate firm), metallurgy, automotive, and textiles and footwear. Some of these enterprises are heavily in debt, and only 14 are still in operation, the new management having recently closed 7 enterprises, some of which had not been operating for several months. Once the options study being financed under ATN/MT-5522/DR is completed, the CORDE enterprises will be ranked and grouped by priority for purposes of arranging private sector participation in those that warrant it. The proposed operation will provide support to the CREP in pursuing this process for at least three of the industry groupings.
- 2.11 CORPHOTELS was created by Law 542 of December 31, 1969, for the primary purpose of coordinating national development efforts for the hotel industry and tourism promotion in the Dominican Republic, through the purchase, construction, financing, upgrading and maintenance of hotels and tourism businesses generally. It currently owns 18 hotels, many of which are operated under leasing arrangements with the private sector. Because of operational and administrative shortcomings, the leasing fees are excessively low and major arrears have been allowed to build up. CORPHOTELS is at present engaged in reviewing its contracts and updating its lease-fee collections. The proposed operation will assist the CREP in the process of attracting private sector participation in these hotels through recapitalization or outright sale, depending on the results of an options study to be carried out.

D. Complementarity with other Bank activities

- 2.12 The proposed operation forms an integral part of the Bank's support to the Public Enterprise Reform Program (PREP). In this context, the Bank is providing assistance to the restructuring and privatization program of the CDE with resources from loan 585/OC-DR, and through its support for the establishment of the new legal, institutional and regulatory framework for the electricity and hydrocarbons subsectors under the US\$1.5 million technical cooperation agreement ATN/MT-5522-DR, approved by the Donors Committee on April 24, 1997. In addition to its energy sector aspects, that

agreement also contains some funding for the design of private sector participation strategies in the public enterprises covered by the proposed operation. Predisbursement conditions have recently been fulfilled under that agreement, and some of its components are now in execution. Lastly, the Bank is considering a possible sector loan in support of the PREP (DR-0089). Annex III summarizes the contributions that the Bank and MIF have made to the various undertakings now in execution or proposed. The successful experience gained in a similar undertaking in Bolivia, where the MIF provided US\$2.3 million for a recapitalization program, can be drawn upon in the MIF-supported project proposed herein.

### III. THE PROJECT

#### A. Technical cooperation objectives

- 3.1 **General objective of the project:** The general objective of the project is to support the reform program for public enterprises, which is intended to achieve decisive participation by the private sector in their management and equity structure.
- 3.2 **Specific objectives of the project:** The specific objectives of the project are to strengthen the recently-created Comisión para la Reforma de la Empresa Pública [Public Enterprise Reform Commission] (CREP) and to support measures for securing private sector participation in State-owned sugar refineries, industrial enterprises and hotels.

#### B. Components and activities

- 3.3 There are two components to this technical cooperation proposal for use of MIF resources. The terms of reference for most of the consulting work required have been prepared, together with a preliminary outline of the scope of work for the remaining consulting services.

#### **COMPONENT I: Strengthening the CREP (MIF US\$500,000)**

- 3.4 This component would provide technical assistance to the CREP for carrying out the studies, audits, advisory services and evaluations needed to complete the design of strategies for private sector participation in public enterprises, as well as supplying equipment and training for their personnel. It includes the following activities:
- 3.5 (i) Hiring international and local consultants with experience in privatization and recapitalization programs to advise the CREP in the design and implementation of private sector participation strategies. It is expected that at least two individual advisors



will need to be hired to help the CREP coordinate implementation, as well as consultants to conduct the options study and strategy design for CORPHOTELS.

- 3.6 (ii) Hiring consultants to perform the social and environmental assessments of CORDE industries and CORPHOTELS hotels covered by the program. As well, strategies will be designed for the re-employment of workers who may be displaced, and for possible worker participation as shareholders in the recapitalization process, under the provisions of the LREP.
- 3.7 (iii) Hiring audit and consulting firms to perform the financial audits and asset evaluations required under the LREP.
- 3.8 (iv) Consulting services to assist with the design and implementation of the program dissemination strategy. One element of this strategy would be seminars and workshops to explain the program to the Dominican people and gain their acceptance.
- 3.9 (v) Support for strengthening the CREP in the performance of its functions, through a program to purchase computers and set up information systems. Most of the program would be paid for out of local counterpart funds (see Table II-1). Also included will be a training program for CREP personnel and employees of enterprises being recapitalized.

**COMPONENT II: Contingent-recovery line of credit (MIF US\$2,000,000)**

- 3.10 This component would support execution of specific transactions to arrange private sector participation in public enterprises, through contracts with investment banks or consortia of firms that have privatization experience. The resources of this component, and contributions from the CREP budget, will be used to establish a contingent-recovery line of credit (CRLC) to finance these processes. The CRLC would be replenished from repayments of the financing provided; these in turn would be contingent on the success of the efforts to attract private participation in the various enterprises. The amounts financed would be repaid by the private firm that wins the bidding in each case, and a provision to this effect would be included in the bidding documents. This CRLC is intended to offer a rapid and flexible instrument that can meet the reform program's priorities, and can be adapted to the changing needs of the process.
- 3.11 *Enterprises eligible for the CRLC:* All enterprises covered by the LREP will be eligible for the program. It is expected that CRLC resources will initially be directed at financing deals to reform the CEA's sugar refineries, three groups of CORDE enterprises, and two CORPHOTELS hotel groups, to be selected according to the priorities determined in the strategic evaluation, depending on their financial situation, prospects, and likely appeal to

potential investors. As CRLC funds are repaid, they will be available to finance transactions for the remaining CORPHOTELS hotels and CORDE industries.

3.12 *CRLC activities and eligibility criteria:* CRLC funds will be used to contract investment banks or consortia of firms to undertake specific transactions for private sector participation in the public enterprises. Generally speaking, remuneration of such services will include a fixed portion and a variable amount in the form of a success fee that will be calculated on the basis of the bidding outcome and paid directly by the winning bidder to the investment bank. The CRLC will finance the professional fees corresponding to the fixed portion. Rules for use of the CRLC will be established, setting out criteria and terms for accessing the funds, and the terms and conditions of contingent recovery. A draft of these rules has been prepared, and a final version will be a condition for the first disbursement of the technical cooperation funds.

3.13 *Duration of the CRLC:* The amount of funding available for the CRLC (US\$2,500,000) will be enough to help bring private capital into some enterprises, but it will clearly not be sufficient to cover the conversion of all the public enterprises. It has been proposed that the CRLC should have an initial life of five years, during which, thanks to the contingent recovery mechanism, it should be possible to complete the process of private sector participation in most of the enterprises covered by the law. The conditions and criteria for access to CRLC funds will apply both for the initial technical-cooperation resources and for funds recovered over the life of the CRLC. During this five-year period, the CREP will report semiannually to the Bank on re-use of the recovered funds, and at the end of the period, if there are any recovered funds remaining under the line of credit, the government may, with the Bank's concurrence, devote them to activities consistent with the objective of increasing private sector participation in public sector undertakings.

C. Cost and financing

3.14 The total project cost is US\$3.75 million, of which the MIF would contribute a grant for US\$2.5 million. The local counterpart of US\$1.25 million would be guaranteed by the budget to be allotted to the CREP for its establishment, and allocations of public enterprises being converted. The project budget is shown in Table II-1; further details are in Annex II in the technical files.

D. Organization and implementation

3.15 The CREP will act as the executing agency for the project. Project supervision will be performed by the Bank's Country Office in Santo Domingo, in coordination with the project team, taking as benchmarks the expected outcomes of each activity as presented in

Annex I and in the required action plan, as indicated in the following paragraph. This supervision will be expected to: (i) provide information on progress, achievements and difficulties with each of the activities; (ii) maintain quality control over project activities, and ensure proper use of MIF funds; and (iii) advise the executing agency, as well as the national authorities and the Bank, in technical matters relating to achieving the technical cooperation objectives.

| Table 11-1<br>Project budget (US\$000)  |                |                   |                |
|---|----------------|-------------------|----------------|
|   | MIF            | LOCAL<br>CONTRIB. | TOTAL          |
| <b>COMPONENT I: Establishment and strengthening of the CREP</b>   |                |                   |                |
| 1. Local and international consulting support for strategy design and implementation  | 125.0          | 250.0             | 375.0          |
| 2. Consulting services for social and environmental assessments, including design of a strategy for worker participation  | 115.0          | 50.0              | 165.0          |
| 3. Financial audits and asset evaluations   | 120.0          | 100.0             | 220.0          |
| 4. Consulting support for design and implementation of the program dissemination strategy   | 65.0           | 150.0             | 215.0          |
| 5. Financing of equipment, programs and training for the Commission   | 75.0           | 200.0             | 275.0          |
| <b>TOTAL FIRST COMPONENT</b>  | <b>500.0</b>   | <b>750.0</b>      | <b>1,250.0</b> |
| <b>COMPONENT II: Contingent-recovery line of credit (CRLC)</b>  |                |                   |                |
| Contracting investment banks or consortia of firms to execute specific deals to arrange private sector participation in public enterprises (financing of fixed fee) <sup>1/</sup> | 2,000.0        | 500.0             | 2,500.0        |
| <b>TOTAL SECOND COMPONENT</b>   | <b>2,000.0</b> | <b>500.0</b>      | <b>2,500.0</b> |
| <b>TOTAL PROJECT</b>  | <b>2,500.0</b> | <b>1,250.0</b>    | <b>3,750.0</b> |

<sup>1/</sup> Fees corresponding to the fixed portion. Remuneration will include a variable amount as a success fee, representing an unquantifiable local contribution.

3.16 The least-cost method will be used in the selection of consulting services. Under this method, technical and financial proposals are submitted in two separate envelopes, and a "minimum acceptable technical level" is established for the technical proposals to qualify. The technical proposals are opened and evaluated first. Those proposals that do not meet the minimum acceptable level are rejected, and financial proposals are opened only for the remaining submissions. The company offering the lowest price is then

selected. The minimum level will be stated clearly in the invitations for proposals.

- 3.17 For proposals of acceptable technical caliber, the proposed methodology gives a higher rating score to the lowest financial offers, as an inducement to competition and a way of discouraging companies from excessively high quotations. Services will be selected primarily on the basis of technical quality criteria, to which the greatest weighting will be assigned (70% or 80%), and the best price offered for that level of quality. This methodology also offers savings in terms of time, since it eliminates the negotiation process required under the current system. By including price as a consideration from the outset of the evaluation process, the awarding and signing of contracts can be speeded up, and the actual consulting work can begin more quickly.

E. Disbursement period and conditions precedent to disbursement

- 3.18 The technical cooperation funds will be disbursed in accordance with the Bank's established procedures, over a period of 36 months. Prior to the first disbursement, the executing agency must present to the Bank: (i) a detailed action plan for the first year of the project, including the timetable and terms of reference for the consulting services; and (ii) the rules for use of the CRLC, including those governing access to the funds and the use of recoveries. At the beginning of each year, the CREP must demonstrate to the Bank that it has been allocated a sufficient budget for its operations.

F. Monitoring

- 3.19 The executing agency will be required to produce semiannual progress reports to ensure proper monitoring of project activities. These reports will be submitted throughout the execution of the project, and as long as the CRLC remains in effect.

G. Environmental and social aspects

- 3.20 The program itself poses no negative environmental or social impacts, except for the possible displacement of redundant workers in some of the public enterprises. To address this issue, there is provision in the proposed operation for a case-by-case evaluation and preparation of a program for re-employment of workers, implementation of which would be supported under operation DR-0089. The indirect impacts of the program are generally positive. The program will make it possible to draw up an assessment of the more important environmental problems associated with the major installations of the public enterprises, and to initiate mitigation measures, which will figure prominently in the negotiations with the private sector.

H. Viability and risks

- 3.21 The technical cooperation project has been designed bearing in mind the activities that will be required to achieve the proposed objectives and to ensure, as well, a sufficient degree of flexibility for successful project execution. In undertaking the reform of its public enterprises, the government has committed itself to bringing the private sector into their management and equity structure.
- 3.22 The major risks to achievement of the project's objectives lie in the lack of suitable institutional structures for managing reforms such as those proposed, and the lack of experience needed for their execution. To mitigate these risks, a high-level agency (CREP) has been set up as the supreme authority for managing the reform process; it has jurisdiction over all the entities slated for reform, and its president enjoys the rank of State Secretary. In terms of the second risk, the project will provide the CREP with international technical assistance. An additional risk arises from the fragility of the political consensus in support of the PREP, and the danger that the fiscal deficit pressures facing the government could result in hasty decisions that could compromise the shaping of a sound strategy for private sector participation. Requirements to avoid this risk will be swift implementation of the reform and close supervision during the project's execution.

IV. COMPLIANCE WITH ELIGIBILITY CRITERIA

A. General project eligibility criteria

- 4.1 This technical cooperation project, intended to support efforts to modernize and to encourage private participation in public enterprises, is fully compatible with the general objective of the MIF, which is to promote private sector investment and growth as a basis for stimulating the country's economic and social development.

B. Technical Cooperation Facility project eligibility criteria

- 4.2 The proposal is compatible with the criteria for granting financing under the Technical Cooperation Facility, Article III, Section 2(c) and (d) of the Agreement Establishing the MIF, which calls for providing funding to governments to finance the advisory services needed to establish and/or strengthen regulatory bodies and to assist in the design and implementation of privatization programs. The proposal is also consistent with the priorities set for the Technical Cooperation Facility by the MIF task force which, in its final report, indicated that the Technical Cooperation Facility should continue to support "development of a legal, regulatory,

contractual and supervisory environment that promotes private investment in infrastructure and public services". It should also be noted that, as part of the support program to promote private infrastructure investment, the Technical Cooperation Facility is funding 24 similar projects in 17 countries of the region.

## **V. COMPATIBILITY WITH THE BANK'S COUNTRY STRATEGY**

- 5.1 The operation is consistent with the Bank's country strategy. The programming paper indicates that the Bank will participate in financing programs to upgrade and expand economic infrastructure in transport, ports and energy, with a view to facilitating regional trade and the country's physical integration, and that it will support private participation to this end. Such cooperation is an integral part of the Bank's country strategy, which seeks to stimulate the private economy and reduce the disproportionate State presence in the country's productive structure.

## **VI. AVAILABILITY OF MIF RESOURCES**

- 6.1 The project will be financed on a grant basis, in light of the following factors: (a) the Donors Committee declared the country eligible for all forms of MIF financing on September 12, 1994; (b) section III of the country eligibility memorandum details the country's compliance with the eligibility criteria for obtaining grants nationally; and (c) the proposed project will have a major catalytic effect on the flow of investments, as required under Article III, Section 5(a), of the Agreement Establishing the MIF, inasmuch as its objective is to create conditions for the growth of private investment.

## **VII. EVALUATION**

- 7.1 The project team will evaluate the progress and outcomes of this technical assistance project in terms of fulfilling its specific objectives. Annex I presents the expected outputs from each activity; these will serve as benchmarks for the project's supervisory consultants in monitoring achievement of the project's objectives, and for preparing progress reports.

| MIF — FACILITY I — DOMINICAN REPUBLIC<br>SUPPORT FOR THE PUBLIC ENTERPRISE REFORM PROGRAM  |   |   |
|--|---|---|
| <b>General objective of the project</b><br>To support the reform program for achieving decisive private sector participation in the management and equity structure of public enterprises.   |   |   |
| <b>Specific objective of the project</b><br>To support the establishment and strengthening of the responsible technical unit, and to establish a contingent-recovery line of credit (CRLC) to support specific transactions to bring the private sector into public enterprises. |   |   |
| Components   | Activities  | Expected output   |
| <b>Establishment and strengthening of the CREP</b>   | Technical assistance from international consultants with experience in privatization and recapitalization programs to advise the CREP on the various processes                                  | Executing unit established and operating with internationally experienced advisors during the first year of project execution |
|  | Consulting services to conduct social and environmental assessments, including design of a strategy for worker participation  | To be conducted prior to each private-sector incorporation process  |
|  | Financial audits and asset evaluation   | To be conducted prior to each private-sector incorporation process  |
|  | Design and implementation of a program dissemination strategy   | Strategy designed and introduced six months after project begins  |
|  | Preparation and execution of a basic training program for personnel of the agencies and other entities involved; procurement of computers and implementation of appropriate information systems | To be conducted during the first year of operations of the Public Enterprise Reform Commission                                |
| <b>Contingent-recovery line of credit (CRLC)</b>   | Contracting investment banks or consortia of firms to execute specific transactions to bring the private sector into public enterprises   | Support during program execution  |

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## **PROPOSED RESOLUTION**

### **REPUBLICA DOMINICANA. NON-REIMBURSABLE TECHNICAL COOPERATION TO SUPPORT A PUBLIC ENTERPRISE REFORM PROGRAM**

**The Donors Committee of the Multilateral Investment Fund**

#### **RESOLVES:**

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

2. That up to the amount of US\$2,500,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

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