

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

Report No.: AB2347

Project Name	Institutional Strengthening TA
Region	LATIN AMERICA AND CARIBBEAN
Sector	General public administration sector (100%)
Project ID	P094888
Borrower(s)	GOVERNMENT OF THE DOMINICAN REPUBLIC
Implementing Agency	Consejo Nacional de Reforma del Estado Edif. Oficinas Gubernamentales Av. Mexico, 6a. planta Dominican Republic Tel: (809) 686-1800, Ext. 223 Fax: (809) 686-2148
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

Following a decades-long economic growth trajectory that placed the Dominican Republic among the fastest growing economies in the LAC region, in 2003 the country suffered a massive banking crisis that unleashed a macroeconomic crisis. Amid widespread popular frustration over declining real incomes and exchange rate depreciation, allegations of high-level corruption, and pervasive mistrust of the ruling elite, the May 2004 presidential elections resulted in a change in administration. President Leonel Fernández assumed office in August 2004 on a platform anchored in a four year plan for economic recovery and growth calling for: (i) macroeconomic stabilization measures; (ii) strengthening the efficiency, transparency and accountability of Government institutions; and (iii) promoting the competitiveness of the national production base to meet the competitive pressures associated with regional trade integration and the phasing out of the Multi-Fibre Agreement.

a. Institutional Strengthening: Sine qua Non for Growth and Competitiveness

The banking and ensuing economic crises succeeded in exposing far-reaching governance failures including fraud, obstruction, mismanagement, inefficiencies and corruption. Reminiscent of its caudillist legacy, the Presidency has traditionally exercised considerable discretionary control over *inter alia* the national budget, public investment, procurement, and civil service personnel hiring decisions. This legacy has in turn undermined the efficiency, transparency and accountability of public institutions and resources, as well as society's trust in the Presidency and the Government at large.

Within the framework of the Government's four-year plan, the establishment of a modern and efficient state accountable to the electoral base and capable of spurring economic development while increasing the efficiency and effectiveness of social spending and reducing poverty is considered pivotal to ensuring macroeconomic stabilization in the near-term as well as promoting the country's long-term economic viability and social welfare. Governance and

institutional strengthening are also deemed critical to restoring investor confidence and to enhancing the island economy's competitiveness at the global level.

The adoption of more strategic, transparent and integrated: (i) financial; (ii) procurement; and (iii) human resource management functions; coupled with (iv) the establishment of social accountability mechanisms, are crucial to secure fiscal discipline, rationalize public expenditures, increase transparency, reduce corruption and improve overall service delivery. Two decrees to strengthen expenditure control and oversight procedures and a total of five laws aimed at improving the transparency and accountability of public procurement, treasury, internal controls and debt management were submitted for Congressional approval in the second half of 2005. Whereas these lay the groundwork for the governance reform agenda, substantial challenges remain.

b. Strengthening the Country's Global Competitive Position

While trade promotion was pivotal in fueling the robust export growth and economic expansion that characterized the 1990s, the Dominican Republic's investment environment is increasingly undermined by weak institutions, burdensome regulation (including high tax rates outside the free trade zones¹), costly and unreliable electricity, expensive financing, and uncertainty over macroeconomic stability. As a result, the costs and risks associated with doing business in the Dominican Republic are inordinately high vis-à-vis many of its competitors, undercutting the competitiveness of its productive base.

Increased trade liberalization and competition arising from (i) the approval in September 2005 of the free trade agreement with the US (DR-CAFTA), the implementation of which is expected in July 2006; (ii) the recent expiration of the Multi-Fibre Agreement²; and (iii) the future required phase-out of FTZ export subsidies, will further challenge the country's export base, particularly in the short run. Given the overriding importance of trade to the island's economy, it is imperative that the Dominican Republic strengthen its global competitive position by adopting measures geared toward strengthening: (i) the institutional and regulatory environment; (ii) the quality standards of Dominican exports; (iii) ports and customs operations; and (iv) civil aviation oversight.

2. Objectives

The ISTAL's development objectives are to: (i) enhance Government effectiveness in delivering public goods and services by strengthening the institutional capacity of key agencies and by implementing public sector management instruments geared to promoting efficiency, accountability and transparency in the public sector; and (ii) facilitate Dominican competitiveness and productivity through more efficient and transparent port, customs and civil aviation operations and an efficient, market-driven, and viable national quality system.

3. Rationale for Bank Involvement

While Bank involvement in the Dominican Republic has intensified over the past decade: country dialogue has significantly increased since the late 90's as has Government and civil society's appreciation of the global experience and technical capacity that its involvement can bring to bear on reform efforts. Within the context of the Government's reform program, improved governance and institutional strengthening are considered fundamental to increasing

¹ FTZs are export processing zones that allow foreign and Dominican corporations duty-free access to imported inputs, zero profit tax, and other tax incentives to attract foreign investment.

² Since 1995, the WTO has been gradually phasing out quotas to bring trading agreements governing textiles in line with global free trade regulations.

the efficiency, transparency and accountability of state institutions as well as to promoting the competitiveness of national industries. Accordingly, the Bank's Country Assistance Strategy (CAS) for FY'06-09 is firmly anchored in the Government's reform program with governance and institutional strengthening representing the overarching focus of Bank support - a theme that is echoed in the IDB's country assistance strategy as well.

Grounded in the Government's reform program, the CAS draws on a wealth of recently completed AAA studies which provide: (i) detailed evaluations of the prevailing governance and public sector management situation (PER, CFAA, CPAR and Report on Accounting and Auditing Practices) and trade and labor environments (*DR Trade and Labor Competitiveness Review*) at play; and (ii) policy recommendations to address existing challenges. These studies not only provide the analytical foundation for Bank support to the Government's reform agenda, but also proved pivotal to initiating Bank dialogue and presence in these key areas of reform. As a result, the Government recently requested the Bank's advice and technical assistance in the many areas related to improving governance, including anti-corruption and public procurement as well as in promoting its global competitive position. The proposed operation is designed specifically to provide this much-needed assistance by supporting the implementation of the recent AAA policy recommendations. Successful implementation of the proposed operation will not only allow the Government to tap into the Bank's technical expertise in governance reform and trade promotion, but will also position the Bank as a key player in the overall policy dialogue.

4. Description

The proposed ISTAL comprises two components and seven sub-components to be coordinated by the Technical Secretariat of the Presidency (STP) through the National Commission for State Modernization (CONARE) and implemented by the various agencies concerned. The proposed project will be implemented during a three-year period.

Component 1: Implementing public sector management reforms to promote efficiency, accountability and transparency in public agencies

This component is geared to completing the development of key public sector management (PSM) systems and supporting their implementation by increasing the demand for a more efficient and accountable public sector and by enhancing the overall capacities of key agencies and providing them with adequate incentives for reform. The rationale of focusing the attention to the demand side is based on evidence demonstrating limited impact of centralized interventions geared to development of complex systems with small incidence in day-to-day activities in government agencies and its disconnection to specific services to be delivered. Attention to the demand side of PSMS systems in this case would be promoted at two levels: (i) the internal demand from sector agencies that will be able to enhance their performance capacities to deliver services; and (ii) the external demand from specific groups of public services users who would be receiving the final outputs of improved management systems.

Specifically, this component aims to: (i) complete the development and promote the implementation of reforms in the areas of public procurement and asset management; (ii) implement the Access to Public Information Act; (iii) strengthen DPCA's capacity to detect, investigate and prosecute incidents of public corruption; and (iv) support the implementation of pilot institutional modernization projects at the agency level.

1.1 Public procurement and asset management (US\$ 3.1 million)

This sub-component will be implemented in close collaboration with the IDB to complement activities supported under the PAFI II project. The ISTAL will provide technical assistance underlying: (i) the strengthening of the new public procurement regulatory entity; (ii) the preparation and dissemination of standard bidding documents, guides and other material to support implementation of the new regulatory framework; (iii) the design and implementation of a sustainable capacity building program on public procurement (including procurement certification); (iv) the design and implementation of indicators and a monitoring system of public procurement; (v) the establishment of a Procurement Administrative Tribunal to provide an independent second instance of review for bidders' protests; (vi) the strengthening of the asset management function in the new Ministry of Finance³; (vii) the formulation and dissemination of guides and manuals to support asset management capabilities; (viii) the creation of an asset register for the Central Government; (ix) the development of a mechanism for civil society monitoring and enforcement; and (x) the development and implementation of a communications campaign to explain the benefits and build constituency for procurement reform. This sub-component will be implemented by the PAFI II executing unit at the new Ministry of Finance.

1.2 Implementation of the Access to Public Information Law (US\$ 1.0 million)

This sub-component is geared toward: (i) setting-up and strengthening a Government unit or agency to coordinate the implementation of the Access to Public Information Law; (ii) carrying out a diagnostic and assessments of both the demand for information and the institutional capacities of public agencies to disclose public information; (iii) the participatory design of an implementation strategy for the law; (iv) formulating and implementing institutional strengthening plans for public sector agencies to facilitate information disclosure; (v) reinforcing and providing support to civil society groups at various levels to enhance social accountability mechanisms such as monitoring, and increasing civil society demand for better public services and implementation of financial management and procurement reform; and (vi) disseminating to and training for civic groups to facilitate access and use of public information. This sub-component will be implemented by the STP through the National Commission for State Modernization (CONARE).

1.3 Institutional strengthening of the DPCA (US\$ 0.6 million)

This sub-component will provide TA aimed at strengthening the DPCA's capacity to undertake its numerous functions through support to the following activities: (i) diagnostic of DPCA functions, its ability to perform them, and its future needs, and development of a strategic plan for bringing the installed capacity up to actual requirements; (ii) development of training and related programs to improve staff ability; (iii) evaluation and improvement of public education campaigns; (iv) development of methodologies for the DPCA's corruption audits; and (v) provision of equipment and materials (e.g., development of a case-tracking system and database related to corruption cases) to improve internal processes, especially regarding information management.

1.4 Implementation of pilot institutional development projects (US\$ 3.4 million)

This sub-component will support the implementation of three pilot sub-projects in selected agencies to facilitate in-depth implementation of the new public sector management normative framework, and will test the use of Management Contracts between central and

³ The new Ministry of Finance is expected to be created in mid-2006.

sector agencies to enhance effectiveness and accountability at the institutional level. The first pilot will be the Ministry of Health, which is engaged in a comprehensive sector reform with the support of the Bank and other agencies. Other pilots would include the Ministry of Labor and the Ministry of Public Works or others depending on further analytical and diagnostic work to be completed during project implementation. Specific activities to be supported under each pilot comprise: (i) strengthening institutional capacities to implement new public sector management systems in the areas of financial management, procurement, and human resource management; (ii) implementing results-based monitoring systems focused on institutional effectiveness and public services delivery; (iii) fully implementing access to information and transparency policies as well as establishing effective participatory mechanisms for citizens and users; and (iv) implementing innovative incentives and mechanisms at both the institutional and individual levels to promote performance-based management and focus on results (e.g., management contracts).

Component 2: Strengthening public services to enhance productivity and competitiveness

This component will support the Government in enhancing overall productivity and competitiveness by strengthening institutional capacities in critical trade-related public and private services that will help Dominican industries in the context of trade liberalization. Several donors are providing support to the Government in this area. The proposed loan would focus on three areas not yet supported that have been identified as critical for the Dominican Republic to take advantage of DR-CAFTA, namely: (i) strengthening the National Quality System and the National Directorate for Norms and Quality (DIGENOR); (ii) supporting institutional reforms and strengthening regulatory functions in the ports and customs sectors; and (iii) strengthening civil aviation oversight.

2.1 Establishing an effective quality infrastructure (US\$ 1.6 million)

This sub-component will provide technical assistance and support to DIGENOR and the development of a National Quality System. Activities to be supported include: (i) the development of a framework for a coordinated national system responsive to the needs of industry for calibration services, standards, testing, certification, quality and related elements such as an accreditation authority and standards information center; (ii) establishment of cost-effective certification mechanisms for quality management systems and accreditation of testing and calibration laboratories; (iii) raising quality awareness of owners and CEOs of private enterprises; and (iv) training trainers to provide basic and advanced courses in quality to those tasked with implementing effective quality programs in their enterprises or government agencies. These efforts would complement existing and planned projects funded by IDB, USAID and other donors. This component would be implemented by the Ministry of Industry and Commerce (SEIC) through the National Competitiveness Council.

2.2 Institutional strengthening and improving ports and customs services (US\$ 2.5 million)

This sub-component would provide support aimed at strengthening the Government's capacity to design and implement institutional reforms to the existing ports management and customs clearance systems. Activities to be supported include: (i) the design of an integrated national ports strategy under which the role and mission of each port will be defined, with a view to increase the level of inter-port competition, ultimately benefiting traders; (ii) the design and implementation of a new institutional set-up and normative framework governing ports administration, inspired from the World Bank widely recommended landlord port model characterized by a mixed public-private orientation under which APORDOM would

act as a regulatory body and landlord; (iii) institutional strengthening and support for APORDOM’s transformation into a public regulatory agency, including social and financial plans; (iv) overall strengthening of ports administration with emphasis on security issues; (v) the development of a detailed action plan for the ongoing customs modernization program; (vi) the development of a risk management system for customs inspection; and (vii) the modernization and automation of ports and customs information and payments systems. This sub-component will provide support to APORDOM and the Customs Directorate (DGA) and will be implemented by the STP.

2.3. *Institutional strengthening and capacity building for aviation oversight (US\$0.8 million)*

This sub-component would provide support aimed at strengthening the Civil Aviation Directorate (DGAC) in its regulatory oversight role in order to meet international standards. The activities to be supported include: (i) an assessment of the level of compliance with ICAO standards and the development of a detailed implementation plan for the preparation of regulatory manuals and capacity building activities necessary to qualify for a FAA IASA category 1 rating; (ii) preparation of the operational procedures and manuals for regulatory oversight (e.g., inspectors’ manual, certification process); and (iii) capacity building and institutional strengthening for the establishment of a performing (i.e., meeting ICAO standards) autonomous Civil Aviation Authority, including the preparation of financial and budgetary frameworks. A further objective is to coordinate with the US FAA to launch and conduct a successful IASA certification process during the duration of the project.

5. Financing

Source:	(\$m.)
BORROWER	0.0
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	13.5
Total	13.5

6. Implementation.

The activities supported by the proposed ISTAL involve several agencies and entities across various Ministries. Its implementation will therefore require effective implementation arrangements to ensure coordination among project sub-components as well as other donor-supported activities. During recent technical discussions with the STP it was agreed that **CONARE will serve as the Project Coordinating Unit (PCU)** of the proposed operation. CONARE’s experience in overseeing donor-funded operations is evidenced by the fact that it is successfully implementing two ambitious and comprehensive donor-funded operations specifically geared to instituting far-reaching public sector reforms, namely, the IDB-sponsored PROREFORMA and the EU-financed PARME operations. World Bank financial management and procurement capacity assessments of this agency were recently undertaken within the framework of the ISTAL’s preparation. Both assessments concluded that the project presents a high fiduciary risk. A comprehensive fiduciary action plan to address this risk has been prepared. The Procurement Capacity Assessment has not yet been completed, and will be finalized prior to appraisal.

Day-to-day activities within each sub-component will be executed by several Government agencies via the establishment of **Project Executing Units (PEUs)** headed by sub-component managers. Specifically, the Ministry of Finance (SEF) will be responsible for all activities under

sub-component 1.1. (including financial and procurement oversight); CONARE will be responsible for activities under sub-component 1.2; *Procaduría* will be responsible for activities under sub-component 1.3; the selected pilot ministries (i.e. Health, Public Works and Labor) will be responsible for the implementation of their respective activities under sub-component 1.4; SEIC's National Competitiveness Council will be responsible for the implementation of sub-component 2.1; APORDOM and the DGA will be responsible for their respective activities under sub-component 2.2.; and the Civil Aviation Directorate (DGAC) will be responsible for sub-component 2.3.

To this end, and with the exception of SEF, inter-institutional financial agreements will be signed between each of the ministries and CONARE. Such inter-institutional agreements will vest financial management and administration of the special account of all activities other than those financed under sub-component 1.1, under the auspices of CONARE. As regards sub-component 1.1, it was agreed that in light of SEF's ample experience and demonstrated capacity to manage donor-funded operations, and given this component's close linkage to both the ongoing IDB-sponsored PAFI project and its proposed follow-on operation, financial oversight will fall under the auspices of this agency. To this end, an inter-institutional agreement will be signed between CONARE and SEF providing for the transfer of funds from the special account to a payment account within SEF's *Programa de Administración Financiera*. While SEF will exercise day-to-day management and financial control over these activities, it – like the other PEU's – will report to CONARE, which as PCU of the operation will ultimately be responsible for overall project procurement processes and administration, including financial management, administration of the special account, and consolidation of project progress reports and audits.

7. Sustainability

Although the Government has confirmed its commitment and willingness to support the governance and competitiveness agendas as two key elements of its development program, further strengthening of specific agencies in charge of the proposed activities is still needed to ensure project sustainability. CONARE's will be crucial for project implementation but it is not clear at this point whether this agency would be able – and has the mandate – to sustain and maintain expected results over time. Adjustments to the institutional framework envisioned by the Government geared to the creation of a more permanent Undersecretary of Public Administration under the Ministry of Planning would provide the necessary institutional framework to guarantee project sustainability.

Other project components would be implemented by line agencies and units with clear mandates over proposed activities. Therefore, institutional strengthening to be provided to these units would lay the groundwork to ensure project sustainability as well.

From a more substantive and technical perspective, DR-CAFTA arrangements and the whole new legal framework to govern public financial management and other governance related issues are also creating a strong institutional framework in all areas of project intervention. In complement to this, the project would pay special attention to the creation and consolidation of technical capabilities and human resources to ensure desired sustainability.

8. Lessons Learned from Past Operations in the Country/Sector

Recent Bank engagement with governance and institutional development issues in the Dominican Republic does not provide sufficient experience from which to learn when engaging in such a complex and challenging agenda. Nevertheless, other rich sources of knowledge and

experience have provided the Bank with adequate elements to understand particular characteristics of both the country context and the thematic agenda. Three important sources from which lessons were drawn are: i) the Bank's extensive analytical work; ii) donor partners' past experience; and iii) the Bank's own experience implementing similar projects in the region.

All three sources of lessons concur on the complexity of the issue to be addressed but also provide strategic options and entry points to be more successful. Strengthening institutions is a long-term process that requires a sustained long-term effort. Given the slow progress observed in traditional public sector management reforms and institutional development in the Dominican Republic, the project proposes a new approach that incorporates the demand side as a key element of project design as well as the use of DR-CAFTA as one of the key drivers for reform. Thus, the implementation of the Access to Information Law and the institutional pilots will be carried out through a combination of demand and supply interventions, working in parallel with civil society and the public institutions themselves to improve the quality of internal processes and systems and ensure better public services.

The importance of fostering demand for reform and civil society participation has been highlighted in many reports and yet it is still underexploited in traditional public sector reforms. A recent Bank report, "Citizens, Politicians and Providers: the Latin American Experience with Service Delivery Reform" (World Bank 2005), documents a wide range of cases in which fostering demand for reform and empowering citizens and local communities to participate in projects bring high returns in terms of strengthening local ownership and social capital, changing incentives for politicians and in turn improving the quality of social services and reducing corruption. As the report shows, participation of beneficiaries and end-users in project design and project implementation is also key to ensuring sustainability of reforms, and different mechanisms can be used depending on the nature of the project. In this sense, the implementation of the Access to Information Law itself is expected to increase the demand for accountability of public institutions, creating incentives for further institutional reforms.

With respect to the competitiveness agenda, emphasis on supporting activities geared to enhancing the country's competitiveness vis-à-vis other DR-CAFTA members – namely the countries of Central America – would provide additional incentives to develop institutional capacities to better take advantage of an increasingly competitive regional environment. Regarding the ports component, four major lessons can be drawn from port reform projects financed by the World Bank worldwide: (i) the need to provide all relevant information in order to build a strong Government commitment to reform; (ii) reform-oriented managers, in particular middle managers, are necessary for success; (iii) the need for an adequate social program in place before involuntary staff separations (the initial phase of voluntary staff separations is usually implemented without difficulty); and (iv) early involvement of labor unions and development of a healthy partnership with labor unions in the process of labor restructuring.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03 , being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

10. List of Factual Technical Documents

- Financial Management Assessment
- Procurement Capacity Assessment
- QAT Environmental and Social Comments on the PCN, PAD and associated Integrated Safeguards Data Sheet (ISDS)
- Country Financial Accountability Assessment Report (CFAA), April 18, 2005
- Country Procurement Assessment Report (CPAR) Update, April 18, 2005
- Dominican Republic Public Expenditure Review, March 15, 2004
- Dominican Republic Review of Trade and Labor Competitiveness, March 28, 2005
- Dominican Republic Country Brief, June 2005
- Dominican Republic Country Assistance Strategy, March 19, 2005

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas