UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

DOMINICAN REPUBLIC

PROJECT PAPER

PRIVATE ENTERPRISE SECTOR DEVELOPMENT

AID/LAC/P-377

Loan Number: 517-T-039

CLASSIFICATION:

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 517-K-039

2. COUNTRY Dominican Republic

3. CATEGORY Cash Transfer

4. DATE September 17, 1982

5. TO: M. Peter McPherson, Administrator

FROM: Otto J. Reich, AA/LAC

6. OYB CHANGE NO.

8. OYB INCREASE

TO BE TAKEN FROM: Economic Support Funds (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF: $41,000,000

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING: [X] LOAN [ ] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: FY 83

14. TRANSACTION ELIGIBILITY DATE: Date of approval

15. COMMODITIES FINANCED: N/A

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $41,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $41,000,000	Other:

18. SUMMARY DESCRIPTION

The program proposes to: a) provide immediate balance-of-payment relief to the Dominican economy by provision of a $41 million cash transfer to the Central Bank; b) utilize these funds to pay for imported inputs of necessary U.S. goods and services for the private sector; c) provide, as counterpart funding, the peso equivalent of $41 million to be held in special accounts and aimed, with U.S. concurrence, at high priority private sector development needs in three areas: (i) $25 million for financing private sector export promotion and agribusiness projects; (ii) $6 million for training programs and institutional strengthening of organizations involved in private sector development; and (iii) $10 million to assist GODR investment in productive infrastructure necessary for expansion of private sector activities.

The GODR will agree to allocate foreign exchange to the private sector for the importatio of spare parts, capital goods and industrial and agricultural inputs from the U.S. in an amount at least equivalent to the loan over a one-year period. Covenants will be include in the loan agreement which will require, inter alia, (1) use of A.I.D. assistance in a manner which will not cause injury, or the threat thereof, to the production, marketing, or pricing of U.S. agricultural commodities or products; and (2) the implementation of th provisions of Section 203(a) of the draft authorization markup for the FY 1982 supplemental which prescribes requirements relating to the use of funds. Details regarding the

(see continuation on next she

19. CLEARANCES	DATE
REG/DP D. Silva	9/27
REG/GC Rett Maybe	9-27
AA/PPC Kirk	9-28/82
W/EM S. Clauss	9-27-82
GC:CIvanOrman	28 Sep
AA/ECP:CAllen	9/27
LAC/DR:ILeonard	9-27

20. ACTION

[X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE: Frank B. Kimball — DATE: 9/29/82

TITLE: Counselor to the Agency

CLASSIFICATION:

implementation of these covenants will be spelled out in a separate side letter.

The dollar loan will be repaid in 25 years with a 10-year grace period. The interest will be 2% during the grace period and 3% thereafter.

PROGRAM ASSISTANCE APPROVAL DOCUMENT

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PROGRAM ASSISTANCE APPROVAL DOCUMENT

I. Summary and Recommendations

A. Recommendation

USAID/Dominican Republic recommends authorization of an Economic Support Fund Loan of $41,000,000. The dollar loan will be repaid in 25 years with a 10-year grace period. The interest will be 2% during the grace period and 3% thereafter.

B. Borrower

The borrower will be the Government of the Dominican Republic (GODR). The Technical Secretariat of the Presidency (STP) will be the official GODR project representative.

C. Program Summary

The state of the Dominican economy suffers seriously from depressed international prices for its major products, resultant shortage of foreign exchange, constricted imports, reduced revenues, scarcity of credit and investment, growing public sector deficits, and a policy framework which has emphasized import substitution and dependence upon exports of traditional agricultural and mineral commodities.

The state of the Dominican private sector reflects this environment. In a "mixed" economy, it is still the predominant contributor to output, employment, and foreign exchange generation. It has, however, a long history of usually well meaning government interventions in private economic activity.

The strategy proposed herein is built around the proposed Caribbean Basin Initiative (CBI). It takes as its basic assumption that the private sector's role in the socio-economic development of the Dominican Republic must be strengthened. In summary, the strategy proposes to:

1) Provide immediate balance-of-payment relief to the Dominican economy by provision of a $41 million cash transfer to the Central Bank.

2) The GODR will provide, as counterpart funding, the peso equivalent of $41 million to be held in special accounts and aimed, with U.S. concurrence, at high priority private sector development needs. The GODR has requested (see Annex B) that these funds be utilized to provide assistance to three general areas: (a) RD $25 million for financing private sector export promotion and agribusiness projects; (b) RD $10 million for a productive infrastructure fund to accelerate execution of IDB, IBRD and AID projects; and RD $6.0 million for programs

of training and institutional strengthening of organizations which support private sector development.

The proposed $41.0 million program will be in the form of an immediate cash transfer to the Central Bank of the Dominican Republic. Foreign exchange would be made available from the loan subject to a covenant by the GODR that in the succeeding twelve months it will allocate at least an equivalent amount of foreign exchange to the private sector for the importation of raw materials, intermediate goods, and capital goods from the U.S. for private sector industry and agriculture. The Central Bank will document imports of eligible commodities by the private sector and provide the Mission with a quarterly report of these transactions. All necessary supporting documents will be maintained by the Central Bank for Mission review.

II. Description of Economic Conditions

A. Overview of the Economy

Following the period of political instability in the early 1960s, the Dominican Republic entered upon a period of extremely rapid economic growth. Industrial development, stimulated by easy access to domestic and foreign credit, generous investment incentives, and high levels of tariff protection led to a boom which saw a rate of overall economic growth almost unprecedented in the western hemisphere. Between 1968 and 1974, GDP expanded in real terms at an average annual rate of more than 11% per year.

Even while the manufacturing boom was going on, a number of structural problems were apparent. They are, among others: (1) heavy dependence of the industrial growth upon raw materials that were imported using foreign exchange earned through exports of a few major agricultural and mineral commodities, (2) that the rapidly growing industries were import substitution industries. Being essentially carbon copies of the North American and European industries whose output they replaced, they absorbed comparatively little domestic labor. Throughout the period, open unemployment remained at 20-25% of the labor force, and (3) the prospect for further rapid growth is inherently limited by the small size of the domestic market. During the past 15 years, this economic structure has developed a pattern of human resource allocation that would nurture and maintain the existing system. In 1980 about 48% of labor force was engaged in agriculture, major products being the all important export crops, about 12% was devoted to providing government services, another 5% was occupied in the public sector enterprises, and less than 4% of labor force was engaged in manufacturing. Moreover, the GODR instituted a tax system whereby about 40% of its revenues depended on import and export activities. This dependence of industry, government and employment on exports of a few agricultural and mineral commodities is the major source of potential economic instability.

In spite of persistent high unemployment, this structure worked fairly well in the Dominican Republic as long as world prices and the domestic production of agricultural and mineral export commodities were reasonably high and opportunities for capital expansion were not exhausted. When this situation prevailed, virtually every sector benefited. The agricultural sector received higher profits, the manufacturing sector obtained an abundant supply of foreign exchange to import raw materials and capital goods mainly to satisfy consumer demand in the domestic market and the government sector collected higher tax revenues to finance social overhead investment.

In recent years, however, the Dominican economy has been hit by several adverse world events that were beyond the control of the Dominican Republic. Three unrelated events have affected the Dominican economy adversely and precipitated the current severe foreign exchange and fiscal crisis. They are the 1979 Hurricane David that caused extensive damage to the nation's infrastructure, housing as well as agricultural crops, the 1979 doubling of world oil prices that raised the import bill of petroleum products from 29% of total export earnings in 1978 to about 42% in 1981. In addition to its direct effects, the rise in oil prices seriously affected the financial viability of the Dominican Electricity Corporation (CDE) causing a deterioration in the level of service and thus affected other sectors adversely. And finally, the world economic recession of 1981-1982 has caused serious deterioration in the Dominican economy. Sugar prices dropped sharply. Similarly sharp declines in gold and silver prices combined with volume declines in bauxite and ferronickel production in the face of declining world demand put severe pressure on the balance of payments, which was already severely affected by rising import prices. To meet this deterioration, the government shifted several categories of imports from the "official" one dollar to one peso exchange rate to the "parallel" market where the price of dollars is determined by supply and demand. In order to limit the rise in the premium on parallel market foreign exchange, the government banned the importation of automobiles (financed in the parallel market) for one year and further reduced the already low rate of growth of the money supply. Since the government is dependent on trade taxes for approximately 40% of central government revenue, the quantitive restrictions and tight credit worsened the already precarious fiscal position of the public sector, whose deficit had averaged 5% of GDP for the previous three years. Thus, as the Dominican Republic enters the 1980s, it must cope with severe and interconnected fiscal, unemployment, and balance of payments difficulties.

In September 1982, the Dominican economy is faced with the doubled threat of a foreign exchange crunch and a fiscal crisis unmatched in the past. Partly because of the drop in world commodity markets during 1981-1982, projected exports for 1982 was revised down to little more than $800 million from almost $1,200 million in 1981. The overall balance of payments deficit for 1982 is estimated at about $260 million, exceeding the Central Bank gross international assets ($230 million)

available at end March 1982. To compensate, the government has continued the cut back on imports via stringent monetary and trade measures. Due to the Central Bank's growing delays in payment on official exchange transactions, commercial banks halted new commercial letters of credit issuances between November 1981 and March 1982, when an agreement was reached between the Central Bank and commercial banks to hold the payment delays to their existing level. As a result of these events, average monthly imports and associated trade tax receipts have been reduced substantially. In anticipation of lower tax revenues, the government budgeted its 1982 expenditure at RD$1,055 million down from the 1981 level of RD$1,098 million. The 1982 budget programmed a reduction of public wage payments by 7% as well as less funds for purchases of goods and services. The overall fiscal deficit is estimated at RD$165 million in 1982 down from RD$190 million in 1981. However, it is anticipated that the actual fiscal deficit will exceed the budgeted level by a substantial margin.

Severe curtailment of necessary imports and reduced government expenditures will have an adverse effect on economic activities and the standard of living of most Dominicans in the short-run. To avoid a sharp downturn in GDP growth and significant disruptions in its economic and social life, Dominican authorities must find a means to increase inflows of foreign exchange in the form of loans and credit. This PAAD is aimed at providing $41 million of foreign exchange in the form of cash transfer to provide immediate relief from the foreign exchange crunch.

A more detailed analysis of the macro-economic situation in the Dominican Republic is provided in the recently completed Private Sector Action Plan in conjunction with the proposed Caribbean Basin Initiative. Therefore, the remainder of this section will be limited to a brief analysis of the balance of payments and public finance situation and their impact on the private sector.

B. Balance of Payments Situation

The Dominican Republic's balance of payments maintained a current account deficit at a low annual level of $130 million until 1978-1979 when it rose to more than $300 million. This increase was due to the reduced export value of sugar, coffee and ferronickel in 1978 and the increased petroleum import bill in 1979. In 1980 the current account deficit became even worse, reaching $670 million. This dramatic deterioration was due to a larger volume of imports, partly related to post-hurricane reconstruction, and import price increases, particularly petroleum prices. As a result the Dominican economy incurred an overall balance of payments deficit of $115 million in 1980. This overall deficit was financed by an increase in the net foreign liabilities of the banking system, which increased to $240 million at the end of 1980.

The situation became worse in 1981 and 1982. Although the 1981 current account deficit was estimated at about $405 million, a substantial improvement over the $670 million deficit in 1980, the overall balance of payments deficit in 1981 increased to $160 million due to unfavorable developments in the capital account, exerting further pressure on net foreign exchange reserves in the banking system. The primary cause for the reduction of net capital inflows was found in the private sector capital, which dropped by more than $200 million in 1981. Major factors that contributed to this decline are: (1) rising short-term debt service by the State Sugar Council, (2) a large previous year one time foreign borrowing to pay for the purchase of Rosario gold mine, and (3) limited foreign borrowings by private sugar interests in 1981.

The large overall balance of payments deficit in 1980 and 1981 and prospects for further deterioration in the trade regime during 1982 required urgent corrective measures. It was clear to the GODR authorities that drastic action was necessary to cope with the deterioration in the country's external financial position. The then GODR authorities, however, decided that it was not politically feasible to approach the IMF or World Bank for conditional program assistance, nor to seek external commercial financing of the balance of payments deficit. (The D.R. has maintained a low level of external public and publicly guaranteed debt. At the end of 1980, such debt stood at $1,372 million, equivalent to 19.67% of GDP. In 1980, the ratio of public debt service payments to exports of goods and non-factor services was 11%. However, this ratio is projected to increase to 19% in 1982 due to upcoming amortization payments on a large sindicated loan arranged in 1979.) Because external debt triggered foreign intervention in this country's internal affairs earlier in this century, there is a strong aversion, on the part of many Dominicans, to contracting such debt, especially at commercial terms. Given these perceived constraints, the GODR chose to limit demand for official foreign exchange both directly, by transferring additional raw materials and semi-finished goods imports to the parallel market, and indirectly, by further reducing the already low rate of growth of the domestic money supply. In addition, in order to limit the effect of the transfer of imports to the parallel market on the dollar premium in that market, imports of automobiles and certain other vehicles were prohibited altogether for a period of one year.

Even with these stringent measures to restrict imports, the Mission currently estimates that the overall balance of payments deficit for 1982 will reach $260 million (See Table 1). Export earnings are projected to decline by 33% to $801 million in 1982 from $1,188 million in 1981. Imports are projected to decline to $1,200 million from $1,452 million, a 7% reduction. The resultant current account deficit is estimated at $435 million, which is not good but a level of deficit that could normally be managed by the Dominican economy. However, the most difficult problem is found in the private sector capital account.

Because of the large accumulated short term commercial payments arrears (roughly estimated to have reached a total of around $400 million by early 1982) and because of the heavily negative net position of foreign reserves in the banking system, the Dominican Republic is in a difficult position to solicit additional credits from foreign private sources. The Mission projection of 1982 capital movement precisely points out the problem. The net private capital inflow is projected to remain at $7 million, slightly less than the 1981 level of $8 million. It may be possible, according to a Central Bank source, that the net private capital inflow can become negative by a substantial amount if financial credibility is not restored. In that case, the overall 1982 balance of payments deficit could exceed $300 million.

There seems to be only one way out if Dominican Republic is to avoid a massive reduction in imports and a drastic decline in real GDP. At the risk of repetition, access to increased inflows of foreign exchange in the form of loans and credit must be found urgently. Such access has been made difficult by the large and growing arrears of commercial payments and by delays in servicing debt. Yet, given the low level of foreign public indebtedness and service payments, the Dominican Republic should be able to borrow substantial sums provided it can demonstrate discipline in international payments.

C. Fiscal Situation

Although the monetary and foreign exchange measures were ultimately successful in slowing the BOP decline earlier in 1981, they also had a severe impact on the central government's fiscal position. Tax revenues for the year fell RD$124 million below anticipated levels. This effect was in large part a result of the fact that the GODR is largely dependent on taxes on international transactions for its operating revenues. Declines in imports resulted from both the decline in aggregate demand induced by the lower rate of money supply growth and the price effects from the shift to the parallel market. Typically, approximately 40% of government tax revenues are derived from trade taxes; 30% of the total are derived from import duties. In addition, the decline in economic activity which resulted from the restrictive monetary policy reduced revenue growth from income and excise taxes. In order to limit the size of the resulting fiscal deficit, government expenditures were tightly restricted to keep expenditures in line with revenues. Despite this, the unfinanced portion of the consolidated public sector deficit for 1981 was reported to have been approximately RD$245 million, primarily because of a need to finance year end bonuses (which had not been included in the expenditure budget) as well as to cover the operating deficits of State enterprises. In 1980, the consolidated public sector deficit was RD$327 million (Table 2). However, much of that was associated with hurricane recovery and all but $50.3 million was financed externally.

Table 1

Dominican Republic
Balance of Payments
(000,000 RD$)

	1980	1981	Est. 1982
Exports	961.9	1,188.0	823.9
Imports	1,519.7	1,451.7	1,200.0
Trade Balance	-557.8	-263.7	-376.1
Net Services	-299.8	-335.2	-259.0
Net Transfers	187.8	193.0	200.0
Current Account Balance	-669.8	-405.9	-435.1
Non-Monetary Capital	493.8	234.2	184.2
Private Sector	225.7	8.3	7.3
Loan (long term)	163.2	29.3	15.0
Amortization	-100.9	-96.9	-73.3
Short-term loans (net)	38.3	-13.9	+9.8
Investment	92.7	79.7	45.8
Others	32.4	10.4	10.0
Public Sector	268.1	225.9	176.9
Loans	241.9	198.7	285.2
Amortization	-37.1	-59.7	-138.7
Others	63.3	86.9	30.4
Counterpart Reserve	32.6	-6.8	-11.0
Errors and Omissions	28.6	18.6	-
Balance (Plus = Deficit)	114.8	159.9	261.9

The fiscal problem of 1981 was partly a result of the short-term developments discussed above, but also reflects a steady decline in the fiscal position of the Dominican public sector over recent years. This trend is illustrated in some detail in Table 2. The period 1977-1980 saw a sharp rise in both the Central Government and the consolidated public sector deficits, the latter rising from 1.4% of GDP at the beginning of the period to about 5% at the end. During the same period, public sector savings declined sharply, while public sector capital formation rose only moderately in nominal terms and declined both in real terms and as a percent age of GDP.

This adverse fiscal trend was a consequence of a number of factors. Both public sector wages and the level of public sector employment grew sharply in the period 1978/1980. Primarily as a result, current Central Government expenditures rose by 25% per year during this period. On the revenue side, receipts barely kept pace with inflation. Receipts as mentioned above are heavily dependent on taxes on international trade. However, during this period, most of the growth in imports was in petroleum and food imports that were largely tax exempt. In addition, numerous specific exemptions from import duties have been granted.

The GODR had already begun to address its weak fiscal position in 1980 through tight controls on the growth of current expenditures and by proposing enactment of a value added tax to the Congress. The latter, however, was not enacted. Thus, the revenue decline of 1981 took place in the context of a government already struggling to limit the growth of current expenditures and faced with an inelastic tax system which it was unable, in the short run, to alter.

The gravity of the fiscal crisis is reflected, according to the recent Aide Memoire, in the possibility that the public sector deficit for 1982 could reach RD Pesos 700 million or nearly 8.5% of GDP, compared with an average of 6% over the last four years and less than 2% during 1971-76. The Central Government's deficit could amount to RD$370 million, of which less than RD$100 million of financing from external sources has been identified. Of the expected deficit of over RD$300 million attributable to the public enterprises and autonomous agencies, the state sugar corporation and the electricity corporation account for nearly RD$250 million, and only a small portion of their deficit has assured external financing. Thus identified external financing amounts to less than RD$150 million, leaving RD$550 million to be financed (most likely) by the Central Bank which due to the constraints on overall money and credit growth will result in the diversion of savings and credit from the private to the public sector. The diversion in turn will continue to severely restrict private investment and growth, thereby eroding the revenue base and increasing future deficits.

Table 2

Fiscal Indicators for the Dominican Republic
(RD Pesos Million Unless Otherwise Indicated)

	1977	1978	1979	1980
Central Government				
Current Revenues	625.7	591.3	681.5	879.8
Current Expenditures	347.3	416.6	590.0	679.3
Capital Revenues	3.6	4.6	9.3	11.0
Capital Expenditures	295.7	272.7	398.5	414.8
Surplus or Deficit	-13.7	-93.4	-297.7	-203.3
Rest of General Government				
Surplus or Deficit	-11.5	-42.1	-7.0	-13.2
Public Enterprises				
Current Revenues	503.7	484.4	567.5	796.4
Current Expenditures	426.7	467.0	554.9	867.3
Capital Revenues	43.1	31.2	152.6	115.7
Capital Expenditures	158.1	145.3	148.6	155.3
Surplus or Deficit	-38.0	-96.7	-16.6	-110.5
Public Sector Surplus or Deficit	-63.2	-232.2	-288.1	-327.0
As Percent of GDP	-1.4%	-4.9%	-5.2%	-4.7%
Public Sector Savings	360.7	198.1	111.5	142.2
As Percent of GDP	7.9%	4.2%	2.0%	2.0%
Public Sector Capital Expenditures	441.7	445.4	424.4	480.2
As Percent of GDP	9.7%	9.5%	7.7%	6.8%

SOURCE: FY 1984 CDSS based on IMF Article IV, Consultation Report, July 13, 1981.

D. Impact of the Current Economic Crisis on Private Sector

The private sector in the Dominican economy plays an important role in the contribution to output, employment, and foreign exchange generation. It employs about 61% of labor force and produces approximately 70% of the gross domestic product. However, in an economy where the influence of public sector is prevalent, the relationship between the private and public sectors can be complex. On the one hand, the Dominican Republic has a large, vigorous, and politically assertive private sector which the government has attempted to foster through an extensive and financially costly system of incentives. On the other hand, the government administration of programs and activities affecting the private sector has been characterized by a substantial degree of administrative discretion and case-by-case reviews, often by several agencies, with considerable doubt as to the outcome. Notwithstanding, the GODR's attitude toward the domestic private sector has been regarded as positive and supportive.

In a time of economic crisis, however, all sectors are adversely affected. The private sector is no exception. The most adverse effect on the private sector has been shortage of official foreign exchange with which to purchase necessary inputs, service debt and continue production. However, it has become progressively difficult to obtain needed foreign exchange through official channels on account of foreign exchange shortages.

1. Foreign Exchange Market

The foreign exchange system in the Dominican Republic is unusual and somewhat controversial. There are two exchange rates, the "official" rate of one peso to one dollar and a "parallel market" rate running at about RD Pesos 1.47 to one dollar as of early September 1982. The sources of quote official unquote foreign exchange include registered foreign investment, export proceeds -- both private and public -- and international transactions of the GODR. The sources of foreign exchange in the parallel market include tourist expenditures, private transfer payments from Dominicans abroad and perhaps a certain amount of underinvoicing of exports. The volume of imports financed through the parallel market has been substantial, probably amounting to over 50% of non-petroleum imports.

All export proceeds, private or otherwise, must be surrendered to the Central Bank for conversion to pesos at the one [illegible] one rate. Exporters of quote non-traditional unquote exports are eligible (under Law 69) for a partial refund of the foreign exchange they surrendered as an additional incentive for such exports. The proportion of exchange proceeds returned is determined administratively. In turn, foreign exchange at the quote official unquote rate is available from the Central Bank for meeting the government's own obligations; for annual

profit remittances on registered foreign investments up to the limit of 18% of the registered investment; and for imports of raw materials and semifinished inputs up to a quota equal to 70% of the 1979/1982 actual usage of foreign exchange by the firm. At the moment, however, all access to foreign exchange at the "official" rate through the Central Bank is subject to long delays: approximately one year for raw material imports; approximately two years for profit remittances and several months on the partial return of foreign exchange proceeds on non-traditional exports.

It is important to emphasize that foreign exchange is readily available in the parallel market and that there are essentially no restrictions on private sector access to foreign exchange in this market. For a price, exchange is available for any purpose. What restrictions there are apply to priviledged access to exchange at the one-to-one exchange rate. Where real difficulties arise is for those exporters who must surrender their exchange on the official market and then either pay the parallel market premium or face long delays and uncertain costs at the Central Bank to meet ongoing foreign exchange requirements of their business.

2. Effects on Private Sector

As the foreign exchange inflow decreased and the commercial payment arrears increased, the Central Bank shifted eligible imports from the official to the parallel market, increasing demand for foreign exchange in that market. The peso depreciated on the parallel market by about 20% since April 1982. The immediate causes of this drop were the greatly constrained letters of credit available, pre-election jitters, and the subsequent temporary lifting of the auto import ban. Underlying this is an ongoing demand for dollars which reflects the parallel market's greatly increased share of total imports in recent years. In the past this growth in demand has largely been able to induce matching inflows of dollars, but future prospects are not promising if corrective measures are not adopted soon and the rate of growth in dollard demand checked.

The plight of a private businessman is obvious. If his products are sold in the domestic market, he has to cope with the increased cost of imported production inputs and the accompanying larger working capital requirement. If he is a non-traditional exporter, he has to surrender his export earnings to the Central Bank at the official rate and receive part of his earned foreign exchange for his own use. Profitability of non-traditional exports under this none too generous system seems questionable. Even more severely affected is the traditional exporter, who has to surrender all his export earnings to the Central Bank at the official one-to-one rate, but must use the parallel market for many of his production inputs. In addition, the expected large public sector deficit will probably reduce total credit available for the private sector. The private sector can be squeezed out of the credit market.

It seems that at this time of economic crisis the private sector needs assistance to have access to foreign exchange through the Central Bank and access to credit, particularly for working capital in order to continue its role in the Dominican economy. This PAAD is intended to fulfill a partial requirement for the needed assistance.

3. Effects on International Loans

Implementation of many important internationally financed GODR projects which will provide key infrastructure to complement private sector development has also been stopped due to lack of counterpart resources.

Among the IBRD financed projects, the Nizao Valley irrigation project, with $24 million in the pipeline, has been identified as a project suffering from both counterpart funds and managerial deficiency. In addition, two IBRD financed highway construction and maintenance projects are being delayed mostly because the GODR is not adequately meeting its financial contribution. Total undisbursed portfolio of IBRD loans amounts to $165.7 million of which $159 million will be affected by the lack of counterpart funds if the present tight financial situation continues.

The IDB projects are the ones mostly affected by present and future counterpart constraints. As of March 1982, the IDB had an undisbursed balance of $297.8 million in its loan portfolio. IDB estimates that for an adequate flow of their loan portfolio, a total of $30.5 and $32.5 million are needed during 1982 and 1983 respectively in counterpart funds. This contribution excludes needed counterpart for the already approved projects such as Duarte highway, rural aqueducts, Agostura dam, etc. Total amount of IDB loan funds directly affected because of counterpart restriction would be around $258.7 million.

The GODR has established, with an initial $10 million, a fund to help provide needed counterpart resources not now available through the normal fiscal structure. The major intent of this fund is to accelerate the implementation of key IDB and IBRD projects which are important to the country's development. The GODR anticipates that additional resources for the fund will be obtained from other international donors (e.g. OPEC, IBRD, IBD).

4. Self-Help Measures

In August 1982 the newly-elected government of President Salvador Jorge Blanco assumed office and immediately formulated both short-term and long-term strategies to address the desperate economic situation it had inherited. In his inaugural address August 16, President Jorge Blanco announced a sweeping economic recovery program designed to rein in the public sector deficit and spur private sector production while continuing the pursuit of economic democracy. Although

the GODR is unlikely, for political reasons, to acknowledge the influence, the new GODR program bears a remarkable similarity to the recommendations presented in the World Bank Aide Memoire on the Dominican economy.

The Presidential Decrees and proposed legislation announced during the new government's first 30 days in office, include almost every one of the IBRD's short-term recovery recommendations for narrowing the Central Government's fiscal deficit, including immediate reductions in government salaries, an increase in government work hours, the formulation of a comprehensive tax program involving a 10% surtax on most imported goods, abolition of provisional payment of import duties and increased income taxes. In addition, the immediate GODR program includes measures from the IBRD's long-term recommendations, which called for an urban property tax, a capital gains tax and increased license plate fees for motor vehicles. Also, a series of administrative reforms, designed to reduce corruption and enhance efficiency, most especially in Customs and tax administration, have been undertaken, as well as the first serious attempt to establish tight central control over the use of financial resources in the support of capital expenditures and the GODR investment program. The GODR has begun a review of the activities of all the major autonomous agencies, especially the State Sugar Council (CEA), the State Enterprises Corporation (CORDE) and the State Electric Company (CDE). GODR officials have indicated that they are committed to doing whatever is necessary to assure that these institutions, which have contributed so heavily to the public deficit in the past, become self-sustaining in the future.

In line with IBRD recommendations, the GODR has also acted to increase capital available to business in order to spur the sagging private sector. The Monetary Board of the Central Bank has allowed commercial banks to operate in the parallel market, subject to provisions designed to prevent speculation, in order to inject a measure of stability into that exchange system. Shortly thereafter, it permitted selected exporters of non-traditional products to retain a portion of their foreign exchange in order to encourage more exports. The Jorge Blanco administration has introduced several bills into Congress which seek to provide new incentives for domestic firms to invest in the various free zones. There are also incentives for firms, domestic or foreign, which increase employment over current levels. Finally, the GODR has taken initial steps necessary to increase interest rates for savings deposits, create a new fund for export promotion, formulate implementation regulations for the agro-industrial incentive law, revamp the current restrictive foreign investment law and reorient government agencies toward stimulating and expediting domestic production and exports.

By thus immediately addressing both short-term and long-term problems of the public and private sector, the GODR economic recovery program has reached several milestones in an extremely short period of time.

Undeniably, it has directed itself in precisely the direction the World Bank has said it must go, and it has given an unambiguous signal that the country is making a serious attempt to confront the crisis.

Mission has held many discussions with current GODR administration officials concerning needed GODR economic actions. In response, GODR has agreed to send the Mission a combined letter of request for the ESF loan program and of intent which outlines GODR course of action on the points raised in State 251685 Para 6. Mission has discussed the composition of the ESF program package, for both US dollar and Peso resource uses and they are in full accord with proposed allocations. Indeed President Jorge Blanco announced and outlined the proposed program last night in his statement to the nation at the conclusion of the first month of his administration

III. Program Description

A. Assistance Strategy

The overall outlook for the Dominican economy is, in the short term, threatening. The country is experiencing severe budgetary and balance of payments constraints as a consequence of depressed prices for its principal exports and high prices for its principal imports. The monetary stringency, both dollars and pesos, needed to deal with these problems has severely constrained domestic demand and consequently economic activity generally.

Given the characteristic flexibility and resiliency of the Dominican economy, adjustment in the longer run should take place. The Dominican Republic has many advantages in resources and location which, given sufficient time, can help propel the country to sustained prosperity.

In the short run, however, there is concern that current difficulties could cause steadily worsening spiral or permanent structural damage to the economy.

The current economic crisis, poses serious challenges to the country's political and economic system. The new GODR administration which took office in August will not only have to face head-on the country's economic difficulties and undertake a series of difficult and far-reaching measures. It will also have to convince the country that its severe economic problems are being dealt with effectively, that the austerity measures will pay off, and that the necessary sacrifices will be shared equitably.

This is likely to be an extremely difficult task for the GODR. It is clear that a long period of stringent financial and fiscal discipline will be required. How Dominicans will react to the strict austerity measures is unknown. U.S. interest in the Dominican Republic

is to assist it in carrying out their economic recovery programs in a manner which preserves the basic tenants of a democratic society and a free market economy. In this context, U.S. objectives in the short and medium-term in the Dominican Republic should:

- help stabilize the economy;
- assist in maintaining international financial confidence in the Dominican Republic;
- promote production, particularly in the industrial and agricultural sectors, with special emphasis on increasing exports;
- support the establishment of a firm basis for sustainable economic growth founded on equity and a progressive private sector; and
- help protect the foundations of the Dominican democratic political system.

The proposed economic support assistance can help the GODR ease the strain of the austerity measures it must take. In addition, the proposed $41.0 million in rapidly disbursing ESF monies will significantly ease the severe foreign exchange crunch which faces the Dominican Republic in September 1982.

In the longer term, the Mission's program strategy pursues the goals of increased employment, increased income in private enterprises, improvement in the Dominican Republic's foreign exchange position, and promotion of non-traditional exports. All these goals will be pursued wherever feasible in a context of concern for equitable distribution of the economic benefits of improved performance of the economy as a whole. The Mission's strategy is conceived as a broad ranging effort to encourage and assist the private sector in playing a more effective role in development.

B. Justification for Cash Transfer

In designing the program, the Mission weighed the merits of a cash transfer and commodity import program (CIP) and the experience with both in other countries in the Caribbean Basin and elsewhere. Based on an analysis of the advantages and disadvantages of each approach, the Mission concluded that the cash transfer mechanism was the only means to achieve the objectives of this $41.0 million program. U.S. interests are best served by an immediate disbursement of dollars to provide balance of payments support and assist the Dominican private sector. The economic situation, particularly the foreign exchange crunch in September, demands an immediate infusion of foreign exchange to import critical inputs. Systems already exist through which these additional resources can be channelled quickly to the private sector with reasonably good assurances

of reaching productive enterprises. Although the CIP approach would provide more precise control over the use of U.S. resources, given the need for an immediate infusion of resources, the marginal gains in accountability from the CIP approach for this particular program do not justify the initial delays this mechanism would entail. In addition to implement the provisions of the special covenant of the agreement, the project will provide a control mechanism to ensure that imported goods are eligible items and thereby do not include military requirements of any kind or luxury items, food or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction. The cash transfer mechanism will also require less staff to administer, both at the Central Bank and the Mission. In view of the demands on already limited staffs, the Mission concluded that the cash transfer approach was the most appropriate for this economic support program.

C. U.S. Dollar Resources

The $41.0 million ESF funds will be provided to the GODR through a simple cash transfer to the Dominican Central Bank. The U.S. dollars would be made available from the loan subject to a covenant by the GODR that in the succeeding twelve months it will allocate at least an equivalent amount of foreign exchange to the private sector for the importation of raw materials, intermediate goods, and capital goods from the U.S. for private sector industry and agriculture.

The GODR will also agree not to use ESF funds to finance military requirements of any kind or luxury items, food or pesticides which are not registered by the U.S. Environmental Protection Agency without restriction. Documentation will be required from the GODR to verify that $41 million worth of eligible imports for the private sector during this period were actually received. This verification will take the form of customs receipts, bills of lading, Central Bank authorization of foreign exchange for imports, and other standard GODR documents which identify the type of good imported, the source and origin, and the U.S. dollar value.

The Central Bank will utilize its existing mechanisms to assure compliance with the covenant. After disbursement of the loan, every three months the Department of Foreign Exchange within the Central Bank will prepare and submit to A.I.D. a report on the goods imported under the program. This report will include a summary listing of the importers, goods, values, and importing dates. In addition, the report will include the supporting documentation (e.g. bills of lading, letters of credit) associated with the eligible imports. The Department of Foreign Exchange currently prepares similar documentation for an OPEC funded project. In addition FIDE has prepared similar documentation for previous AID loans. The Central Bank anticipates that the increased workload created by the AID ESF funded project should present no problems in complying with the reporting requirements. Mission therefore believes the proposed mechanism should prove effective in assuring compliance with the covenant.

D. Use of Local Currency Generation

Within approximately 30 days after the disbursement of the $41 million dollars, the local currency generated from the program will be deposited in a special account in the Central Bank for the uses agreed to under the program.

The Central Bank will inform the Technical Secretariat of the Presidency (STP) of the deposit of all proceeds and will advise AID. The generated local currency will be programmed jointly by the GODR and AID for high priority private sector development needs. STP will coordinate the GODR planning and programming activities. Prior to the disbursement of the proceeds, STP will submit, for AID approval, a detailed implementation plan for each project activity. Under the local currency funded activities, three areas of financing have been identified by the GODR as their priority uses for these funds. Specific allocations will be the subject of further negotiations; however, GODR plans and priorities involve the following:

1. Credit Facility ($25 million)

This facility will seek to increase the volume and smooth the flow of credit and investment to and within areas of the private sector which are not adequately financed and which offer significant opportunities for development such as agriculture, and export promotion. Private enterprise, particularly smaller firms, need access to financing of various kinds: shorter and longer term, debt and equity, capital goods and working capital. The Finance Facility will help marshall the resources to meet those needs.

FIDE has a list of 670 agricultural and industrial projects totaling $37,750,000 and a proposed cash flow reflecting commitment of all projects in one year and disbursement in twenty four months. (This period represents the outer limit of our projections. In practice, we will seek to have peso disbursements move much faster, within the constraints of prudent use of the funds.) These projects represent for the most part applications on hand. The scope of lending for any designed time frame through the facility could be greatly enlarged by FIDE calling for additional applications. Proposals in hand include a range of high impact of projects including agro-industry, various agricultural production operations and an export terminal.

The possibility of use of the Facility to promote equity financing is under consideration. This may involve creation of a private investment company which would take equity positions in Dominican business enterprises or a corporate securities exchange.

The Finance Facility will be established in the Central Bank and provide access to any qualified bank or financiera, including cooperatives which have their own financial intermediaries. Prior to agreement on how this Facility will function, AID will discuss with FIDE a series of measures to ensure that particular emphasis will be placed upon lending to agricultural cooperative activities which are eligible under the Facility. We will seek to set aside a portion of the feasibility study funds to specifically identity such cooperative projects for financing. The Mission intends to monitor this process closely.

FIDE has a well established sublending system with standard credit policies and procedures for lending to the industrial and agroindustrial sectors which reflect the highest sublending rates under the law. We expect an interest rate restructuring in the near future. Interest rates are currently under review by monetary authorities and will likely be revised upward. The Mission will assure that there will be no overlap between the sublending activities under credit facility activity and those included under the AID Small Industry Development project. AID will require, however, that at least 80 percent of the loans utilizing local currency generations will be directed at small and medium industry. FIDE, through STP, will submit to AID the detailed sublending criteria and procedures to be used under the program and a detailed sublending operating plan for the first twelve months.

The Facility also will service the needs of private enterprise generally but special emphasis will be placed on promoting the flow of exports from the Dominican Republic and the flow of investment capital into the Dominican Republic by financing technical assistance, feasibility studies, and information transfer for export promotion and for the development of private sector projects to be financed primarily by foreign investment.

Export promotion technical assistance may be handled through "trading companies"; through the open market for Dominican and American technical assistance services; or through a U.S. organization which would both provide and "broker" export promotion technical assistance services. The Technical Assistance Facility will help promote private investment project development by financing consulting services for specific projects and by encouraging development of Dominican private organizations specializing in investment project development. The facility may be used in part to help improve the responsiveness of GODR authorities to private sector requirements, perhaps through promotion of a "clearing-house" or "ombudsman"-type service. Detailed activity descriptions will be developed through a joint GODR-USAID-Private Sector committee to be established. STP will then submit the final activity descriptions to AID.

2. Productive Infrastructure Fund ($10 million)

Local currency generations will be used within a fund established by the Central Bank to accelerate on-going GODR investments financed by international lending institutions where lack of local currency counterpart has resulted in work stoppage of projects deemed critical to expanded private sector productivity, and which may have important multiplier effects both in disbursing IFI dollars and in the corresponding expansion of internal credit to the private sector. Examples of such infrastructure include specialized facilities for agricultural exports, transportation networks, and irrigation.

The GODR has already established a fund in the Central Bank to improve the progress of key internationally funded projects now blocked because of lack of counterpart. The objective of this fund is to better assure the availability of counterpart resources often not available through the current fiscal process. It is anticipated that when fully operational the fund will receive resources from many sources (e.g. OPEC, IBRD, IDB).

The AID financed contribution will be used to support internationally funded projects most in need of counterpart and which most affect the development of the private sector, including cooperatives and farmer associations who currently are the greatest beneficiaries from several major irrigation and agricultural credit programs funded with international loans. The fund structure will be revised to include all AID projects as eligible for the counterpart resources available under this program activity. STP will develop a listing of priority productive infrastructure projects to be funded under the ESF program for AID approval. Any changes in this listing will require AID concurrence. STP will submit quarterly reports to AID on the disbursement and usage of these funds.

3. Training and Private Institutional Strengthening Activities (6.0 million)

There are a wide range of training requirements in the private sector, some of which the Mission has begun to address through loans to promote private vocational education and the development of a graduate business and public administration faculty.

A Training Finance Facility will expand the volume of AID assistance for training and extend opportunities to private sector enterprises to finance technical and business training for their personnel. It is anticipated that a significant portion of the training funds will be used as counterpart under the proposed AID loan funded Management Training project for the construction and equipping of the Business Administration school at the Universidad Católica Madre y Maestra.

A portion of the local currency generations will be devoted to financing programs to be implemented by both indigenous and U.S. PVOs. We believe that PVOs bring a unique perspective to development, and can provide a grassroots dimension not always attainable under regular loan/grant programs. There is considerable scope in the Dominican Republic for such activity. A number of private U.S. organizations are currently active here in various fields, including agriculture, small business, housing, health, and education. Further, there are a number of Dominican private development institutions many of which are highly qualified to develop and implement projects which support CBI objectives. USAID plans to expand its PVO program by exploring in depth with the impressively varied U.S. and local PVO communities possible new OPG activities that will promote CBI goals and will complement and reinforce the Mission's DA program. A joint GODR-AID PVO committee will be established to develop a set of programs in this area. STP will then submit the final program proposal to AID.

E. Negotiating Status

Representatives of STP and FIDE have been working closely with the Mission staff on all aspects of the PAAD. There are no remaining issues which will require substantive negotiation. The Mission and the GODR intend to obligate the loan before the end of FY 82. Once the PAAD is approved, the Project Agreement will be prepared and negotiated with the GODR (principally STP). The Agreement will then be reviewed and approved by the Legal Advisor to the President and signed o/a September 29, 1982. No unusual delays are expected in this process.

F. Covenants and Special Emphasis

1. Agricultural Exports: AID has agreed to be guided by certain programs of the proposed authorization legislation as reported out of the House Foreign Affairs Committee which requires that, "Agreements relating to assistance under this title shall require that particular emphasis be placed on using assistance, including local currencies, in a manner which will not cause serious injury, or the threat thereof, to the production, marketing, or pricing of United States agricultural commodities or products." In this regard, a covenant will be incorporated within the Agreement with the GODR that the GODR shall "place particular emphasis on using assistance, including local currencies hereunder, in accordance with criteria as may be agreed upon in writing between the parties." A countersigned side letter along the following lines shall be exchanged with the GODR pursuant to this covenant: "In using dollar funds or local currency resources under this Agreement, the borrower should avoid projects or activities which would cause or threaten serious injury to the production, marketing, or pricing of United States agricultural commodities or products. Exports of agricultural commodities or products should not be supported using such

funds, if the issue of serious harm or threat thereof from such exports has been raised by USAID, until the matter has been reviewed and discussed by USAID and the borrower. Both USAID and the borrower should keep each other informed of activities which appear to involve the potential for such harm."

2. Consistency with FAA: The Mission believes that all proposed uses of the local currency generations are consistent with sections 103-106 of the FAA; however, in recognition that a 80 percent requirement has been requested by the Congress, the USAID further proposes to require that at least 80 percent of the FIDE credit funds utilizing local currency generations be directed at small and medium export and agribusiness activities.

3. Uses of Local Currency Generations: The covenant specified in F(1) above will provide USAID with the opportunity to discuss and approve all uses for local currency generation under this program. Plans of activities to be financed with these funds will be submitted to AID/W for clearance.

4. Uses of Foreign Exchange: Foreign exchange will be made available from the loan subject to a covenant that in the succeeding twelve months the GODR will allocate at least an equivalent amount of foreign exchange to the private sector for the importation of raw materials, intermediate goods and capital goods from the U.S. for private sector industry and agriculture.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: The FY-82 Country Checklist is included in the Energy Conservation and Resource Development Project Paper (517-0144)

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	An advice of Program change notifying the Congress of the use of the $41 million of ESF was sent to Congress.
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	No, ESF is being used here to meet urgent, unforeseen need which was not taken into account in the preparation of the Congressional Presentation for the year in question.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No.
3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	No.
4. FAA Sec. 601(a), (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	The objectives the assistance provided include increasing the flow of international trade, fostering private initiative and competition, and improving the technical efficiency of industry, agriculture and commerce.

A.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project is specifically intended to enhance U.S. private investment in the Dominican Republic and to expand U.S. markets for Dominican products.

6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

N.A.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

The U.S. does not own excess Dominican currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

Assistance will:
- support efforts of GODR to cope with current economic problems.
- provide immediate balance of payments support.
- provide foreign exchange and credit to the Dominican private sector.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N.A.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

N.A.

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(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers; — N.A.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor? — N.A.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; — N.A.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: — N.A.

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries. — N.A.

c. FAA Sec. 201; Sec. 211. Extent to which assistance reflects appropriate emphasis on, (1) encouraging development of democratic, economic, political, and social institutions; (2) will help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy. N.A.

d. FAA Sec. 201(b). Describe extent to which program recognizes the particular needs, desires, and capabilities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. N.A.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? N.A.

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position. N.A.

3. Nonproject Criteria for Development Assistance (loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free world sources, including private sources within the United States. N.A.

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(e). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress — N.A.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

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3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes.
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes.
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	N.A.
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	N.A.
6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	N.A.
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	N.A.

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8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — N.A.

9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — N.A.

10. International Air Transport. Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? — N.A.

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States? — Yes.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States? — Yes.

3. Will arrangement preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? — Yes.

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? — Yes.

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? — Yes.

d. FAA Sec. 662. for CIA activities? — Yes.

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e. App. Sec. 103. to pay pensions, etc., for military personnel? — Yes.

f. App. Sec. 106. to pay U.N. assessments? — Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). — Yes.

4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? — Yes.

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REC'D SEP 28 1982 AID C&R

REPUBLICA DOMINICANA

Secretariado Técnico de la Presidencia

SANTO DOMINGO, D. N.

STP/No. 3513

20 SET. 1982

Señor
Philip Schwab
Director de la Agencia Internacional
para el Desarrollo (AID).
Ciudad.

Estimado Señor Schwab:

El Gobierno Dominicano que inició su gestión el pasado 16 de agosto, está llevando a cabo un programa de recuperación de la economía dominicana, razón por la cual se han adoptado una serie de medidas de amplio conocimiento de la opinión pública nacional tendentes a superar las dificultades económicas por las que atraviesa el país, como se puede observar en el documento anexo.

En ocasión del discurso de juramentación del Ciudadano Presidente, así como con posterioridad al mismo, el Gobierno Dominicano anunció y adoptó las referidas medidas, las cuales tienen como objetivos principales reducir sustancialmente los déficits del Gobierno Central, de las instituciones autónomas, así como de las empresas del Estado; eliminar aquellas restricciones vigentes en ciertos renglones de exportación a la vez que proporcionar mayores incentivos a la misma como a la agroindustria; contribuir a la creación de un clima más propicio para la inversión extranjera; incentivar la participación del sector privado en la economía del país a través de nuevos incentivos fiscales y financieros; permitir la participación de los bancos comerciales en el mercado paralelo de divisas y llevar las tasas de interés sobre los instrumentos de ahorro interno a niveles competitivos con los vigentes en el exterior.

Con el objetivo de coadyuvar a esos esfuerzos, y por instrucciones del Ciudadano Presidente Dr. Salvador Jorge Blanco deseo presentar a nombre del Gobierno Dominicano una solicitud de financiamiento por un monto de US$41.0 millones a fin de fortalecer la participación del sector privado en el desarrollo de la economía del país y atisfacer además los requerimientos, a corto plazo, de las divisas necesarias para llevar a cabo dicho programa.

ACTION: AD
DATE DUE: 9/30/82
DIR
AD
PRG
GSD
CONT
AGR
MGT
HRD
C&R

Los pesos que se generen de este préstamo serían depositados en una cuenta especial en el Banco Central de la República Dominicana a fin de proporcionar asistencia financiera a los siguientes proyectos de desarrollo:

a) US$25.0 millones para ser canalizados a través del Fondo FIDE del Banco Central para financiar proyectos de exportación y agroindustriales del sector privado.

b) US$10.0 millones para el Fondo Rotatorio de Contrapartida creado en el Banco Central para acelerar la ejecución de proyectos financiados por el BID, Banco Mundial y la AID.

c) US$6.0 millones para programas de capacitación, entrenamiento y fortalecimiento institucional a organizaciones de apoyo al desarrollo del sector privado.

En espera de que nuestra solicitud sea acogida favorablemente, le saluda,

Muy atentamente,

Ing. Ramón Alburquerque
Secretario Técnico de la Presidencia

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